

Date: July 22, 2010  
To: Regional Advisory Working Group  
From: Regional Agency Staff  
Subject: Employment Growth & Implications for the Sustainable Communities Strategy

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## Summary

According to Senate Bill 375, the Sustainable Communities Strategy (SCS) is intended to be an integrated long-term regional land use and transportation plan. The land use component of the SCS is essentially where jobs and housing are projected to be located throughout the region. However, in developing the SCS, we have an opportunity to engage in a dialogue about demographic and economic trends, how these trends impact our long-range housing needs, and how we, as a region, can plan for these changes in a more sustainable way. This report focuses on the issue of employment. Demographic issues will be brought to the working group at their September meeting. For this report, we present a brief summary of the current economic conditions and how these conditions may impact future job growth for the region. We also briefly present some of the long-term economic challenges we face and how the SCS may be an opportunity to address these challenges.

Specific questions for the Regional Advisory Working Group members are:

- 1) How could employment growth be better integrated into the SCS discussion?
- 2) What other land use and transportation-related factors can impede employment growth and therefore should be considered during the development of the Sustainable Communities Strategy?

## The Economy and Bay Area Job Growth

In December of 2007, the United States officially found itself in an economic recession. The recession spread to the majority of the industrialized world, and caused a significant drop in economic activity. The recession was triggered by a subprime mortgage “meltdown” that began in 2005. By 2007, the mortgage crash sparked a three-year financial crisis, requiring \$700 billion in federal government interventions. In the end, this recession will likely prove to be the longest and most severe since the Great Depression and World War II, as measured in payroll jobs lost and unemployment rates.<sup>1</sup>

The Congressional Budget Office (CBO) projects that economic growth in the next few years “will probably be muted in the aftermath of the financial and economic turmoil.”<sup>2</sup> In his statements to the Budget Committee, the Director of the Congressional Budget Office (CBO) goes on to say that despite actions taken by the Federal Reserve with the Economic Stabilization Act of 2008 and the aggressive stimulus package, which helped to moderate the severity of the recession and shorten its duration, household spending is likely to continue to be restricted due to slow income growth, lost wealth, and limited ability to borrow, due to heightened credit restrictions. Investment spending is also anticipated

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<sup>1</sup> Andrew Sum, et.al. “The Economic Recession of 2007-2009: A Comparative Perspective on Its Duration and the Severity of Its Labor Market Impacts.” April 2009

<sup>2</sup> Congressional Budget Office. “The Budget and Economic Outlook Fiscal Years 2010 to 2020.” Statement of Douglas W. Elmendorf, Director. Statement before the Committee on the Budget United States Senate. January 28, 2010.



to be slow because of continued high vacancy rates in both the residential and commercial markets. Government and household deficits are anticipated to further curtail a quick economic recovery.

Some economist point to further indicators that the recovery will indeed be slow and that the recession will likely have long-term impacts on the economy. These indicators include a marked increase in household savings, rather than spending, a “deleveraging” of the world’s financial institutions, weak commodity prices, an intensification of government regulations and protectionist policies.<sup>3</sup>

Projected slow economic growth, over the long-term, has prompted the Congressional Budget Office to reduce its projection of gross domestic product, out to the year 2020. Previous long-term GDP rates were estimated at 2.6 percent, the rate in which ABAG used to prepare its most recent long-term job forecast. Current GDP estimates by the CBO have rates at 2.4 percent for the 2015-2020 period.

### *Bay Area Job Growth*

Lower GDP has a direct impact on Bay Area long-term job growth. Its impact is directly measured when ABAG prepares its long-range economic and demographic forecast, known as *Projections*. An IMPLAN model is used to develop the regional and county level employment data. The model includes a database which contains a range of economic statistics, including national gross domestic product (GDP), as estimated by the Congressional Budget Office. Gross regional product is estimated via the IMPLAN model, as well. The CBO’s revised GDP rates are anticipated to have negative implications on the region’s long-term job outlook. Recent employment data also bodes poorly for long-term job growth.

Since July 2008, the Bay Area has lost nearly 250,000 jobs, over 2000 totals. The recent decline in jobs mirrors the early 2001 “dot-com bust” recession, where the region also lost 250,000 jobs. The peak of the job loss occurred in January 2010, with job declines lessening in degree over the last six months. Considering the magnitude of the recession and anticipated slow recovery, in 2009 ABAG reduced its long-term forecast by nearly 140,400 jobs for the year 2035, compared to earlier forecasts. As we approach the next revision to the job forecast, we are again considering retracting the region’s long-term economic outlook.

The Sustainable Communities Strategy is an opportunity to take a closer look at the region’s economic future. Not only is the national economic climate a challenge for the region, numerous other constraints potentially threaten sustained Bay Area job growth. The SCS is an opportunity to both discuss and address those constraints. An understanding of job growth and potential constraints is relevant to both the region’s long-term economic health, but also because of the direct relationship between jobs, population growth and housing demand. Total population growth is driven by two measures, net natural increase (births minus deaths) and migration. Migration is highly correlated with job growth, with only a small minority people moving into the region for social, familial or other personal reasons. Therefore, a thorough understanding of the region’s job growth is imperative to planning for the region’s housing need.

### **Bay Area Economic Challenges & the Opportunity of the SCS**

Despite recent job losses, the overall strength of the Bay Area economy has remained intact. According to the Bay Area Council Economic Institute, “the Bay Area continues to have high levels of productivity, high per capita GDP, and remains a center for Fortune 1000 and Fortune Global 500 companies.” The Bay Area’s economy also remains strong due to a highly educated work force and world class research centers and universities. The institute, however, provides a cautionary voice regarding potential threat to long-term economic growth in the region. These include the education system and the state’s fiscal crisis.<sup>4</sup>

In addition the threats identified by the Bay Area Council, there are significant barriers to job growth that relate directly to land use and transportation policy, which are the purview of the SCS. These include:

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<sup>3</sup> A. Gary Shilling. “Long-term Outlook: Slow Growth and Deflation.” Insight. March 2009

<sup>4</sup> Bay Area Economic Council Economic Institute. “Recession and Recovery: An Economic Reset.” Bay Area Economic Profile. April 2010

- Jobs-housing fit - access to sufficiently available and affordable housing in relationship to job opportunities
- Increased roadway congestion and delay
- An inefficient transit system
- A lack of transit accessible jobs
- Disparate employment location and attraction policies resulting in region-wide “job sprawl”
- The conversion of industrial lands to commercial and residential use

The Sustainable Communities Strategy presents a unique opportunity to engage in regional dialogue on each of these issues. Our challenge, during the SCS process, is to ensure these issues are raised and adequately addressed in the SCS. The specific places in the process for these issues to be raised could be during the establishment of a housing target (to address the need for sufficient housing), scenario developments (to determine the impact various scenarios have on congestion, transit ridership, and access to jobs) and also in the crafting of policies that may be adopted as part of the final Sustainable Communities Strategy (i.e. regional employment and industrial lands policies).