

Economic Update

THE PENINSULA ECONOMY

April 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.

www.jointventure.org/institute

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.

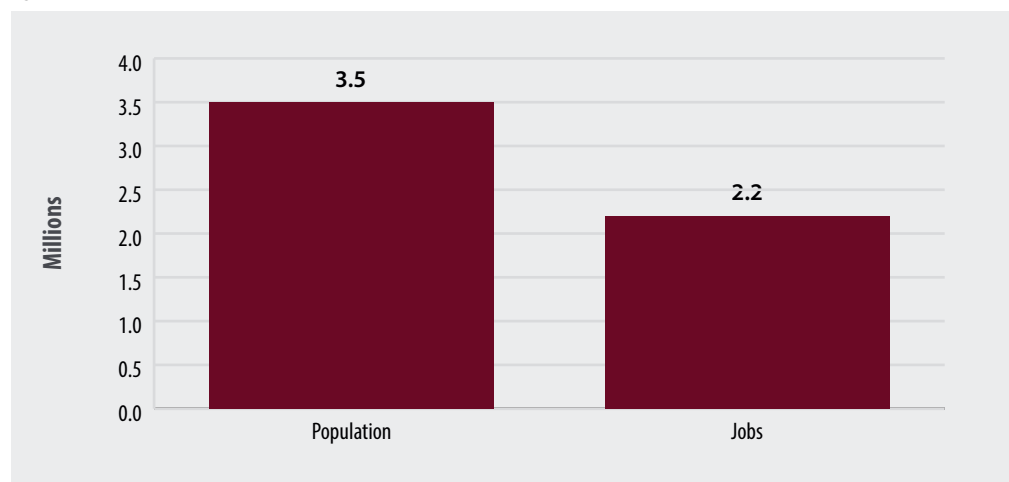
Highlights

- Job growth has surged on the Peninsula, adding 350,000 in five years and accounting for 60% of Bay Area job growth while adding 220,000 residents in San Francisco, San Mateo and Santa Clara counties.
- The surge has reduced the unemployment rate from 9.6% to 3.9% and brought 205,000 residents into the workforce.
- The housing challenge is seen by rapidly rising rents and home prices, doubling up and a shortage of between 40,000 and 65,000 housing units since 2007.

Job Growth

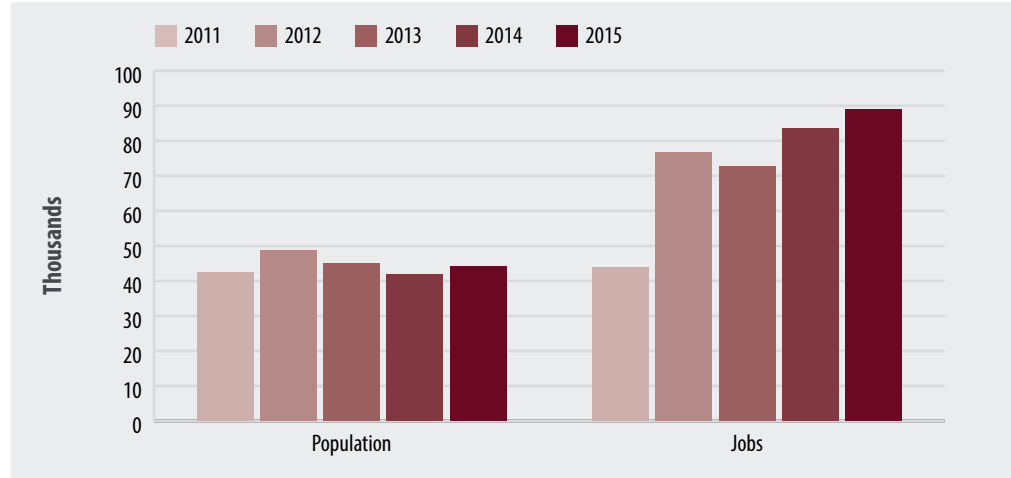
In 2015 the Peninsula had 3.5 million residents (46.5% of the Bay Area population) and 2.3 million jobs accounting for 55.5% of the Bay Area’s jobs.

