

The Keystone Group

Presents

Manufacturing in California

Executive Summary

Prepared by:

Kosmont Partners

&

The Rose Institute of State and Local Government

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The Keystone Group

Who are we?

A collaborative of the following twelve economic development executives responding to reports about the loss of manufacturing jobs in California:

- ◆ **Coachella Valley Economic Partnership**
- ◆ **Economic Alliance of San Fernando Valley**
- ◆ **Economic Development Collaborative – Ventura County**
- ◆ **Gateway Cities Partnership**
- ◆ **Greater Antelope Valley Economic Alliance**
- ◆ **Inland Empire Economic Partnership**
- ◆ **Los Angeles County Economic Development Corporation**
- ◆ **Orange County Business Council**
- ◆ **San Gabriel Valley Economic Partnership**
- ◆ **South Bay Economic Development Partnership**
- ◆ **Tulare County Economic Development Corporation**
- ◆ **Westside Economic Collaborative**

Keystone Study

Who conducted the study?

- ◆ Kosmont Partners – economic and real estate consulting firm
- ◆ Rose Institute of State and Local Government at Claremont McKenna College – public policy research institute

Keystone Study - Objectives

1. Dispel perception that California's economy is gaining productivity and output, therefore loss of manufacturing jobs is not a critical issue
 - ◆ Quantify fiscal, economic, and social impacts of manufacturing on California's economy
