Valley Economy to Grow 4.1 Percent This Year

Noted California Lutheran economist says local growth keeps surprising him; jobs proliferate here faster than elsewhere.

By MATTHEW FIENUP

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.

This essay uses our historic definition of the Valley, which does not include Burbank and Glendale. (See the following article for a Greater Valley forecast – including those two important cities.)

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 Los Angeles economy, which includes both Los Angeles and Orange counties. Metro L.A.'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 zero percent over the past five years. Two of the past three years saw economic contraction.

Looking at the Real GDP Growth chart, 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 L.A. and the state of California appeared to have cooled for three consecutive years. The U.S. Bureau of Economic Analysis 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. 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 vibrance 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 three of the four 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.

As a technical aside, when considering the San Fernando Valley economy and its components, it is often useful to exclude Agriculture and Natural Resource Extraction from the analysis. Both represent very small but highly volatile sectors of the regional economy. Apparently large percentage point declines (or gains) in either of these sectors can be misleading. Agriculture and Natural Resource Extraction currently employ fewer than one thousand employees and account for less than 0.1 percent of the Valley’s total economic output. As such, a 15 percent decline in output in one of these sectors, such as was recorded over the past year in Resource Extraction, may represent retirement of only a very small amount of the Valley’s economic activity. By contrast, what we refer to as the “non-farm economy,” which includes all sectors except Agriculture and Natural Resource Extraction, represents 99.9 percent of the region’s total economic output. As noted above, every sector of the Valley’s non-farm economy saw job growth in 2018.

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 L.A. 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 L.A. 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 -0.8 and -0.4 percent.

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 Manufacturing are both down more than 20 percent. Jobs in Information & Technology activities are down more than 15 percent. The only two sectors to exhibit major increases in jobs are Education, Health & Maintenance and Professional/Business Services. The two sectors that have 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 &
An SBA loan may be the perfect business move to assist with the growth and success of your business, offering a variety of financing options. As an SBA Preferred Lender, Mission Valley Bank knows how to make your SBA loan experience less complicated.

We want to say “Yes” to your loan request!

CALL US TODAY: 877.394.2306

MISSIONVALLEYBANK.COM

Branches located in:
SAN FERNANDO VALLEY CORPORATE HEADQUARTERS
9116 Sunland Blvd., Sun Valley
818.394.2300

SANTA CLARITA VALLEY CENTRE POINTE BUSINESS BANKING CENTER
26415 Carl Boyer Drive, Santa Clarita
661.753.5693

SOUTH BAY LOAN PRODUCTION OFFICE
21515 Hawthorne Blvd., Suite 420, Torrance
310.432.0290

Bank with a trusted source.

FULL-SERVICE BUSINESS BANKING
ACCOUNTS RECEIVABLE LENDING
MERCHANT BANKCARD SERVICES
COMMERCIAL LENDING
EQUIPMENT FINANCING
SBA FINANCING
ECONOMIC FORECAST

Continued from page 24

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 ratio 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 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. For comparison, the Leisure & Hospitality sector has an average salary of only $42,000.

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 headlined "Change in Income Shares 2010-2017," the San Fernando Valley is undergoing a hollowing-out of its middle class. The share of the population with incomes between $15,000 and $50,000 has declined since 2010. The sharpest decline is among the segment with incomes of $50,000 to $75,000. Simultaneously, the share of the population with annual income greater than $100,000 is growing substantially. Some of the shift in income distribution is explained by the growth 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 the hundreds of thousands of employed 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 complement 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 3.5 percent in 2020. At an average growth rate of 3.5 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.

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 in the San Fernando Valley economy.

Broader Valley Economy Also Thriving

For first time, economists include volatile Burbank and traditional Glendale with rest of the Valley, and they turbocharge outlook.

By DAN HAMILTON

For this, our third San Fernando Valley economic forecast publication, we have expanded our geographic coverage to include Burbank and Glendale. Burbank and Glendale are integral to the Valley and as well as to Southern California and the nation. We are very pleased to now include them in our analysis, forecast, publication and presentation. This essay discusses the economies of Burbank and Glendale and presents the Center for Economic Research and Forecasting's first-ever forecasts for these areas.

A section at the end of this essay covers what we call the Greater San Fernando Valley economy, which combines those cities with our previously covered San Fernando Valley area into a larger economic area.

The datasets that we built based on these geographies are detailed with respect to industrial structure, demographic characteristics like age, ethnicity, and income. The indicators afforded by this dataset include jobs and other data by sector and provide us with information that we use to estimate GDP. This publication adds these new data sets to those created for our previous San Fernando Valley Economic Forecast publications.

