

Economic Update

THE PENINSULA ECONOMY

November 2016



Prepared by Stephen Levy

This publication is one in a series of periodic updates on the local economy published by the Silicon Valley Institute for Regional Studies. The updates present data of timely significance for decision-makers in Silicon Valley and the broader Bay Area.

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UPDATE

THE PENINSULA ECONOMY

This brief provides an update on the economy in Silicon Valley and San Francisco, here referred to as “the Peninsula economy.” The Peninsula sub region includes Santa Clara, San Mateo and San Francisco Counties.

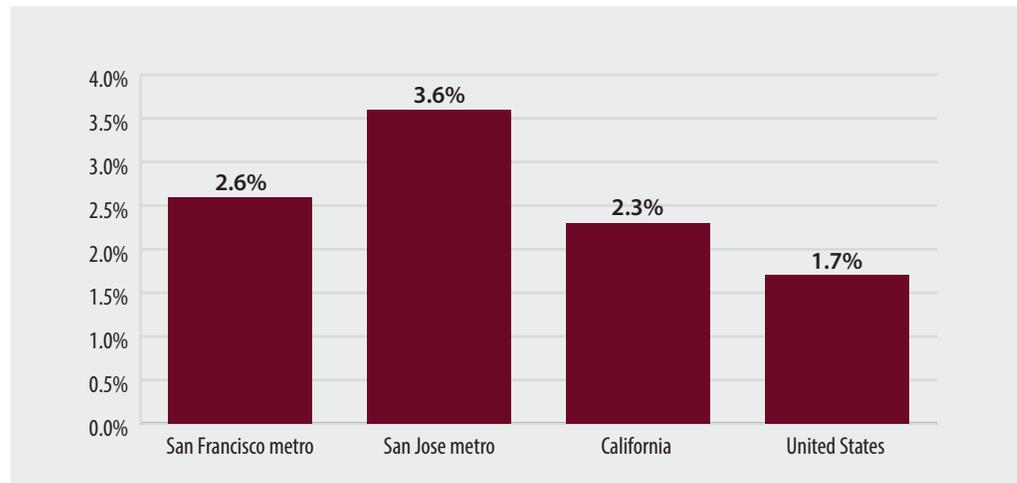
Highlights

- The Peninsula added 65,600 jobs and 39,800 residents in past 12 months
- Silicon Valley unemployment rate is below 4 percent, lowest since 2000
- Peninsula is 60,000 housing units short of those needed to accommodate population growth over past nine years
- Poverty rates are well below state and national levels on the Peninsula. Poverty rates for Latinos and African Americans are higher, but below poverty rates for these groups in the state and nation.

Job Growth and Employment

Job growth has slowed a modest amount from the surge in 2014 and 2015. Even still, the Peninsula economy added 65,600 jobs in the past 12 months, outpacing the state and nation.

Figure 1: Job Growth for Year Ending September 2016

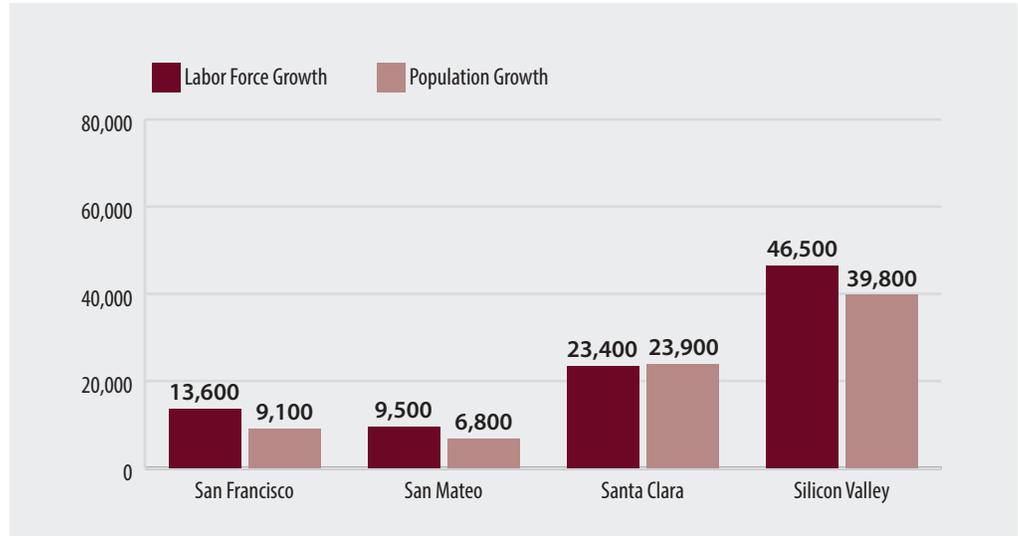


Note: San Francisco metro includes San Mateo and San Francisco counties. San Jose metro includes Santa Clara and San Benito counties.