Figure 1: Peninsula Jobs and Population in 2015



Between 2010 and 2015, job levels surged on the Peninsula and population growth followed but at a slower pace. The Peninsula added more than 350,000 non-farm wage and salary jobs, and added 220,000 residents, accounting for over 60% of regional job growth and over 50% of regional population growth.

Figure 2: Peninsula Job and Population Growth



While there are many more people residing on the Peninsula than there are jobs (reflecting that many residents do not work), the growth pattern of the past five years turned this relationship upside down—there were many more jobs added than residents. How did this happen?

The primary answer is that the job surge had the effect of bringing many unemployed workers back into jobs. More than 200,000 residents came back into the workforce in these years. The number of unemployed residents fell by almost 100,000 and Peninsula unemployment fell from 9.6% to 3.9%. These data show one of the positive effects of the Peninsula job surge and also explain why job growth did not require as much population growth—many existing residents were being reemployed. On the other hand the now low unemployment rate means that future job gains are likely to require new residents as there are now many fewer existing residents without jobs.

Peninsula Unemployment and Unemployment Rate			
	2010	2015	Change
Labor Force	1,833,300	2,038,200	204,900
Unemployment	176,700	79,600	-97,100
Unemployment Rate	9.6%	3.9%	-5.7%

Source: EDD

The peninsula has a distinct industry structure as shown below.

Industry Structure					
Peninsula and Rest of California (Thousands of Jobs)					
				Peninsula	Rest of CA
	2007	2010	2015	% of Jobs	% of Jobs
Construction	86.0	59.8	84.7	4.0%	4.6%
Manufacturing	207.0	186.5	197.3	9.4%	7.8%
Wholesale Trade	64.2	56.6	63.5	3.0%	4.7%
Retail Trade	166.8	152.2	169.0	8.1%	10.7%
Transportation, Warehouse & Utilities	52.8	47.3	56.1	2.7%	3.6%
Information	77.9	83.4	134.6	6.4%	2.5%
Financial Activities	114.9	98.1	108.8	5.2%	4.9%
Professional and Business, Services	364.2	343.0	477.1	22.8%	14.4%
Education and Health Services	219.8	243.6	286.6	13.7%	15.5%
Leisure and Hospitality	188.6	185.5	231.5	11.1%	11.5%
Other Services	58.7	57.1	67.2	3.2%	3.4%
Government	219.2	215.8	217.0	10.4%	16.1%

Source: EDD

Composition of jobs. The Peninsula economy has a substantially above-average share of jobs in the Information, Professional and Business Services sectors where a concentration of tech jobs are located. The Peninsula also has an above average share of jobs in manufacturing although manufacturing job shares everywhere are declining. The Peninsula has lower job shares in several sectors, led by Government and Retail Trade.

The Peninsula has seen major changes in the structure of our job base. One change is the surge in the Professional & Business Services sector led by high-wage professional, technical and scientific service jobs. Meanwhile the number of manufacturing jobs has declined as productivity gains increase output while requiring fewer workers—a worldwide trend affecting China as well.