The analysis shows that the industrial structure of Burbank, which includes various large entertainment and media companies, yields an economy that has a high jobs-to-population ratio and provides rapid economic growth. However, it is a very volatile economy, with growth rates changing rapidly from year to year. Burbank's economy is not particularly synchronized with the national business cycle, given the influence that the entertainment and media industries have. Burbank is more driven by specific company fortunes and project dynamics than by expansions or contractions in the United States economy. Glendale's economy has a solid outlook and is more traditional than Burbank's economy in industrial structure. Glendale does not have an over-weighted Information Technology sector compared to the United States, as is the case for Burbank and the other areas in San Fernando Valley. It has a large service economy relative to its neighbors and to the nation. Glendale's economic growth is much less volatile than Burbank's. In fact, it is remarkably steady for a city of its size. Glendale's economic growth is very much in sync with the national business cycle.

ECONOMIC CHARACTERISTICS OF BURBANK AND GLENDALE

Our review is based on detailed analysis of almost three decades of hard economic data that includes a

Continued on page 28

These aren’t just words for the team at Parker Brown. We treat every job we work on as if we are the owner. And our commitment helped us grow to our biggest year ever in 2018.

But we don’t have to speak for our work. Our customers do it for us. Our customers come back to us – year after year after year.

Parker Brown for all your construction needs.

818.999.5078
parkerbrowninc.com

Serving Los Angeles and Ventura Counties
Some things just go together. What’s Laurel without Hardy? Together, they became extraordinary.

When you partner with Valley Community Healthcare, the underserved men, women, and children of the San Fernando Valley receive vital healthcare services they would otherwise go without.

Together, we become extraordinary!

2019 Valley Community Healthcare Corporate Partners!
Afriat Consulting Group
Aloxxi International
American Business Bank
Cathay Bank
Maria Lucia Cruz, DDS
Rickey Gelb, The Gelb Group
Marsh & McLennan Agency
Millennium Dance Complex
Paul Davis Insurance Services
SVP Business Journal
SoCal Gas
Wells Fargo
Interested in learning more? Please contact Judi Rose at 818.301.6321 or jrose@vchcare.org.

ECONOMIC FORECAST

Continued from page 26

depth of industrial sector detail. We also used demographic data from the U.S. Bureau of the Census and the California Department of Finance. Each of these cities appears to be a vibrant economy. They exhibit some characteristics that are similar to the rest of the San Fernando Valley, as well as some unique characteristics as discussed above and provided in the table headlined “Economic Characteristics 2018.”

Our GEP estimates show large differences in characteristics between these neighboring cities. Burbank’s economy is very volatile, but certainly with episodes of very rapid growth. Glendale’s economy is very smooth, especially compared to most cities of this size. Glendale’s economic growth also follows the business cycle very closely, whereas Burbank’s cycle is much less connected to national trends. Note that the San Fernando Valley GDP growth in the charts, presented as yellow bars, is the Valley without Burbank and Glendale.

Given the volatility in Burbank’s economy we computed five-year moving averages of economic growth for each of the three areas shown in the charts. First, each of these communities – Burbank, Glendale, and the rest of the San Fernando Valley – have experienced rapid economic growth since 2014, growth that outpaces that of the nation. In 2015 and 2016, these economies even expanded more rapidly than the state of California, which is driven by the high-flying growth of Silicon Valley. The moving average chart also reveals that in the medium term, Burbank’s economy has been growing very rapidly, with average five-year growth rates typically greater than five percent.

While Burbank has more jobs than Glendale, it has less than half as many establishments as Glendale. This means that Burbank has some very large employers. Many readers are already familiar with the Hollywood Burbank airport, Warner Brothers Studios, the Walt Disney Co., The Burbank Studios, Nickelodeon Animation, the Cartoon Network, and the list goes on. This means that many workers are coming into Burbank each day to work. And, it means that the Burbank economy is characterized by the features and dynamics of these large companies, to a far greater extent than many communities.

Job creation has been healthy in the San Fernando Valley for the past four years. Job growth in the portion of the Valley excluding Burbank and Glendale has been strong since 2013, and it has been accelerating in the last two years. Burbank job growth has been very volatile, but with some extremely strong years, such that the overall change in the past five years has been impressive. Glendale’s job creation has been impressive as well, but much smoother than the year to year changes for Burbank. Both cities experienced average annual job growth of 2.8 percent in the last five years, and the remainder of the San Fernando Valley was a respectable 2.2 percent. These numbers compared to 1.5 percent for the nation.

BURBANK AND GLENDALE FORECAST

Dan Hamilton is Director of Economics at the Center for Economic Research & Forecasting at California Lutheran University.

Valley Community Healthcare, a private, non-profit 501(c)(3) charitable agency providing a medical home to almost 25,000 low-income men, women, and children in 2018.

