ECONOMIC SNAPSHOT

A Summary of the San Diego Regional Economy

50 YEARS 1965-2015
SAN DIEGO REGIONAL EDC

JULY 2015

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San Diego Regional EDC analyzes key economic metrics that are important to understanding the regional economy and San Diego's standing relative to other major metropolitan areas in the U.S.

This issue covers data from the January 2015 to April 2015 quarter.

Highlights

San Diego County's April 2015 unemployment rate dropped by 1.3 percentage points to 4.8 percent.

San Diego had the 11th highest employment growth rate from April 2014 to April 2015.

The region added 39,200 jobs since last January, with 36,600 of those jobs coming from the private sector.

While manufacturing employment has been stagnant, productivity grew seven percent annually from 2001 to 2013, more than double the productivity growth of the total private sector.

The industrial vacancy rate of 6.0 percent in Q1 2015 was the lowest ever recorded for the San Diego region.

San Diego's median home price climbed back above $500,000 in Q1.

The software industry in San Diego had the best quarter for venture capital investment since Q3 2007.

UNEMPLOYMENT

San Diego metro ranked 11th in unemployment rate in April 2015, down two spots from last quarter (January 2015). San Diego's 4.8 percent rate is below the U.S. rate of 5.1 percent. The year-over-year decline in unemployment remains a positive trend in the region. The rate fell by 1.3 percentage points, the 4th most among major metros.

San Diego has continued to fare better than other California metros and the state in terms of the unemployment rate. Riverside and Los Angeles recorded the two highest unemployment rates among major metros, and the region was well below the state average of 6.1 percent.

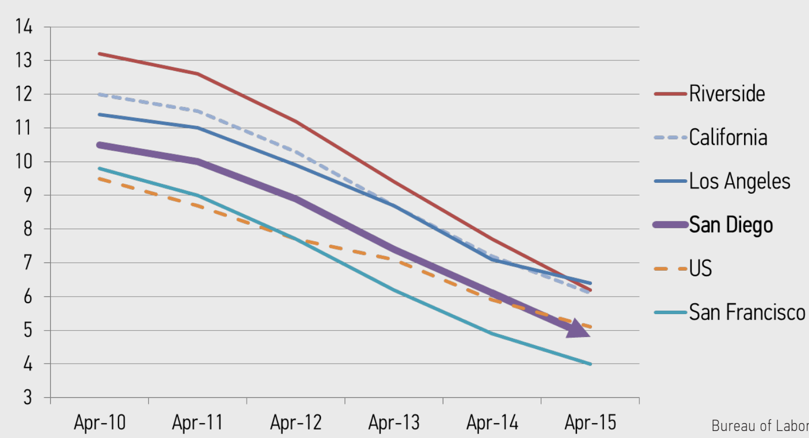
Unemployment Rate: 25 Most Populous U.S. Metros

RANK	METRO	APR-15	APR-14	PP CHANGE
1	San Antonio	3.4	4.3	-0.9
2	Minneapolis	3.5	3.9	-0.4
3	Dallas	3.7	4.7	-1.0
4	Boston	3.8	5.0	-1.2
5	Seattle	3.9	4.8	-0.9
6	San Francisco	4.0	4.9	-0.9
6	Houston	4.0	4.6	-0.6
8	Denver	4.2	5.2	-1.0
9	Washington D.C.	4.3	4.7	-0.4
10	Pittsburgh	4.6	5.1	-0.5
11	**San Diego**	**4.8**	**6.1**	**-1.3**
12	Portland	4.9	6.3	-1.4
12	Phoenix	4.9	5.5	-0.6
14	Tampa	5.0	5.7	-0.7
15	Charlotte	5.1	5.7	-0.6
15	Detroit	5.1	7.8	-2.7
15	Philadelphia	5.1	5.8	-0.7
-	U.S.	5.1	5.9	-0.8
18	Baltimore	5.2	5.7	-0.5
19	Saint Louis	5.3	5.9	-0.6
20	Miami	5.4	6.2	-0.8
21	Atlanta	5.6	6.4	-0.8
21	New York	5.6	6.1	-0.5
23	Chicago	5.8	7.0	-1.2
24	Riverside	6.2	7.7	-1.5
25	Los Angeles	6.4	7.1	-0.7

San Diego's unemployment rate dropped to 4.8 percent in April, the lowest since 2007.