 - ◆ Identify major reasons for manufacturing failures, migration, and other negative trends
 - ◆ Develop data showing manufacturing trends by county and other significant areas

Keystone Study - Objectives

2. Educate elected leaders on identifying needed legislative changes so that California is not as hostile to small and medium sized manufacturing businesses
3. Recommend more effective strategies to protect and enhance the existing manufacturing base in California and prevent its continued evaporation

Manufacturing in California Perception Vs. Realty

PERCEPTION

Global economy is the reason for job losses in California.

REALITY

California has lost jobs to every state in the union, including states that are equally or more expensive.

Manufacturing in California Perception Vs. Realty

PERCEPTION

California is gaining jobs and businesses.

REALITY

The jobs we are losing pay more than the ones we are creating. The companies leaving are more mature and generate greater economic output than the companies that are staying or starting operations in California.

Manufacturing in California Perception Vs. Realty

PERCEPTION

The legislation aims to protect workers and create an improved workforce and quality of life.

REALITY

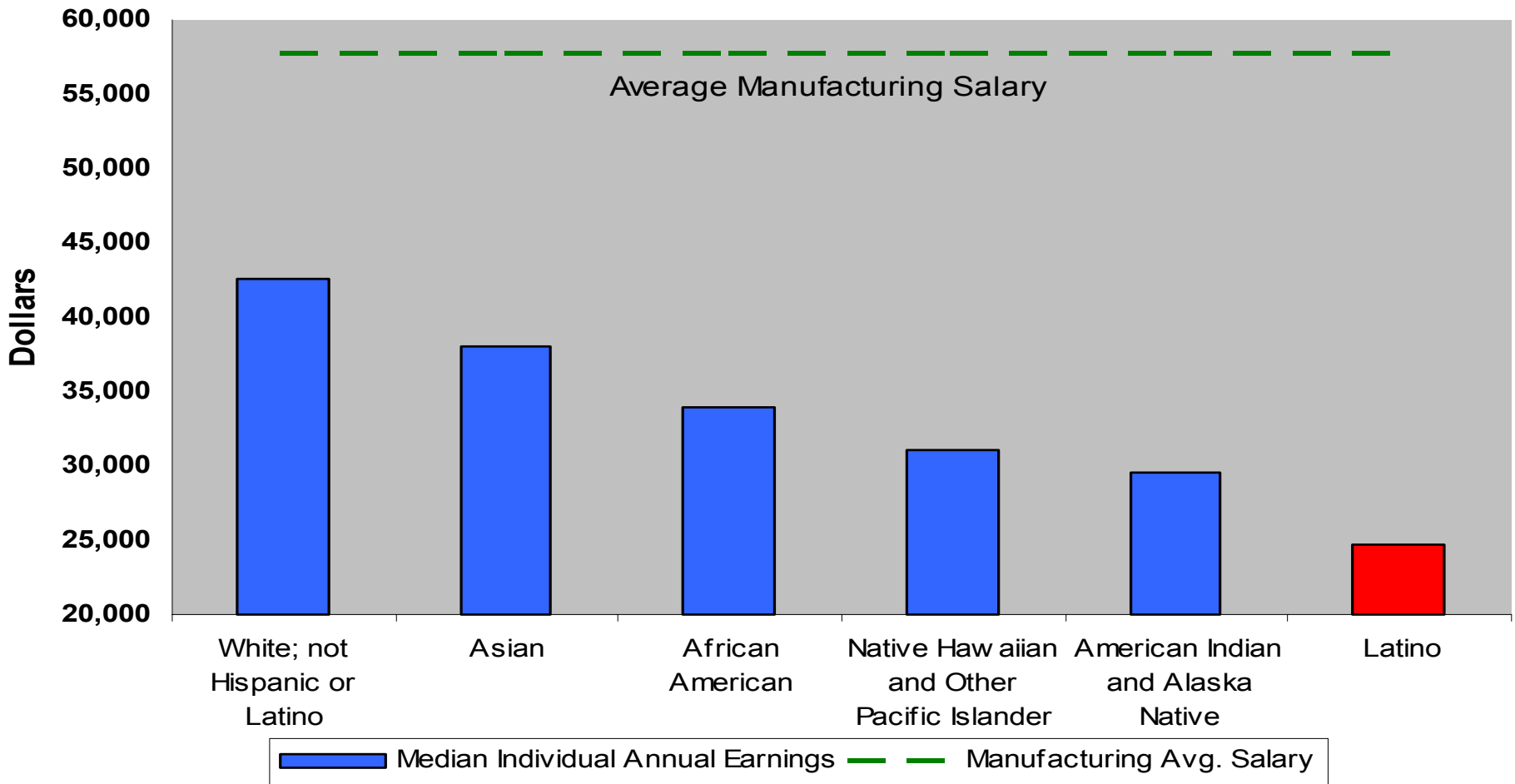
Job losses have accelerated in the last four years. Latinos are disproportionately impacted. Accelerated job loss is largely due to business-unfriendly legislation and resulting costs (workers comp, healthcare, paid time off, employer liability, etc.)