Figure 3: Manufacturing Jobs Decline, Professional & Business Service Jobs Surge

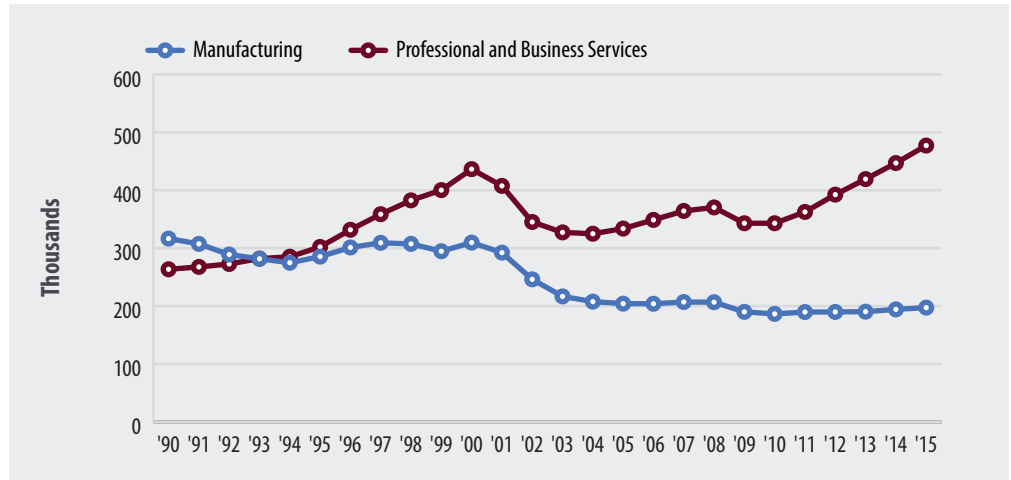
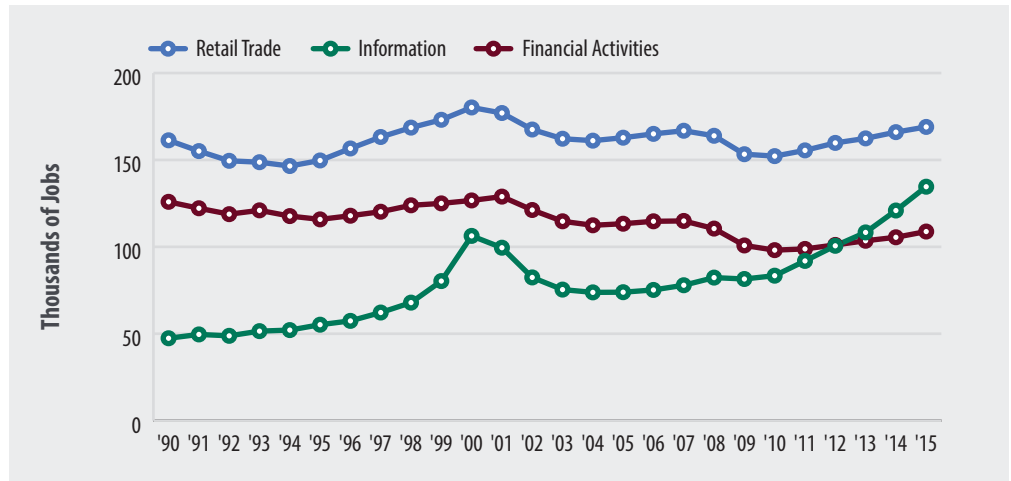


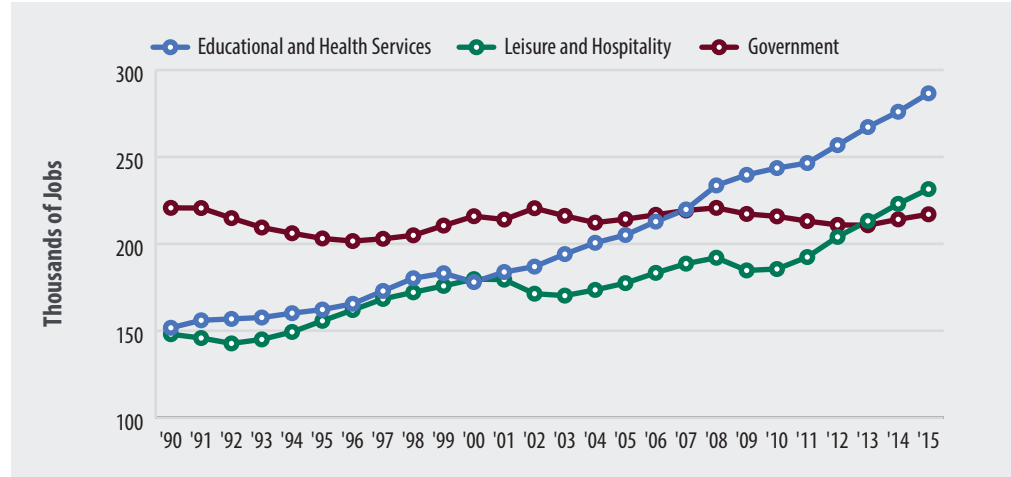
Figure 4: Internet Innovation Restrains Retail Trade and Finance Job Growth