Source:
Bureau of Labor Statistics
Seasonally Unadjusted
PP = Percentage Point

Unemployment Rate: California Comparison



Source:
Bureau of Labor Statistics

EMPLOYMENT

San Diego experienced a seasonal increase in employment in the January to April quarter, but lagged behind many peer metros in this regard. The region's 1.37 percent growth was 21st among major metros. Despite the comparative underperformance, nearly all sectors of the economy experienced quarterly growth, with the exception of trade and transportation sectors. The leisure and hospitality sector had huge quarterly growth, likely due to hotels, restaurants and entertainment venues ramping up for the spring/summer season.

Annual growth shows the region's economy picking up significant steam. San Diego recorded the 11th highest growth rate from April 2014 to April 2015. The region's employment grew by more than 2.9 percent, compared with the U.S. average growth rate of only 2.2 percent.

While San Diego's overall growth is very positive, we continued to see explosive growth in one of the region's most important sectors. Professional, scientific and technical services (PST) is a sector of the economy very heavily associated with the region's innovation clusters. Many of the companies and much of the employment in clusters like biotechnology, biomedical products, cleantech and information technology fall within the PST sector. Employment in the region's PST sector grew by 6.4 percent since last April.

Other key industries in the region experienced above average year-over-year growth. The construction sector continued to boom, adding 3,200 jobs or 5.1 percent growth. Real estate also showed some positive signs. The industry grew by 5.9 percent, adding 1,600 jobs. Leisure and hospitality, the industry most closely associated with tourism, added 6,500 jobs over the year and grew by 3.7 percent.

Total Employment Growth: 25 Most Populous U.S. Metros

RANK	METRO	% CHANGE YEAR APR '14 - APR '15	% CHANGE QTR JAN '15 - APR '15
1	Riverside	3.92%	1.30%
2	Dallas	3.83%	1.58%
3	Seattle	3.81%	1.57%
4	Atlanta	3.39%	1.52%
5	Charlotte	3.33%	2.17%
6	San Francisco	3.27%	1.53%
7	Miami	3.25%	1.08%
8	San Antonio	3.16%	2.30%
9	Tampa	3.15%	2.83%
10	Denver	3.09%	1.56%
11	**San Diego**	**2.93%**	**1.37%**
12	Portland	2.91%	1.89%
13	Los Angeles	2.74%	1.55%
14	Detroit	2.65%	1.69%
15	Phoenix	2.64%	1.23%
16	Houston	2.34%	0.88%
-	U.S.	2.22%	2.00%
17	Washington D.C.	1.99%	2.17%
18	Minneapolis	1.98%	2.15%
19	Boston	1.65%	1.98%
20	New York	1.49%	1.95%
21	Baltimore	1.44%	2.78%
22	Chicago	1.34%	2.03%
23	Pittsburgh	1.32%	2.84%
24	Philadelphia	1.07%	1.73%
25	Saint Louis	0.39%	2.73%

Source: Bureau of Labor Statistics | Ranked by % Change Year

Employment by Industry (in thousands)

