For the first time ever, economists at the Center for Economic Research and Forecasting at California Lutheran University took an intensive look at the economy of the San Fernando Valley. The result: The Valley is doing better that its neighbors, particularly Ventura County, although there are some areas of concern. Their conclusions were presented at a breakfast meeting Nov. 16 at Ruth’s Chris Steak House, and summaries of their reports are on the following pages.
Valley Economy: Stronger Than State or L.A.

In new study, economist says Valley expansion is truly impressive, job growth not so much

By MATTHEW FIENUP

Economists at the Center for Economic Research and Forecasting at California Lutheran University recently completed a months-long study of the San Fernando Valley economy. Results were presented to business leaders Nov. 16 at a breakfast meeting at Ruth’s Chris Steak House in Woodland Hills. What follows are their reports.

By the dominant economic story to emerge in the San Fernando Valley since 2013 is that the Valley’s economy has significantly outpaced the broader Los Angeles County economy. The contrast is even more stark when comparing the Valley with neighboring Ventura County. Currently, if you straddle the Ventura-Los Angeles County line anywhere along the Western border of the San Fernando Valley, you are standing with one foot in a regional economy enduring a significant recession and one foot in a regional economy experiencing robust growth.

From 2014 to 2016, Real GDP for the San Fernando Valley grew annually by 4.2, 5.5, and 2.6 percent. Average annual growth was 4.1 percent over the period. By comparison, the economy of the Los Angeles / Orange County statistical area grew at an average rate of just 3.6 percent over the same period. Meanwhile, Ventura County experienced the worst three years of growth since at least the ’90s, shrinking at an average annual rate of -0.7 percent. The San Fernando Valley’s growth rate is strong no matter which geography you choose as a comparison. The Valley is outpacing the broader state economy as well as the nation.

Growth in economic activity is highly concentrated in two specific sectors of the San Fernando Valley economy. Output from Information and Technology, a broad industry sector that includes software engineering, data processing, and internet development as well as the Motion Picture and video production for which the Valley is famous, has grown by an astonishing 74.1 percent over the past decade. During that same time, output from Financial Activities, which includes real estate, has grown by nearly 15 percent.

The importance of output gains in the Financial Activity sector are tempered by the transformation of the real estate sector that has taken place since the financial crisis. The significant decline in home ownership and the prevalence of investor-owned single-family detached and multi-family attached homes means that some of the economic activity represented as growth in this sector is little more than a transfer of ownership from households to investors. The number of jobs in Financial Activities has actually declined by 13.7 percent over the past decade, affirming our skepticism about the value and promise of economic growth in this sector.

That leaves Information and Technology as the major engine driving the San Fernando Valley’s impressive economic growth over the past several years.

INDUSTRIES AND OCCUPATIONS

Job creation in the San Fernando Valley has been less impressive than the growth in total economic output. Post recession, the San Fernando Valley has experienced a reshuffling of the industry composition of jobs that is similar in many ways to greater Los Angeles and to the state. Like those other geographies, while the San Fernando Valley has more than recovered the number of pre-recession jobs, the jobs that have been added do not resemble those that were lost.

Ten years out from the Great Recession, the number of jobs in Agriculture, Natural Resource-
es, Utilities, Non-Durable and Durable Goods Manufacturing, Wholesale Trade, and Financial Activities are all down double digits, with three of these sectors down 22 percent or more. Jobs in Transportation and Warehousing, Information and Technology, Education and Health Services, and Leisure and Hospitality have all seen significant growth. With the exception of Information and Technology, the other sectors which have experienced post-recession growth are sectors with low average salaries which would not likely support a lifestyle that includes home ownership in the Valley.

It is worth noting that the flight of businesses and jobs in high-value sectors, especially goods-producing sectors, is in many ways the result of broader state policies which increase the cost of doing business in California. Many high-value sectors have left and continue to leave in search of lower cost environments beyond the borders of the state. This pattern is captured in net domestic migration statistics for California. Last year, 129,000 more residents left California for the other 49 states than came to California from the 49. A relative lack of new housing development or re-development opportunities.

The Valley’s economy is correlated to its neighboring geographies, which is not a surprise given the many inter-linkages of transit, commuting, shopping areas, and business-to-business activities. Jobs data show that the Valley’s Great Recession experience was proportionally similar to that of its neighbors, and that the trough occurred in 2009. In the last five years, from 2012 through 2016, we see that the Valley created jobs at a rate that was as strong as or stronger than its neighbors for most of those years.