The Internet has allowed us to change the way we shop, bank, plan trips and many other things. As a result, the Retail Trade and Financial Activities sectors had fewer Peninsula jobs in 2015 than in 1990. Meanwhile job levels in the Information sector nearly tripled.

The other large job growth sectors are health care/social services within the larger Educational and Health Care sector, and food service with the Leisure and Hospitality sector. Both sectors have surpassed Government, where job levels have remained near 1990 levels.

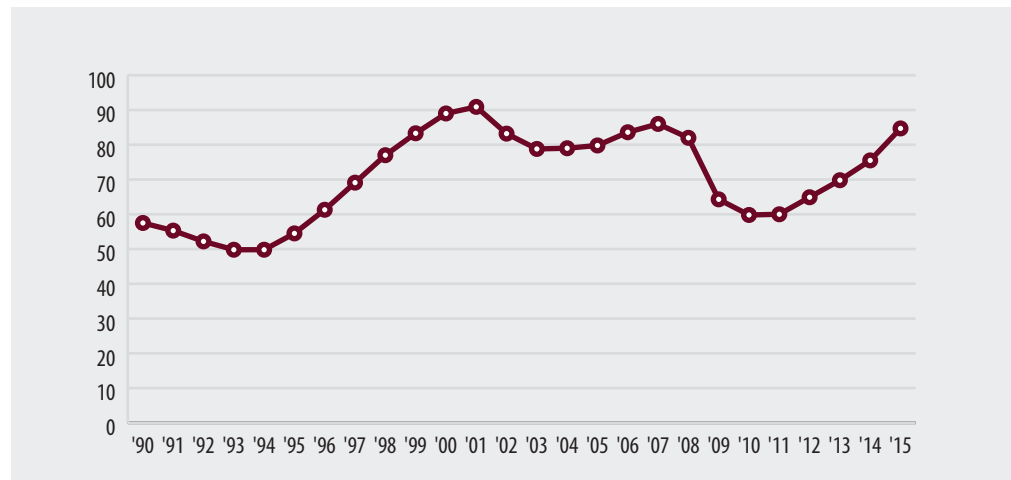
Figure 5: Health Care and Hospitality are the Other Job Growth Sectors



The industry structure trends described above are expected to continue. State and local government jobs will likely grow as fiscal situations are strengthening and population continues to grow. The decline in Government jobs since 1990 was influenced by the large aerospace and military base job losses and the fiscal effects of the recession.

One sector, Construction, could break out of its historical trends and at the same time be a growing source of middle wage jobs that do not require a college degree. Construction job levels have nearly recovered the recession job losses. As 2016 Silicon Valley Index and the discussion below highlight, the Peninsula and region have accumulated large housing and transportation challenges. Meeting these challenges will have the added benefit of creating thousands of middle-wage jobs on the peninsula and throughout the region.