INDUSTRY	APR-15	JAN-15	APR-14	CHANGE PREV. QTR	CHANGE PREV. YR	%CHANGE PREV. QTR	%CHANGE PREV. YR
Total (Private and Government)	**1379.2**	**1360.6**	**1340.0**	**18.6**	**39.2**	**1.4%**	**2.9%**
Total Private	**1141.9**	**1126.8**	**1105.3**	**15.1**	**36.6**	**1.3%**	**3.3%**
*Professional and Business Services**	238.6	235.3	227.1	3.3	11.5	1.4%	5.1%
Prof., Scientific, & Tech. Services*	136.6	133.5	128.4	3.1	8.2	2.3%	6.4%
Mgmt. of Companies & Enterprises	21.6	21.4	21.1	0.2	0.5	0.9%	2.4%
Administrative	80.4	80.4	77.6	0.0	2.8	0.0%	3.6%
Trade, Transportation, and Utilities	214.8	216.1	211.2	-1.3	3.6	-0.6%	1.7%
Wholesale Trade	44.6	44.1	43.6	0.5	1.0	1.1%	2.3%
Retail Trade	143.6	145	141.1	-1.4	2.5	-1.0%	1.8%
Transportation and Utilities	26.6	27	26.5	-0.4	0.1	-1.5%	0.4%
Education and Health Services	193.5	189.9	187.7	3.6	5.8	1.9%	3.1%
Education Services	32.9	30.6	32	2.3	0.9	7.5%	2.8%
Health Care and Social Assistance	160.6	159.3	155.7	1.3	4.9	0.8%	3.1%
*Leisure and Hospitality**	181.4	175.1	174.9	6.3	6.5	3.6%	3.7%
*Manufacturing**	97.8	96.7	95.9	1.1	1.9	1.1%	2.0%
Financial Activities	71.7	70.5	69.9	1.2	1.8	1.7%	2.6%
Finance and Insurance	42.9	42.8	42.7	0.1	0.2	0.2%	0.5%
Real Estate and Rental and Leasing	28.8	27.7	27.2	1.1	1.6	4.0%	5.9%
Construction	65.5	65.2	62.3	0.3	3.2	0.5%	5.1%
Other Services	53.0	52.9	51.4	0.1	1.6	0.2%	3.1%
*Information**	25.2	24.7	24.5	0.5	0.7	2.0%	2.9%
Mining and Logging	0.4	0.4	0.4	0.0	0.0	0.0%	0.0%
Government	**237.3**	**233.8**	**234.7**	**3.5**	**2.6**	**1.5%**	**1.1%**
Federal Government	45.7	45.6	45.8	0.1	-0.1	0.2%	-0.2%
State Government	46.6	46.1	44.8	0.5	1.8	1.1%	4.0%
Local Government	145.0	142.1	144.1	2.9	0.9	2.0%	0.6%

Source: California Employment Development Department | Italics = Supersector | Ordered by largest Supersectors

*Denotes industry sectors strongly associated with San Diego's Traded Economies

PST services recorded the highest annual growth rate at 6.4 percent.

SPOTLIGHT ON MANUFACTURING GROWTH

In previous EDC publications, we raised concerns over the slow employment growth in the region's manufacturing industry. This trend has been a particular concern due to the fact that manufacturing plays a critical role in our region's economy. In April's Economic Snapshot, we highlighted manufacturing as an industry that both pays high wages and has experienced high-wage growth. The industry is also a crucial part of our innovation economy. Of the approximately 173,000 innovation economy jobs, manufacturing industry jobs make up about 36 percent. Recently, employment indicators have shown stagnant growth in the industry. From the end of the recession through 2013, manufacturing employment grew at less than one percent annually. Over that same period, private sector employment grew by 2.7 percent annually.

However, this only tells us part of the economic story regarding manufacturing growth. In this issue, we will take a deeper look into the productivity of the manufacturing industry in San Diego. To measure this, we will look at total value added in the industry and how it has kept up with the rest of the economy, as well as how it relates to employment—providing us with a measure of the industry's productivity over time.

> Manufacturing productivity grew seven percent annually from 2001 to 2013, more than double the productivity growth of the total private sector.

When you look at value added per employee, manufacturing is much more productive than the average private sector business (Figure 1). While productivity has grown throughout the economy, manufacturing productivity has grown at more than twice the pace of the private sector as a whole. From 2001 to 2013, manufacturing productivity grew 7.0 percent on average, compared with 3.1 percent in the private sector. The only two industries to grow faster were management of companies and enterprises and utilities, both of which are much smaller contributors to the region's GDP.

Figure 2 helps tell the story behind this trend. In part, the acceleration of manufacturing productivity can be explained by the immense value added growth represented in blue—reaching nearly 50 percent higher than its 2001 mark. Conversely, you see declining or stagnant employment growth over this same period, as shown in orange. With value added generally rising and employment generally falling, value added per employee skyrocketed to nearly double the figure it was in 2001.

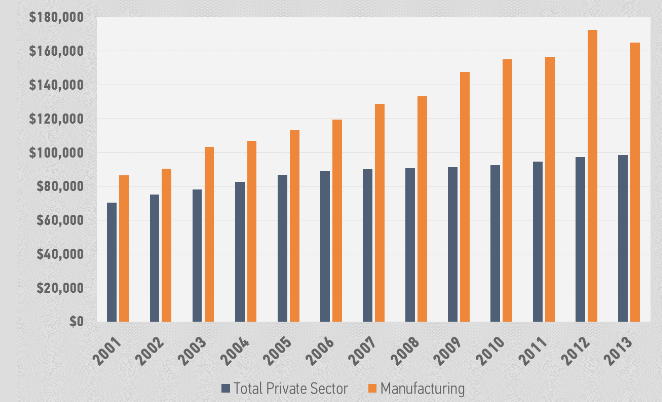
It is worth noting that not all types of manufacturing experienced these trends equally. Manufacturing is broken down into two large buckets, durable goods and non-durable goods. Durable goods are generally parts or products that are intended to last for long periods of time, like aerospace, ship building, medical devices, computers, furniture and more. Non-durable goods are generally products intended to be consumed in shorter periods or are disposable, like chemicals, beverages, apparel and more.