Job growth is expected to slow in the coming years as baby boomer retirements accelerate. However, in the short term the Peninsula labor force has surged as economic growth has brought thousands of residents into the workforce even despite continuing boomer retirements. Labor force growth has exceeded population growth, which means that the participation rate has rebounded as more jobs become available. This is a positive sign for workers now able to rejoin the workforce.

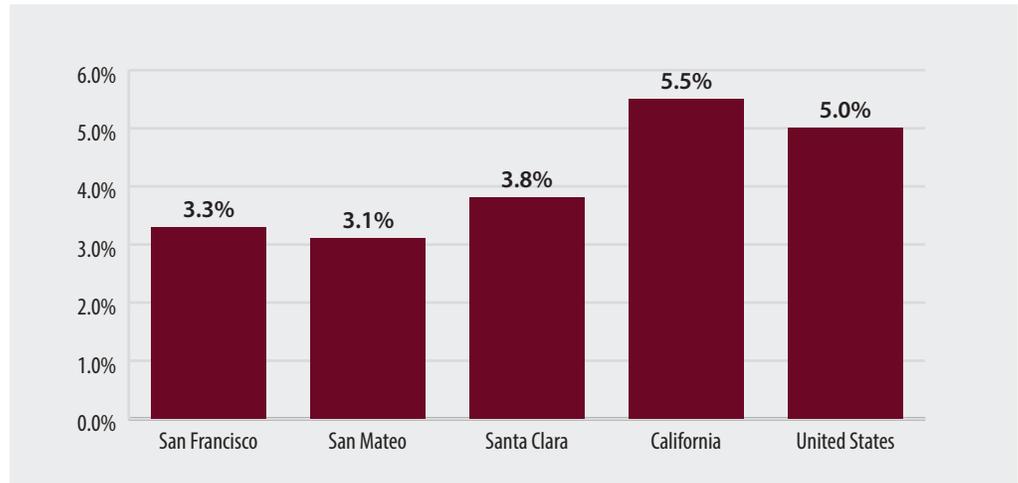
In the past 12 months 46,500 residents joined the Peninsula workforce while total population (usually 50 percent of residents work) increased by just 39,800.

Figure 2: A Surge of Residents into the Workforce in 2016



The surge in job growth has brought unemployment rates down to levels not seen since the dot-com peak in 2000. All three Silicon Valley counties have unemployment rates well below state and national levels. While there is room for some more discouraged workers to rejoin the workforce, soon employers will need to attract people to come here to fill the new jobs and that will run into the region's housing and transportation challenges.

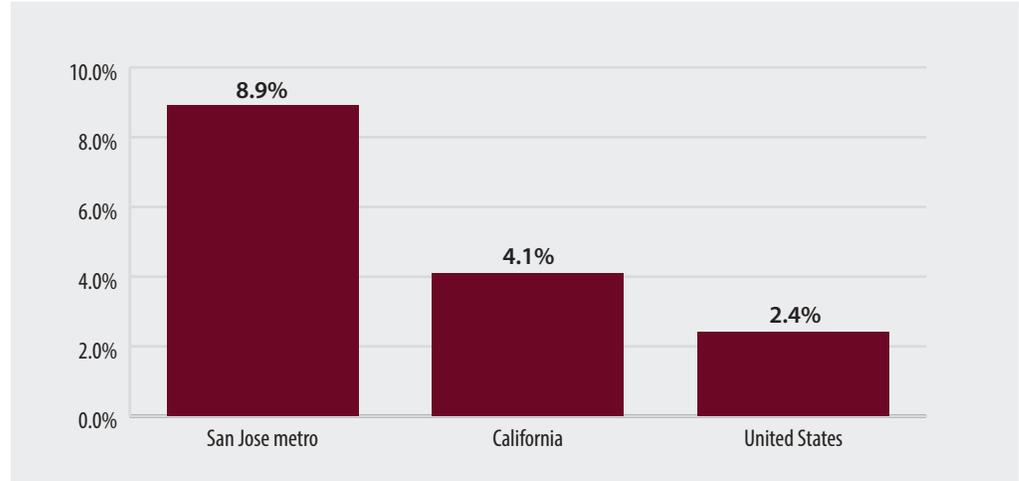
Figure 3: Unemployment Rate, September 2016