Why are manufacturing jobs important?

- ◆ Manufacturing jobs pay especially well.
 - *Average pay is over \$57,000 per year, as compared to California's median income of \$37,298.
 - *Only Californians with an advanced degree had higher median annual earnings – \$65,101.
- ◆ Manufacturing jobs have an economic multiplier effect two to three times greater than that of other jobs.
- ◆ Manufacturing jobs are the ticket to the middle class, especially for California's growing Latino population.
 - Loss of these jobs has the greatest impact on Latino families.

*2000 U.S. Census

Median Individual Annual Earnings vs. Average Manufacturing Salary California (1999)



Manufacturing Jobs have a Much Higher Economic “Multiplier Effect” than Retail Jobs

- ◆ Analysis comparing relative impact on job creation between manufacturing development and retail development on similar sites, found that*:
 - Manufacturing in Huntington Park created three times as many total jobs as retail. *(1,885 vs. 624)*
 - Manufacturing in South Gate created almost four times as many total jobs as retail. *(4,212 vs. 1,084)*
 - Even small industrial sites produce much greater economic activity than similarly sized retail operations.

*Based on a study by the Los Angeles Economic Development Corporation

The Loss of California Manufacturing Jobs has a Disproportionately Negative Impact on Latinos

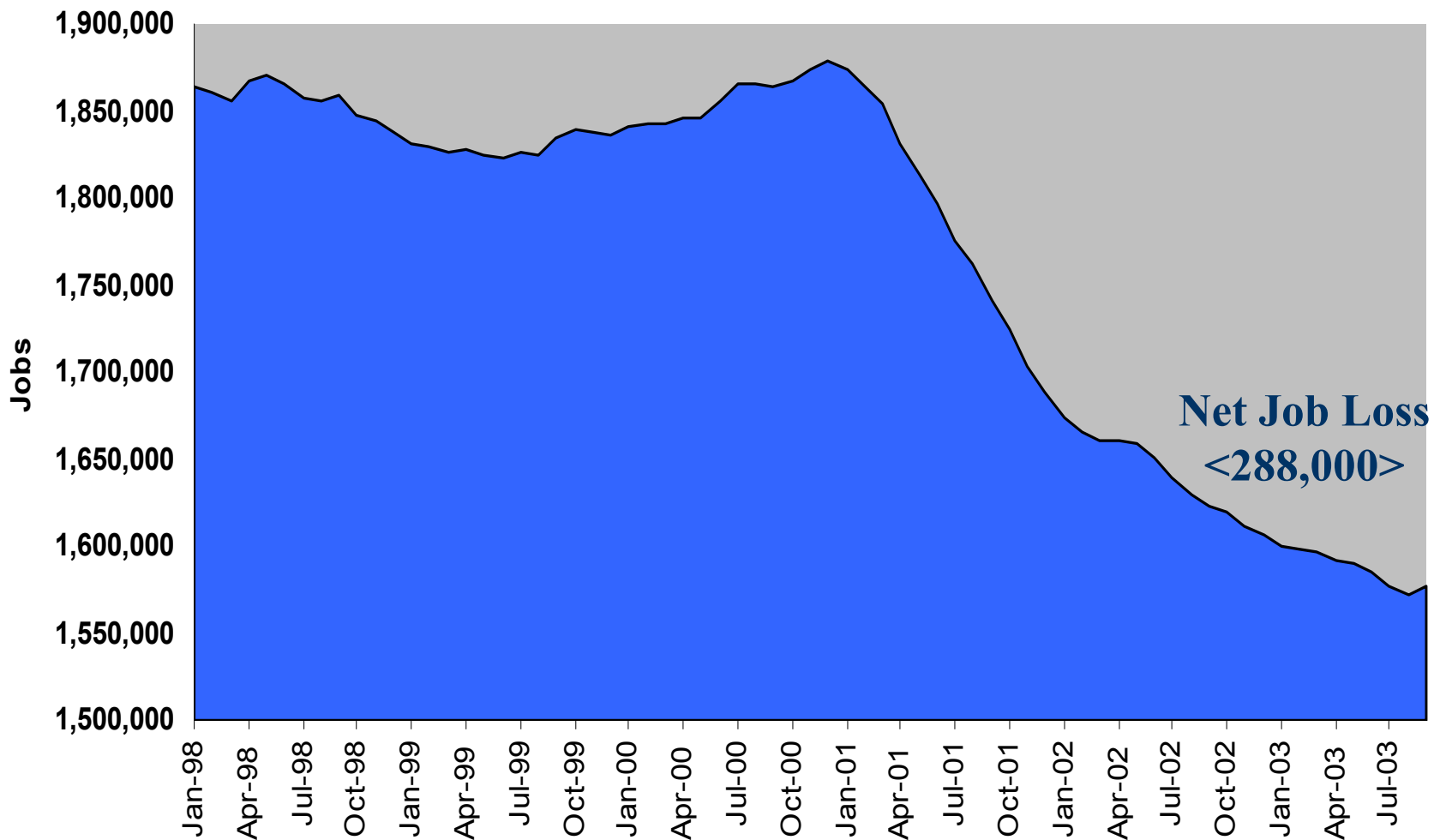
- ◆ In 1990:
 - Over half of the machine operators, assemblers, and inspectors were Latinos
 - Over half of the fabricators and assemblers were Latinos
 - Over half of the metal working and plastic working machine operators were Latinos

- ◆ In 2000, of the 50 Census blocks in California *where at least half the jobs held by residents were in manufacturing*, 27 of them were over 75% Latino.
 - 33 of them were over 50% Latino
 - Many of these Census blocks are in Los Angeles County from areas such as East Los Angeles, North San Fernando Valley, Santa Fe Springs, Willowbrook, and Downey.