From 2001 to 2013, non-durable goods value added increased at roughly three times the pace of durable goods. Meanwhile, employment in both sectors declined at roughly the same pace. While durable goods manufacturing certainly became much more productive, non-durable goods productivity grew nearly three-fold over that period. This explosion in non-durable goods is almost entirely explained by the chemical manufacturing subsector, which in San Diego is mostly pharmaceuticals*. Chemical manufacturing employment grew by 17.6 percent from 2001 to 2013, but over that same period, value added more than tripled. Productivity grew to roughly $520,000 per employee in 2013, more than three times higher than the average manufacturing productivity and five times higher than the private sector average.

This productivity and value added growth in manufacturing is likely due to a combination of technological change, more skilled employees and increased globalization—the last of which allows for lower cost inputs. Additionally, the region has shifted its manufacturing base toward more capital and R+D intensive subsectors that require less employees and return higher value. This in part explains the stagnant growth in employment, which remains a concern, but higher productivity also allows firms in the region to remain more competitive and has led to much higher wages for manufacturing workers. From 2001 to 2013, the average annual wage for manufacturing workers grew by 28 percent more than the average private economy job in San Diego. In 2013, the average annual wage for a manufacturing employee was roughly $75,000, 40 percent higher than the private sector average. With manufacturing employment figures slowly picking up through 2014 and 2015, and evidence of continued high wage growth in the industry, it will be interesting to see if this productivity trend continues.

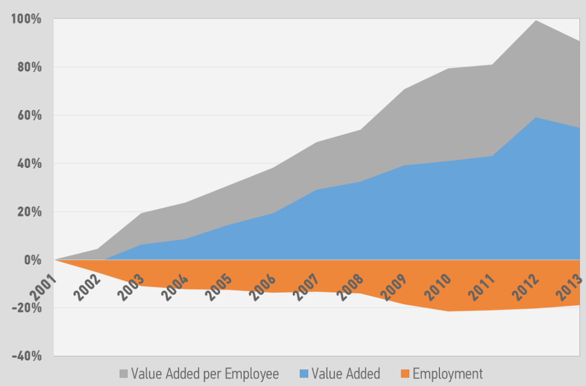
*Pharmaceutical and Medicine Manufacturing accounts for two-thirds of all Chemical Manufacturing employment

Figure 1: Value Added Per Employee (2001-2013) in San Diego MSA: Private Sector and Manufacturing Comparison



Source: US Bureau of Economic Analysis; San Diego Regional EDC

Figure 2: Indexed | Manufacturing Growth (2001-2013) in San Diego MSA: Employment, Value Added and Value Added Per Employee Comparison



Source: US Bureau of Economic Analysis; San Diego Regional EDC

Figure 3: Value Added, Employment and Productivity (2001-2013): Manufacturing Sector Comparison

Metric/Sector	2001	2013	%Change
Value Added (Millions)			
Manufacturing	$11,139	$17,236	54.7%
Durable Goods	$8,340	$11,393	36.6%
Non-Durable Goods	$2,800	$5,843	108.7%
Employment			
Manufacturing*	128,768	104,486	-18.9%
Durable Goods	89,458	71,142	-20.5%
Non-Durable Goods	29,775	24,067	-19.2%
Productivity (VA/Employee)			
Manufacturing	$86,504	$164,960	90.7%
Durable Goods	$93,228	$160,145	71.8%
Non-Durable Goods	$94,039	$242,784	158.2%

Sources: BEA.gov; EDD.CA.gov; San Diego Regional EDC
*Note: Employment for manufacturing does not sum.
BEA does not provide employment data for durable and non-durable goods sectors, so EDD is used.