Figure 6: Construction Jobs (Thousands)



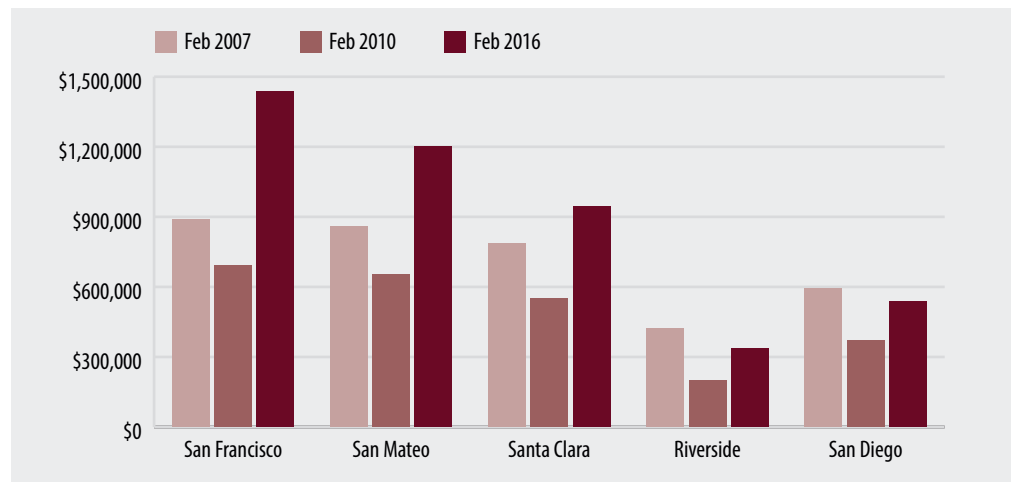
Housing Challenges

The job surge has brought challenges in housing up and down the Peninsula. Home prices and rents have shot upward as job and population growth met with low levels of new housing construction.

The extent of the housing shortage can be shown in at least three ways: (1) rapid cost increases, (2) rising household size when it should be falling and (3) an estimate of the numerical shortage of new housing related to population growth.

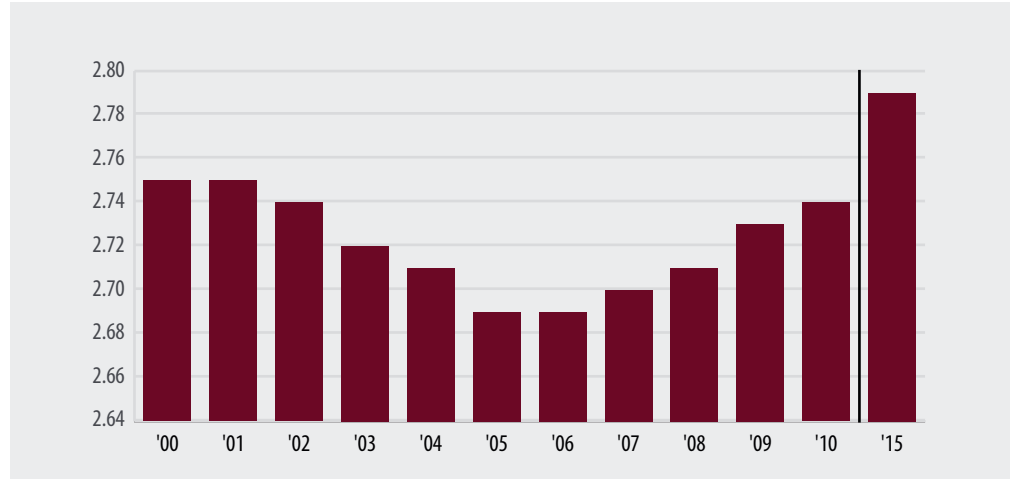
Detached single family home resale prices have reached record highs on the Peninsula while prices in nearly all other counties have yet to fully recover from the housing crash of a decade ago.

Figure 7: Median Resale Price of Existing Single Family Homes



Although the data is harder to assemble, these same trends are taking place in Peninsula rental markets. Trends in household size for the Peninsula are shown below. Household size was declining before 2007 as a result of falling birth rates and an increase in older (smaller) households. That trend should have accelerated as birth rates continued to decline and more residents reached age 65 where household size is smaller. Yet the reverse happened, as young adults moved back with their parents and some residents combined households when low supply brought large rent and price increases.