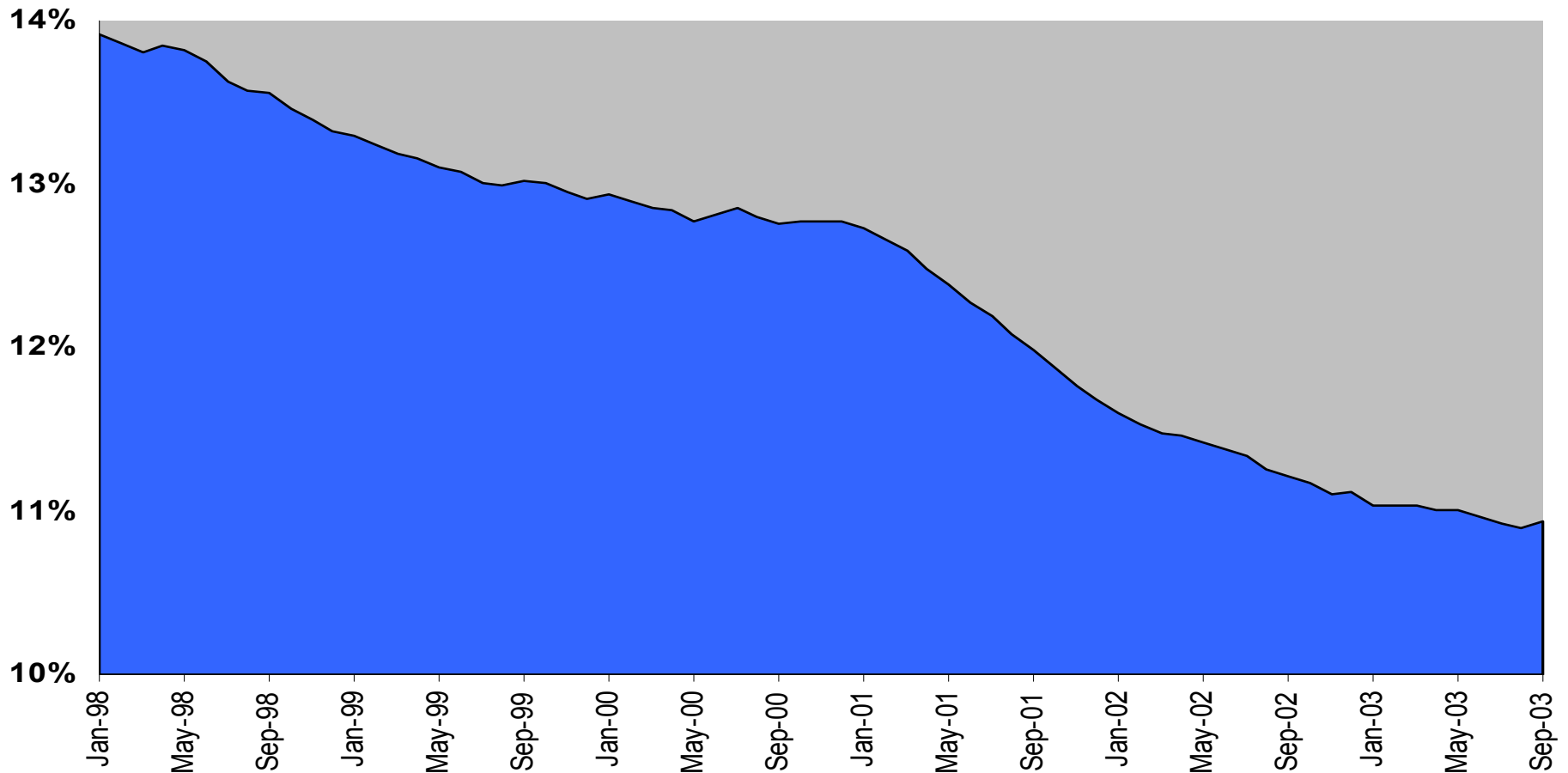
Is California losing manufacturing jobs?

- ◆ Yes, at an accelerated rate.
 - Nearly **400,000** manufacturing jobs lost between 1990-2003 (13 yrs.)
 - **288,000** manufacturing jobs lost between 1998 – 2003 (5 yrs.)
 - **261,000** manufacturing jobs lost between Jul. 1999 - Oct. 2002 (3.5 yrs.)
- ◆ Of the manufacturing jobs lost from Jul. 1999 to Oct. 2002:
 - **156,024** were lost in Los Angeles County
 - **97,338** were lost in Santa Clara County
- ◆ Manufacturing jobs as a percent of total jobs declined from 13.91% in Jan. 1998 to 10.93% (all-time low) in Sept. 2003.
 - **14,419,000** – total nonfarm employment in California (2003)
 - **1,576,400** – total manufacturing employment in California (2003)

Manufacturing Jobs in California January 1998 – September 2003



Manufacturing Jobs as a Percentage of Total Jobs in California January 1998 – September 2003 (California is down to the last 10%)



Manufacturing Loss By Industry Type July 1999 – October 2002

- ◆ Most manufacturing sectors saw a net loss in jobs.
- ◆ Some of the heaviest job losses were in:

▪ Defense	104,000
▪ Computers	96,000
▪ Electronics	59,000
▪ Communications	54,000
▪ Food Processing	38,000
▪ Wood Processing	31,000
▪ Aircraft	24,000

We Are Losing Manufacturing Establishments and High Paying Jobs to Both Expensive States and Less Expensive States July 1999 – October 2002

- ◆ Loss of manufacturing establishments to other states:

▪ Nevada	39
▪ Texas	35
▪ Arizona	30
▪ Oregon	27

- ◆ Employment losses to other states:

▪ New York	4,971
▪ Texas	2,220
▪ Florida	1,978
▪ Oregon	1,122
▪ Tennessee	849

How has California's manufacturing industry changed?