ECONOMIC CHARACTERISTICS OF BURBANK AND GLENDALE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>POPULATION</td>
<td>326,533,070</td>
<td>117,149</td>
</tr>
<tr>
<td>JOBS</td>
<td>149,893,000</td>
<td>75,308</td>
</tr>
<tr>
<td>JOBS TO THOUSANDS OF</td>
<td>459</td>
<td>1,595</td>
</tr>
<tr>
<td>POPULATION</td>
<td>107,149</td>
<td>350</td>
</tr>
<tr>
<td>INFORMATION TECHNOLOGY JOB SHARE</td>
<td>1.8</td>
<td>49.2</td>
</tr>
<tr>
<td>SERVICES’ JOB SHARE</td>
<td>50.7</td>
<td>36.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>67.3</td>
</tr>
</tbody>
</table>

Burbank has in the past claimed fame as the “Media Capital of the World” and even that is debatable, it still has key companies that appear to be staying for the time being. These companies are premier content producers on the world stage and still should have some ability to compete in that arena during the next two years.

The forecast predicts that Burbank will experience growth that is a little bit stronger than the rest of the region, and that Glendale’s economic growth will be very similar to the rest of the San Fernando Valley. The two main risks to these economies slowing down are a national cyclical contraction, and a local contraction due to the loss of important companies located in these areas. The prospect of key companies leaving was discussed just above, and the airport is solely presumed to continue operations for the near term. The probability of a U.S. growth slowdown has risen sharply in the past four months, due to trade tensions and a global growth downward. We currently expect the slowdown to take hold in 2021, just outside the range of the forecasts presented here.

GREATER SAN FERNANDO VALLEY FORECAST

Our inaugural forecast for the San Fernando Valley was presented Nov. 16, 2017, and at that time we had the detailed data for a concept of the Valley that excluded Burbank and Glendale. That forecast revealed that the San Fernando Valley had recent economic growth greater than that of its neighbors. Not only this, but the San Fernando Valley has larger shares of its population in moderate income ranges and in household-forming age ranges, especially compared to its western neighbor, Ventura County.

From the beginning, we have always wanted to do more in this economically important and distinct area. For this forecast publication, we have added detailed analysis of Burbank and Glendale. We presented data and forecasts for each city just above in this essay. In this section, we integrate these new data with our previously released San Fernando Valley estimates to present what we are calling a Greater San Fernando Valley region.

In short, economic and income growth the Greater San Fernando Valley have been very rapid indeed for seven years. Job growth has been strong for seven of the most recent eight years. The Greater Valley’s economic growth is forecasted to exceed that of the state and the Los Angeles Metro area. With Burbank and Glendale added to the remainder of the San Fernando Valley, our growth forecast for 2019 rises from 4.1 percent to 5.7 percent, and the 2020 forecast rises from 3.8 percent to 4.7 percent. We alert the reader that adding Burbank and Glendale to the overall forecast raises the chance that well be wrong, which is natural with smaller geographies.

Job creation in the Greater Valley is also forecasted to exceed that of the greater Los Angeles area and the state during 2019 and 2020. This is saying something noteworthy. California’s economy is growing noticeably faster than the United States economy. And the San Fernando Valley is growing faster yet.
LARSEN’S GRILL
OXNARD | (805) 983-6600
1590 Town Center Dr.
Oxnard, CA 93036

SIMI VALLEY | (805) 522-4800
1555 Simi Town Center Way, Suite #565
Simi Valley, CA 93065

LARSEN’S STEAKHOUSE
ENCINO | (818) 386-9500
16101 Ventura Blvd., Suite #270
Encino, CA 91436

WOODLAND HILLS | (818) 704-1226
6256 Topanga Canyon Blvd. Suite #2280
Woodland Hills, CA 91367

VALENCIA | (661) 288-1002
24320 Town Center Dr., Suite #130
Valencia, CA 91355

LA JOLLA | (858) 886-7561
4301 La Jolla Village Dr., Suite #1050
San Diego, CA 92122

L A R S E N S R E S T A U R A N T S . C O M
Kimberly Carter of Kimberly Carter Insurance Agency, left, with Brian Mallach of Parker Brown.

Elizabeth Hawley of Valley Industry and Commerce Association talks with Matthew Fienup of California Lutheran University’s Center for Economic Research & Forecasting (CERF).

Shawnie Masilotti of Aerotek, left, with Brett Nordyke of Olympic Insurance Agency.

Economic Forecast Breakfast attendees enjoy steak and eggs at Larsen’s Steakhouse in the Village Shopping Center.

Lola Forbis of Mission Valley Bank with Richard Rosenberg of the Ballard Rosenberg Golper & Savitt law firm.

Paula Bahamon of Mission Valley Bank, left, with Rene Cervantes of JJK Rosenberg CPAs.

Fienup, executive director of California Lutheran University’s CERF, left, with Chris Kimball, president of the university.

Randy Witt, Valley Economic Alliance chair, left, with Tim Gallagher of 20/20 Network, center, and Dan Hamilton of CERF.

Photos by Sheldon Botler