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DATE: June 11, 2013

TO: Miriam Chion

FROM: Stephen Levy

SUBJECT: Review of Beacon Report on Plan Bay Area Regional Growth Forecasts

The Plan Bay Area is based on a forecast of job and population growth that has the Bay Area growing slightly faster than the nation between 2010 and 2040. For both jobs and population the average annual growth rates in Plan Bay Area are less than 1% per year.

Plan Bay Area Growth 2010-2040

	Jobs		Population	
	Total Growth	Average Annual Growth Rate	Total Growth	Average Annual Growth Rate
Bay Area	33%	0.96%	30%	0.88%
United States	29%	0.85%	27%	0.80%

A recent report from Beacon Economics argues that Plan Bay Area anticipates more job and population growth for the region than is reasonable. The report makes several arguments including:

- That the Plan Bay Area forecast does not use up-to-date data including a downward revision in 2010 job estimates of 300,000 jobs
- That the Plan Bay Area did not acknowledge the coming slowdown in job and population growth
- That the Plan Bay Area forecast has an optimistic assessment of regional job growth because it does not take account of the impact of high housing prices on future job growth
- That the Plan Bay Area forecast is higher than the population forecasts of other agencies including the California Department of Finance (DOF)

The argument that more up-to-date data is available in 2013 compared to what was available in 2011 is, of course, true but the implication of this fact in the Beacon report is contradicted by the facts.

First, the statement on page 1 that EDD revised Bay Area job estimates for 2010 downward by 300,000 jobs and that this change was not recognized in the Plan Bay Area growth forecast is incorrect for two reasons. One, the EDD revisions for the Bay Area job estimates in 2010 were **upward revisions, not downward revisions**. EDD revised the Bay Area job estimates **upward** for 2010 by approximately 38,000 jobs between the first estimates and the final estimates.

The larger mistake in the Beacon report is comparing their estimate of wage and salary jobs with the ABAG forecast baseline job estimate for 2010 that included approximately 300,000 self employed jobs. **So there is actually no major difference between the Beacon and ABAG Bay Area job estimate for 2010.** The alleged error on ABAG's part actually represents confusion by Beacon.

Second, nearly all of the "more up-to-date" data released since 2011 argues for supporting or raising, not lowering, the Bay Area growth forecast to 2040:

- In the 18 months from October 2011 through April 2013 the Bay Area added 129,500 jobs or a rate of 86,000 jobs per year and experienced a job growth rate that was 50% higher than the national average
- The latest DOF population estimates show the Bay Area as the fastest growing region in the state between January 1, 2012 and 2013 adding more than 75,000 residents led by Santa Clara County with a gain of 28,600 residents or 1.6%--the fastest growing county in the state
- Moreover the latest Census Bureau population growth estimates for the Bay Area since the 2010 Census show the region had added 60,000 more residents than estimated by DOF for the period ending June 30, 2012.
- The immigration discussions in Congress today were not anticipated in the Plan Bay Area forecast for the nation, state or region. Most reforms would substantially increase annual immigration flows into the nation, many in areas that would directly benefit the Bay Area economy competitive position and **add to the population and job growth in the nation to 2040.**

The Beacon report and earlier critiques of the Plan Bay Area growth forecast point to the lower regional population projection recently published by DOF. As previously reported, use of the new DOF birth rate projections would lower the Bay Area 2040 population projection by approximately 100,000 residents, all of whom would be children and not relevant to the job or household forecasts.

On the other hand the Beacon report and other critiques are themselves guilty of not using the most up-to-date information including the following quotes from the Overview prepared for the joint ABAG, DOF and HCD (California Housing and Community Development Department) meeting held in March 2013 including:

- DOF’s 2013 projections do not take into account the high job, migration, and population growth from 2010 to 2012.
- DOF and the regional planning agencies are working toward better ways to incorporate job growth forecasts into the DOF migration assumptions. DOF acknowledges that ABAG employment methodology and its impact on migration is reasonable.

As a result the DOF population projections cannot be used as a reason to discredit the Plan Bay Area regional job and population growth forecasts.