- ◆ From July 1999 - October 2002, the actual number of manufacturing establishments in California increased by a small amount (**8,633**).
- ◆ New firms came in, but they were smaller, with fewer employees and a *much* lower sales volume:

	Jobs	Gross Sales
<i>Loss</i>	<750,000>	<\$284 billion>
<i>New</i>	489,000	\$186 billion
<i>Net</i>	<261,000>	<\$98 billion>

- ◆ Many larger manufacturing firms have closed shop, downsized, or moved to other states.
- ◆ Most of the firms that migrated have been in operation for more than 5 years (51 firms for over 20 years).

Loss in Manufacturing Employment and Sales by County (July 1999 – October 2002)

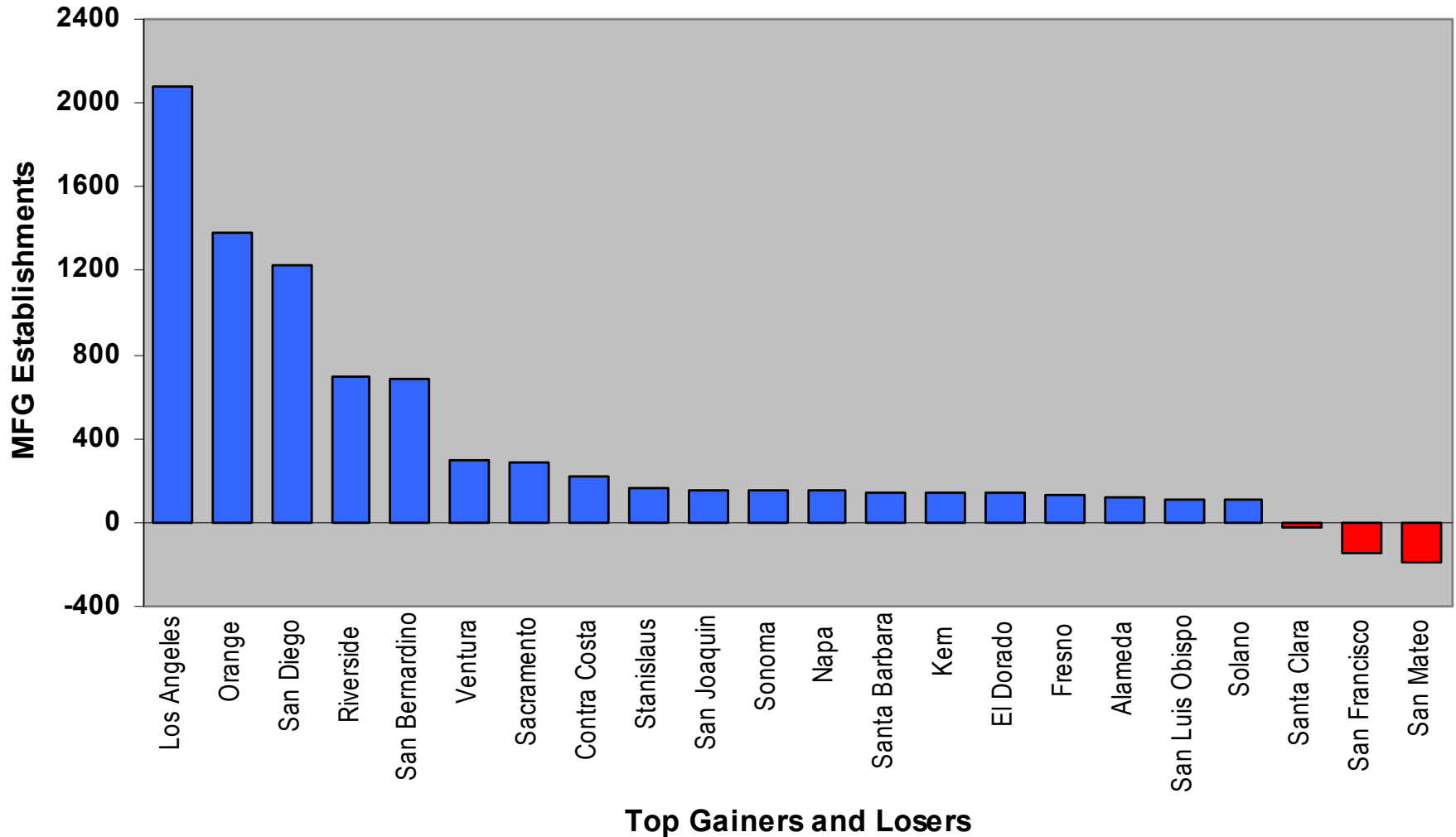
◆ Largest net losses in manufacturing employment by county:

▪ Los Angeles	156,024
▪ Santa Clara	97,338
▪ Alameda	11,803
▪ San Mateo	11,670
▪ San Diego	9,778

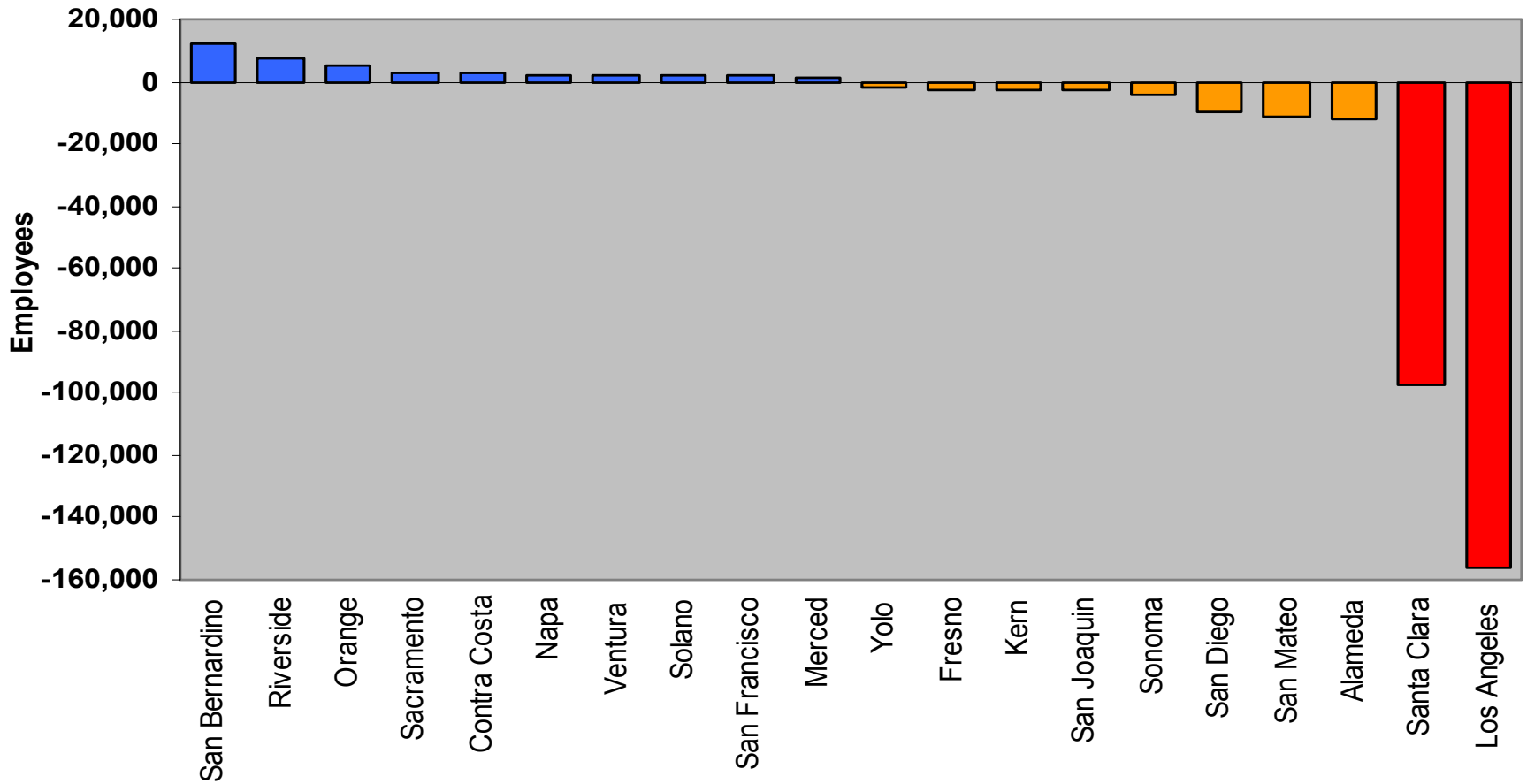
◆ Largest net losses in manufacturing sales by county:

▪ Santa Clara	\$52.3 billion
▪ Los Angeles	\$43.2 billion
▪ San Mateo	\$7.0 billion
▪ Alameda	\$6.3 billion
▪ San Francisco	\$5.5 billion
▪ San Diego	\$4.5 billion

Net Change in Manufacturing Establishments - Selected Counties July 1999 – October 2002

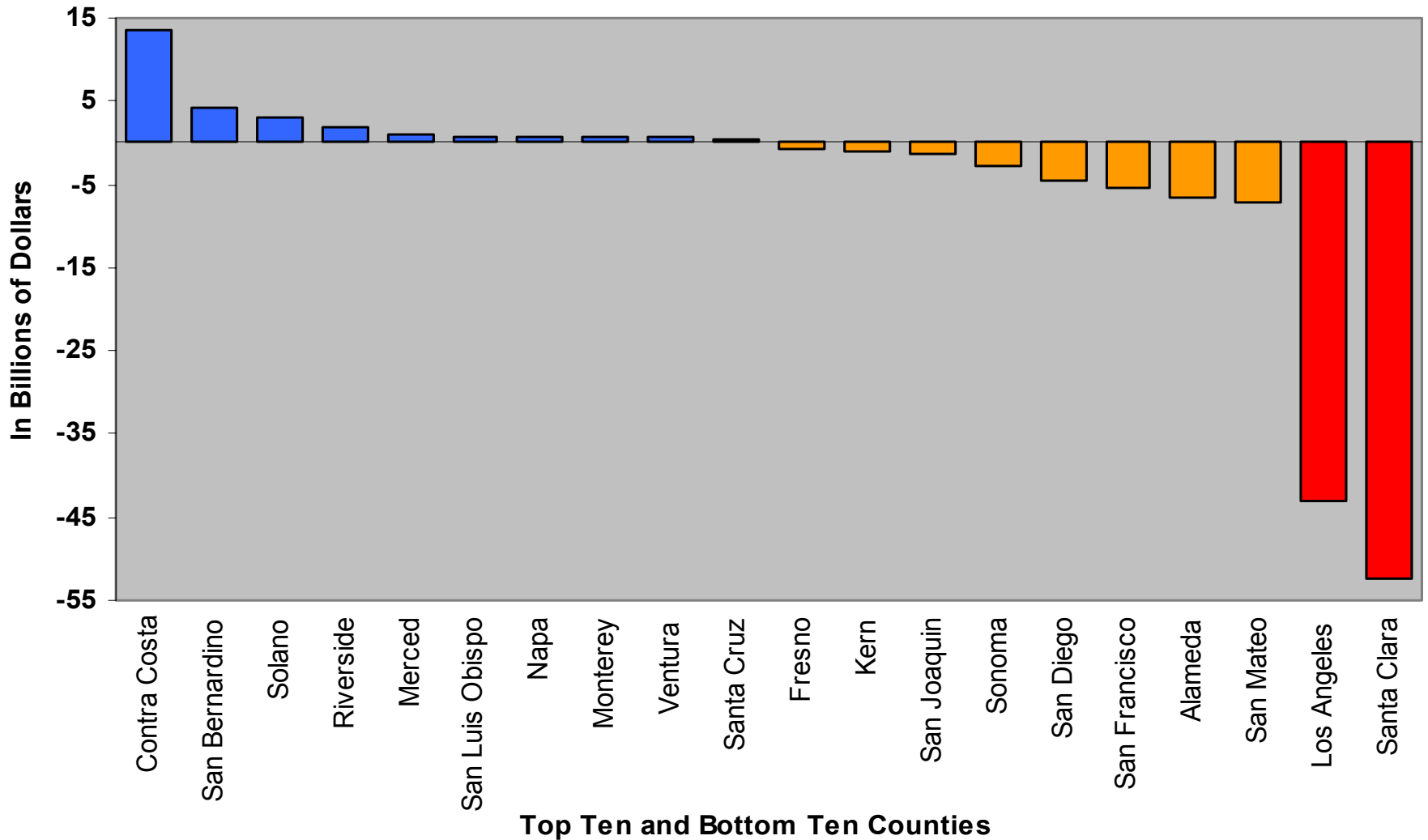


Change in Manufacturing Employment in California Selected Counties July 1999 - October 2002



Top Ten and Bottom Ten Counties

Net Change in Manufacturing Sales in California – Selected Counties July 1999 – October 2002



Do State and local politicians promote legislation that helps manufacturing?