REAL ESTATE

FORECLOSURES

San Diego's foreclosure rate remained much lower than the U.S. average in April 2015, with only 2.01 out of every 10,000 homes foreclosing during that month. The region dropped to the third lowest foreclosure rate in April. The region's foreclosure rate remained unchanged from the revised January 2015 figure, but fell by 0.3 homes out of 10,000 since the previous April.

Foreclosure Rate: 25 Most Populous U.S. Metros

RANK	METRO	RATE APR '15	POINT CHANGE PREV. QUARTER	POINT CHANGE PREV. YEAR
1	San Francisco	1.47	-0.21	-0.55
2	Denver	1.51	-0.18	-1.44
3	**San Diego**	**2.01**	**0.00**	**-0.30**
4	Los Angeles	2.16	0.10	-0.24
5	New York	2.20	0.53	0.98
6	Pittsburgh	3.41	0.61	2.12
7	Phoenix	3.71	0.18	-1.08
8	Dallas	3.87	-0.91	-0.57
9	Minneapolis	3.88	-0.33	-0.26
10	Philadelphia	4.05	0.32	-0.09
11	Riverside	4.15	-0.19	-1.18
-	U.S.	4.29	0.03	-0.84
12	Washington D.C.	5.07	0.35	0.09
13	Seattle	5.21	-1.11	-1.74
14	Charlotte	5.37	-0.30	-3.74
15	Portland	6.24	0.10	1.25
16	Baltimore	10.82	1.46	2.77

Source: Zillow
Note: Rate is per 10,000 homes, Nine major metros not reported

San Diego's median home price climbed back above $500,000 in Q1 2015.

HOME PRICES

San Diego remained the second most expensive for-sale home market in the U.S., according to National Association of Realtors. Home prices increased by about 3.5 percent in the San Diego region from the previous quarter and about 5.7 percent from the previous year. The quarterly growth rate was the second highest recorded among major metros, while the annual growth rate is slower than most. The annual rate ranked 16th among major metros and was 1.7 points below the U.S. average.

Median Home Price: 25 Most Populous U.S. Metros

RANK	METRO	PRICE 2015 Q1	% CHANGE FROM PREV. QUARTER	% CHANGE FROM PREV. YEAR
1	San Francisco	$748,300	0.6%	10.1%
2	**San Diego**	**$510,300**	**3.5%**	**5.7%**
3	Los Angeles	$434,700	-3.6%	7.0%
4	New York	$388,600	0.6%	1.9%
5	Boston	$374,600	-2.2%	3.1%
6	Washington D.C.	$367,800	-1.3%	2.5%
7	Seattle	$352,400	0.1%	3.7%
8	Denver	$338,100	7.4%	17.2%
9	Portland	$289,400	0.2%	6.4%
10	Riverside	$281,000	1.2%	5.5%
11	Miami	$269,100	1.5%	3.9%
12	Baltimore	$223,100	-4.3%	-0.6%
13	Minneapolis	$209,400	-0.3%	11.3%
14	Phoenix	$206,100	2.9%	6.1%
-	U.S.	$205,200	-1.5%	7.4%
15	Philadelphia	$204,900	-3.9%	1.5%
16	Houston	$200,300	0.5%	8.5%
17	Charlotte	$197,200	2.3%	17.7%
18	Chicago	$192,500	-1.3%	8.8%
19	Dallas	$192,500	1.5%	10.1%
20	San Antonio	$184,700	-0.4%	9.1%
21	Atlanta	$158,000	0.2%	11.3%
22	Tampa	$156,000	-2.5%	7.6%
23	Saint Louis	$134,800	-2.6%	11.9%

Source: National Association of Realtors
Note: Pittsburgh and Detroit not available

OFFICE & INDUSTRIAL SNAPSHOT

The region's office market saw the lowest region-wide vacancy rate in seven years, down to 15.9 percent in Q1 2015. This rate is down more than two percentage points from the previous year. Meanwhile, according to the DTZ market report, Q1 2015 was the strongest first quarter for absorption since 2010.

At 6.0 percent, the industrial market vacancy rate in San Diego in Q1 was the lowest ever recorded by DTZ. In terms of current net absorption, DTZ reported that Q1 marked the 15th straight quarter of industrial expansion. With more square footage demanded and the vacancy rate at an all-time low, average asking rent was up across the board.

The industrial vacancy rate of 6.0 percent in Q1 2015 was the lowest ever recorded for the San Diego region.

