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State of the San Fernando Valley

The San Fernando Valley[1] 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.

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.

The U.S. economy is currently 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. California is also seeing a slowdown in economic growth, owing both to state level policies, which inhibit economic growth, and to the trade war. 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.

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 Valley economy is forecasted to grow by 3.4 percent in 2020 and 3.3 percent in 2021. 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 risks to the current forecast are likely to the downside on net, but are not simply one-sided. The single biggest downside 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

[1] The definition of the San Fernando Valley used here is the narrower definition, which excludes Burbank and Glendale. For analysis of the broader region, see the section entitled *Greater San Fernando Valley*, provided below.

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 question is not whether the trade war 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 Greater San Fernando Valley, including Burbank and Glendale

The structure and evolution of Glendale's economy are quite similar to that of the San Fernando Valley. The composition of industries is similar, and Glendale is to an extent a bedroom community for the rest of the Valley. This means that 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.

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 Brothers Studios, Walt Disney Studios, The Burbank Studios, Nickelodeon Animation, the 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 result in an extremely volatile economy.

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.

Bringing the San Fernando Valley, Burbank, and Glendale together into one omnibus geography, 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.