The statement that the Plan Bay Area forecast to 2040 did not take the slowdown in expected job and population growth in the nation from demographic changes is similarly incorrect. The U.S. job and population growth upon which Plan Bay Area forecasts were based does, indeed, have slowing job and population growth as shown below. Job growth will slow substantially in the decade after 2020 as baby boomers exit the workforce and will pick up only slightly in the following decade as the next generation of children comes of working age. Annual population growth in the nation slows each ten years. **Also, as indicated above, these projections do not take account of increases in immigration and population growth likely to occur as a result of current immigration reform discussions.**

National Growth Rates Used in Plan Bay Area (Average Annual Growth Rates)

	2010-2020	2020-2030	2030-2040	Total Growth 2010-2040
Jobs	1.41%	0.51%	0.66%	29.3%
Population	0.85%	0.83%	0.69%	26.7%

The statement that Plan Bay Area did not take housing constraints into account is incorrect. Actually, ABAG lowered the CCSCE job and population projections to take account of constraints in the amount of housing that could reasonably be expected by 2040. The direct quote from *Plan Bay Area* is shown below.

“ABAG adjusted for housing production limitations by 2040 that influence the number of workforce households that can be accommodated in the region. These housing production limitations, in turn, limit job growth in the region and reduce total population growth.”

Many critiques of Plan Bay Area are associated with the concern of residents in some communities that the Regional Housing Needs Assessment housing

targets for 2022 are too high. While the RHNA was not an issue in the Beacon report, readers should note that the Beacon population forecast is higher than the Plan Bay Area forecast for 2020. As a result, residents and planners concerned about the impact of the Plan Bay Area forecast on the current regional RHNA allocation should understand that the regional and local allocations using the Beacon 2020 forecast would be higher than the current allocations.

The remaining and central area of contention is about the Plan Bay Area forecast that job growth in the Bay Area would be slightly higher than in the nation to 2040 as a result of the region's strong economic base of technology and Pacific Rim trade, tourism and financial connections.

The Beacon report argues that the recent rapid job growth in the region is "catch up" from the recession job losses and is not a valid indicator of future job growth. Recent evidence suggests this is not a strong argument. In April 2013 the Bay Area had recovered all but slightly more than 1% of the recession job losses (the Bay Area is closer to full recovery than the state or nation) and the unemployment rate was below the national average, often well below, in 8 of the 9 Bay Area counties.

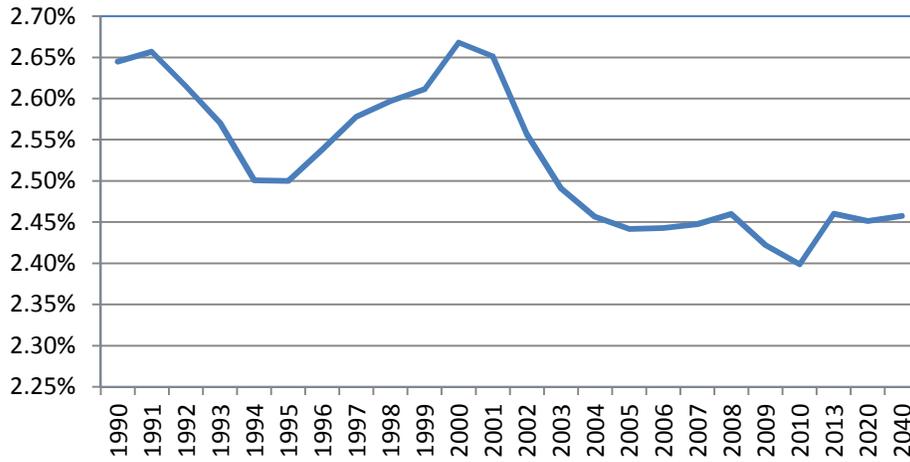
Yet job growth is continuing at a pace well above the national average with major company expansions going on all around the region and a housing recovery now underway that will boost construction-related jobs. **Moreover, the industries at the center of the region's economic base are identified in all major national forecasts as the industries with the most high-wage job growth in the nation to 2040.**

The recent evidence suggests that the next update of Plan Bay Area will identify higher, not lower, long-term job and population growth for the region but such revisions should await the evidence of the next few years.

Moreover, given the recent job gains the Bay Area has already achieved in 2013 the share of U.S. jobs projected in Plan Bay Area for 2040. **In order for the Plan Bay Area growth forecast to be too high, the region would need to experience job growth below the national average for the next 27 years and without any increase in U.S. population growth from immigration reform.**

Yet, in the most recent "up-to-date" data, the UCLA long-term forecast released on June 6, 2013 has California outpacing the nation in job growth in each of the next ten years. And other recent UCLA reports have the Bay Area continuing as the job growth leader in the state.

Bay Area Share of U.S. Jobs



Non farm Wage and Salary Growth UCLA June 2013