Real Estate Snapshot: San Diego County (Q1 2015)

AREA/SUB-REGION	OFFICE VACANCY RATE	ABSORPTION (SF)	AVERAGE ASKING RENT	INDUSTRIAL VACANCY RATE	ABSORPTION (SF)	AVERAGE ASKING RENT
San Diego County	15.9%	177,613	$2.44	6.0%	1,099,020	$0.86
North County	19.0%	102,563	$2.24	6.5%	298,246	$0.80
Central County	15.4%	68,827	$2.56	5.1%	417,819	$1.06
South County	15.2%	6,223	$2.28	8.4%	333,576	$0.56

Source: DTZ Market Report
Note: Monthly asking rates converted to triple net (NNN). Vacancy Rate includes direct and sublease. Net absorption excludes sublease. Green indicates lower vacancy or higher rents than the previous quarter, or positive absorption.

VENTURE CAPITAL

In Q1 2014, the San Diego region ranked 10th out of the 18 U.S. regions tracked by the PricewaterhouseCoopers MoneyTree Report in terms of VC dollars received by regional companies. Total VC dollars more than doubled from the last quarter and increased from the same quarter the previous year. San Diego received about $27 million more in Q1 2015 than in Q1 2014.

Data from Q1 indicates a good start to the year. The region is on pace to reach the $1 billion threshold if the funding keeps pace. Both years 2013 and 2014 failed to reach the $1 billion mark by a significant portion, after reaching that threshold from 2004 to 2008 and again in 2012.

Software had the best quarter since Q3 2007, netting more than $100 million in new investment.

Q1 reached $270 million in funding with relatively few deals. Only 19 deals were made this quarter and in only five different industries. Biotech and Software each had eight deals, while financial services, medical devices and media each had one deal.

Software had a huge quarter, the largest since Q3 2007. There were eight software deals totaling more than $100 million. SmartDrive Systems Inc., an online fleet services platform provider, scored a $50 million later stage deal. Tealium, a fast-growing enterprise tag management firm, netted a $30 million deal as well.

Biotech continued to excel. Eight deals in Q1 resulted in nearly $150 million in capital to San Diego firms. aTyr Pharma Inc., a therapeutics company in San Diego scored the largest deal of the quarter at approximately $76 million. Cidara Therapeutics had the third largest overall and second largest biotech deal of the quarter at $42 million.

Hopefully the Q1 2015 figures are a good sign of things to come, especially in the software sector. The software sector has been sluggish since 2007. The industry only reached $107 million 2014, which was the worst year for software VC since 1997.

San Diego Venture Capital Funding by Industry (Q1 2014 - Q1 2015)

INDUSTRY	Q1 2015	Q1 2014	Prev. 4Q Total
Biotechnology	$149,307,000	$158,580,400	$500,630,000
Computers and Peripherals	$0	$0	$4,510,000
Consumer Products and Services	$0	$16,500,000	$26,122,100
Electronics/Instrumentation	$0	$0	$2,000,000
Financial Services	$8,300,000	$1,400,000	$8,300,000
Industrial/Energy	$0	$0	$3,076,000
IT Services	$0	$0	$9,263,000
Media and Entertainment	$700,000	$12,887,000	$5,398,800
Medical Devices and Equipment	$1,962,000	$0	$50,046,000
Networking and Equipment	$0	$0	$13,612,000
Retailing/Distribution	$0	$3,000,000	$4,396,100
Semiconductors	$0	$39,740,000	$13,571,900
Software	$109,896,000	$11,000,000	$206,652,000
Total	**$270,165,000**	**$243,107,400**	**$847,577,900**

Source: PricewaterhouseCoopers MoneyTree Report
Note: Only industries with funding in San Diego shown
Prev. 4Q Total reflects total from Q2 2014 - Q1 2015

San Diego Venture Capital Funding by Stage (Q1 2014 - Q1 2015)

STAGE	Q1 2015	Q1 2014	2014 Total
Seed	$3,345,000	$0	$21,480,000
Early Stage	$80,589,000	$165,521,400	$309,058,700
Expansion	$53,700,000	$18,699,000	$159,834,200
Later Stage	$132,531,000	$58,887,000	$357,205,000
Total	**$270,165,000**	**$243,107,400**	**$847,577,900**

Source: PricewaterhouseCoopers MoneyTree Report
Note: Only stages with funding in San Diego shown
Prev. 4Q Total reflects total from Q2 2014 - Q1 2015

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