Figure 8: Persons per Household



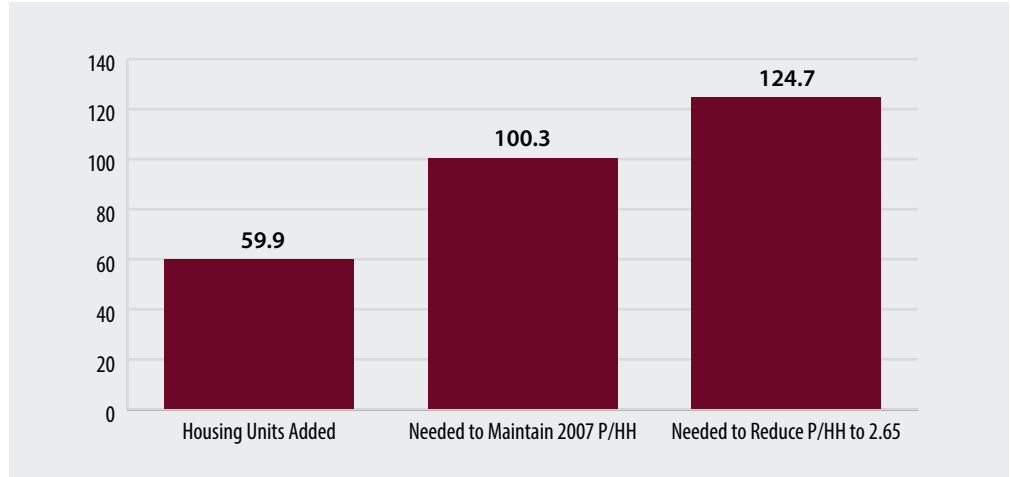
The 2016 *Silicon Valley Index* joined the Legislative Analyst’s Office^{1,2} along with many others in describing the slow pace of residential construction in recent years.

To illustrate how housing supply has lagged population growth on the Peninsula, consider that nearly 60,000 housing units were added on the Peninsula between 2007 and 2015. If the household size (persons per household) of 2.70 from 2007 was maintained that would have required 100,300 new units, or 40,400 more than were constructed. If the downtrend in household size was continued to, say, 2.65 persons per household in 2015, that would have required 124,700 new units or 64,800 more than were built (e.g. more than double what was actually produced).

These estimates are approximate and do not take into account changes in vacancy rates or building for second homes or demolitions. But they provide an accurate picture of the approximate shortfall in construction that has contributed to rising rents and home prices on the Peninsula.

1. www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.pdf
2. www.lao.ca.gov/Reports/2016/3345/Low-Income-Housing-020816.pdf

Figure 9: Peninsula Housing Shortfall 2007-2015 (Thousands of Units)



Looking Forward

Peninsula job growth continues strong into 2016. While we might expect the growth rate will slow in the coming years, the Peninsula and broader region continues to outpace the state and nation in job growth. Expansions are planned up and down the Peninsula, from the surge of new construction in San Francisco, to the Facebook expansion in Menlo Park, to the expansion in the North Bayshore area of Mountain View, to the land acquisitions in San Jose by Apple and Google. And this month Ford announced a new “mobility technology center” in Palo Alto.

This week Forbes ranked the San Francisco and San Jose metro areas as the number 1 and number 2 best places for young professionals.³

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 transportation issues. The good news—and the challenge—is that a large part of our economic destiny in the region is in our hands.

3. www.forbes.com/sites/erincarlyle/2016/03/28/americas-20-best-cities-for-young-professionals-in-2016/#222ad8d7f2b6

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.

JOINT VENTURE SILICON VALLEY

Established in 1993, Joint Venture Silicon Valley brings together established and emerging leaders—from business, government, academia, labor and the broader community—to spotlight issues, launch projects, and work toward innovative solutions. For more information, visit www.jointventure.org.



100 West San Fernando Street, Suite 310
San Jose, California 95113
(408) 298-9330
institute@jointventure.org | www.jointventure.org/institute