Job Growth Powered by Strong GDP Growth

Real GDP increased by 8.9% in the San Jose metropolitan area in 2015, or more than twice the state gain and nearly four times the national average. While GDP estimates are not available for the San Francisco metro area separately, when combined with the East Bay GDP grew by 4.1%.

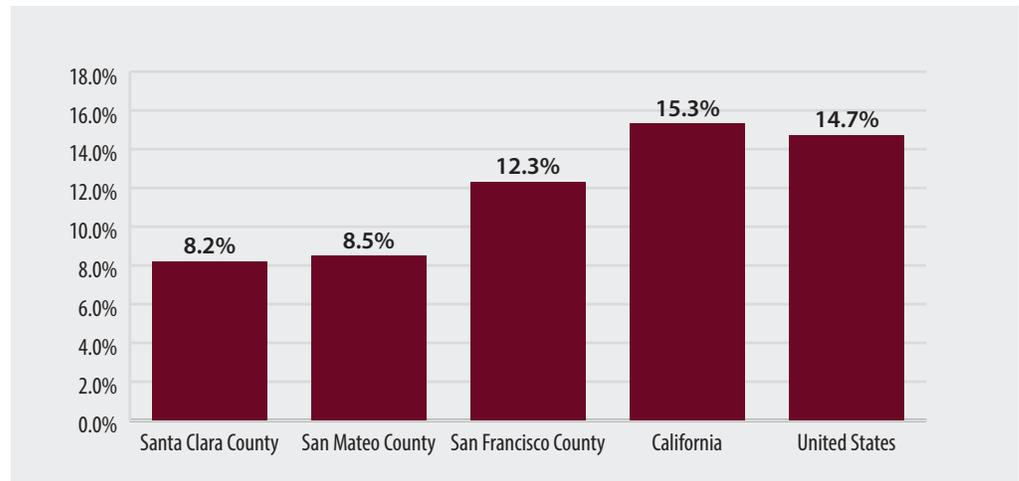
Figure 4: Real GDP Growth 2014-2015



Poverty

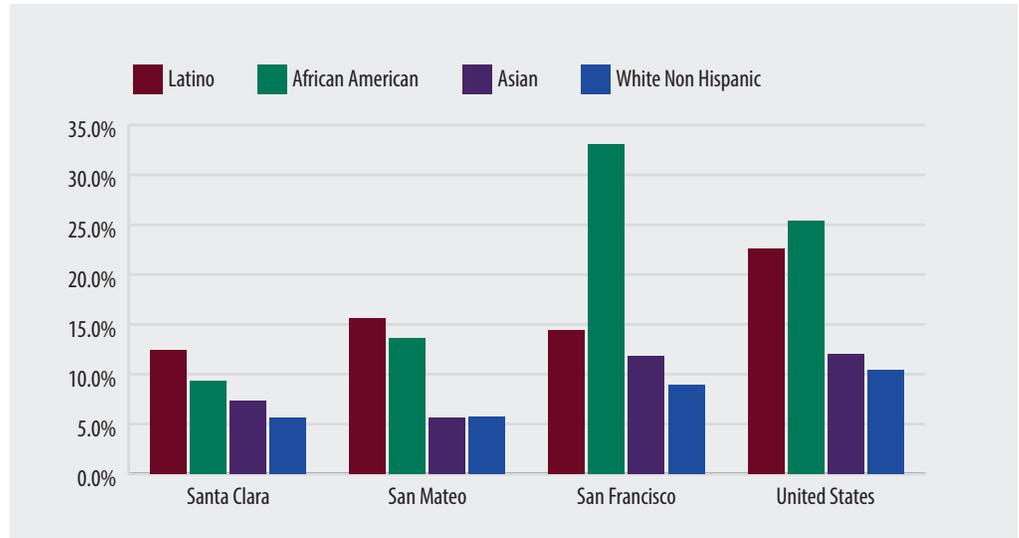
Poverty rates remain above pre-recession levels in Silicon Valley. On the other hand they are well below state and national averages and have been declining slowly as economic growth continues.