The Valley’s jobs diverge in an interesting way from its western and more coastal neighbor, Ventura County. It has a much larger fraction of transportation and warehousing, technology, financial, and professional business sector jobs than Ventura County, 27.1 percent versus 19.5 percent. Many of the jobs in these sectors pay well enough that those job-holders can afford a house near where they live.

Interestingly, the Valley’s economy includes much more private business enterprise than its neighbor. In 2016, 92.3 percent of San Fernando Valley jobs are in the private sector, compared with 85.8 percent for Ventura County. This edge in private enterprise gives the Valley greater economic vitality. As examples, small company job creation is superior in the Valley. Ninety-nine percent of all San Fernando Valley establishments are private sector establishments.

Our GDP estimates show that the Valley’s Great Recession experience was similar to that of its neighbors from an aggregate point of view. The greatest impact for both the Valley and the Los Angeles-Anaheim metropolitan area was in 2009. In Ventura County, the greatest impact of the Great Recession was in 2008. While Ventura County’s economic growth rate has faltered seriously over the past three years, the Valley’s growth rate has been very strong relative to post-Recession experience.

THE FORECAST

Our outlook for the construction, transportation and warehousing, technology, and professional and business services sectors in the San Fernando Valley is strong. These sectors provide a great combination of both middle-paying and higher-paying job types. These fast-growing sectors are supported by the combined education/health care/personal/social services sector and leisure and hospitality. While the latter two sectors provide numerical growth, those jobs are not typically high paying or high economic value added. In our view, these sectors will dominate the slower growing or insignificant sectors in the Valley going forward, which include agriculture, mining, manufacturing, trade, and government.

We forecast ongoing construction activity, at a rate that is better than that of coastal communities, and continued growth in cargo and passengers at the Hollywood Burbank airport. We expect that tourism activities at Universal Studios will not subside in the near future.

There could be benefits from the forthcoming Golden State Specific Plan, which should provide regional benefits in the form of enhanced business-to-business activities, transit improvements, and real estate development or re-development opportunities.

We forecast that the San Fernando Valley will continue to grow. The Valley will benefit from the above-mentioned sectors and operations to the extent that they offset declining industries. These benefits are expected to provide growth that exceeds that of its neighbors, California, and the nation throughout the forecast horizon.

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construction and soaring home prices exacerbate this problem and are impacted significantly by local policy making.

Aside from an uptick in Construction jobs, the latest jobs report provides evidence that the post-recession jobs trend is continuing. High-paying sectors of the Valley economy are in decline while low paying sectors are continuing to rise.

As with total economic output, the major exception to the San Fernando Valley jobs trend is Information and Technology. In the 10 years since the financial crisis, the number of jobs in Information and Technology has increased by 15.4 percent. This growth is noteworthy, especially compared to the increase in economic output in that sector. A 15.4 percent increase in the number of jobs, accompanied by a 74.1 percent increase in total economic output, means that Information and Technology is an extremely high output per employee sector. This translates into high average annual salary. As of the most recent quarter for which there is data, the average annual salary in the Information and Technology sector was $147,297. Once again, Information and Technology is a source of economic vitality for the San Fernando Valley that is enviable compared to neighboring regional economies.

The number of jobs in Information and Technology actually declined in the most recent year for which there is data, however, the magnitude of the decline leads us to conclude that this is simply normal volatility. The trend in this industry sector is still positive.

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

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AT THE EVENT:
ECONOMIC FORECAST
Thursday, November 16
1. Johan Smith of Mission Valley Bank; Jane Skeeter of UltraGlas, and Tamara Gurney and Paula Bahamon, both of Mission Valley Bank
2. Jacqui Matsumoto of the Valley Economic Alliance and Kevin Yomota of AT&T and the outgoing chairman of the Valley Industry and Commerce Association
3. Jason Sands of Wells Fargo Private Bank and Matthew Luchs of Marcus & Millichap
4. Jonathan Goldhill of the Goldhill Group and Jake Jacobs of Rose, Snyder & Jacobs
5. Matthew Fienup and Dan Hamilton of California Lutheran University’s Center for Economic Research and Forecasting