Figure 5: Poverty Rate 2015



With one exception poverty rates for African Americans and Latinos are lower in Silicon Valley counties than in the nation although they remain above the comparable poverty rates for Asian and White Non Hispanic populations.

Figure 6: Poverty Rates 2015 by Ethnic Group



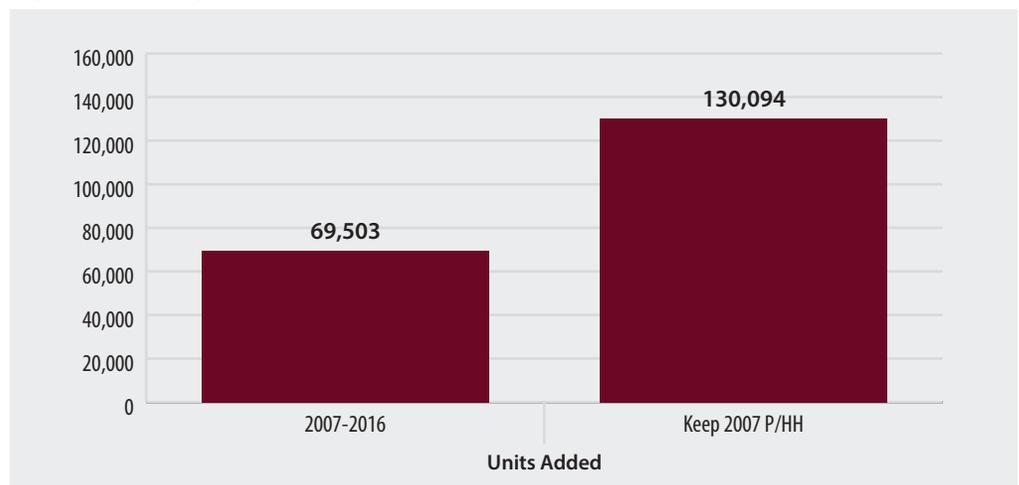
Housing Supply

Housing supply and affordability challenges threaten economic growth, cause hardship for residents and cause the official poverty statistics to vastly understate economic distress for low income families. Silicon Valley is behind on housing supply and far behind on housing supply for low income families.

Between 2007 and 2016 the Peninsula saw an increase of 69,503 housing units. During the same period household population increased by 344,149 and average household size grew from 2.65 to 2.77. To keep pace with population growth 130,094 units should have been added (which means an additional 60,000 units).

But demographic trends (declining birth rates and smaller households) suggest that average household size should have fallen rather than increased. Were that the case, the Peninsula housing shortage would be even larger.

Figure 7: Housing Needed to Keep Pace with Population Growth



Implications for the Future

For those who are concerned about residents being left behind in the economic surge, it is fair to say that a strong economy makes it far easier to broaden opportunity, easier by far than when the region is struggling with unemployment and recession.

Though the rate of job growth will likely slow down, Silicon Valley is expected to add jobs and residents at a pace faster than state and national averages. This means that the challenges identified in the 2016 Silicon Valley Index will accelerate unless steps are taken to address the housing shortage and our region's transportation challenges.

Local jurisdictions and the state are adding funding for subsidized housing and considering easing the process for new housing to be approved. Santa Clara residents also have the opportunity to vote on Measure A in the November election, which would provide funding for low income housing assistance and other local housing initiatives.

On the transportation front, Santa Clara residents will render a verdict on Measure B on the November ballot, which would fund improvements for Caltrain, BART, select roadways and our region's bicycle infrastructure.

This update was prepared by Stephen Levy, Senior Economist for the Silicon Valley Institute for Regional Studies and Director, Center for Continuing Study of the California Economy.

INSTITUTE FOR REGIONAL STUDIES

The Silicon Valley Institute for Regional Studies provides research and analysis on a host of issues facing Silicon Valley's economy and society. The Institute is housed within Joint Venture Silicon Valley.

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