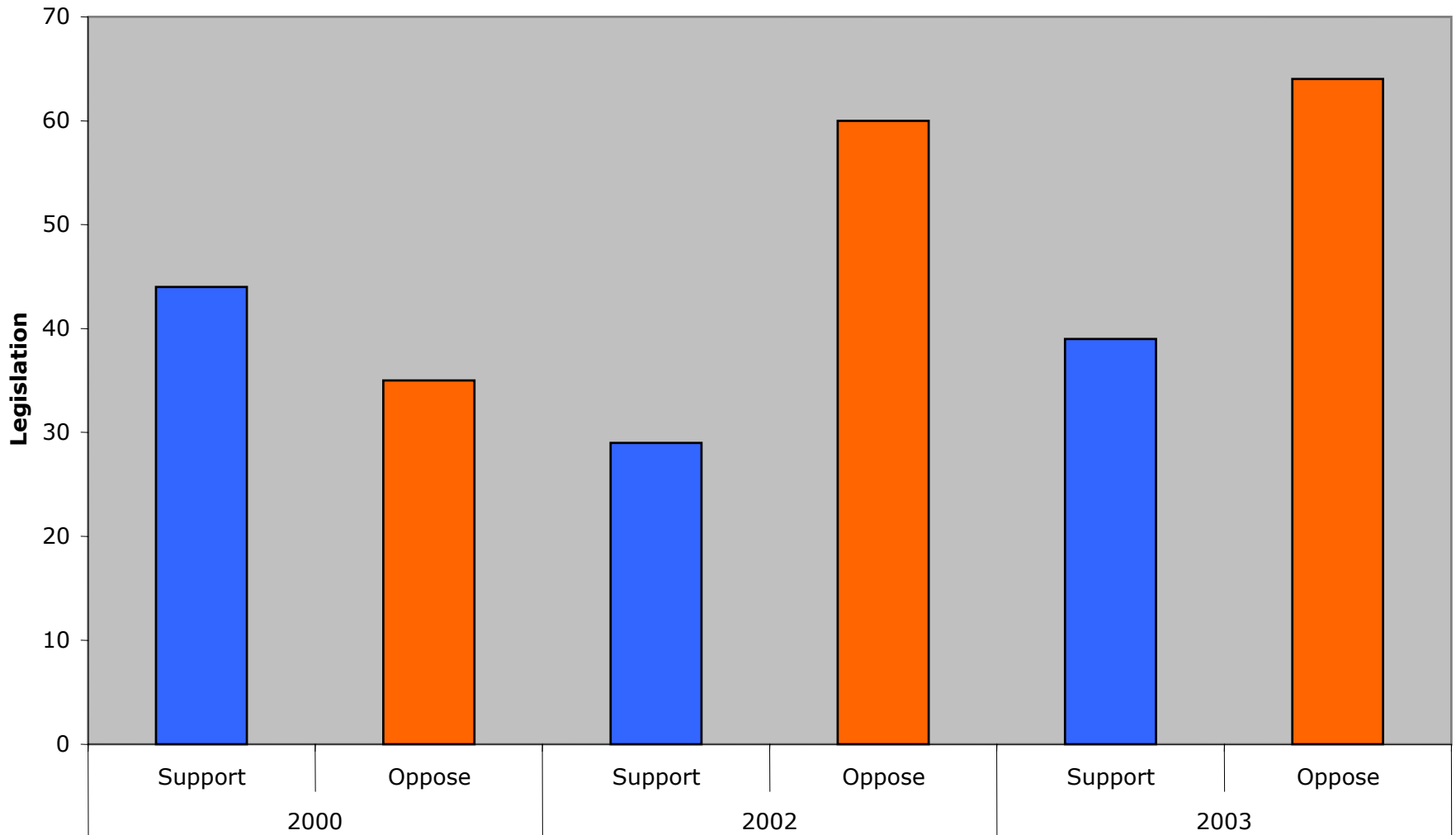
No.

- ◆ According to the California Manufacturing and Technology Association (CMTA), the legislature passes more bills that hurt manufacturing than those that help it.
 - From 2000–2003 CMTA *opposed 159* bills, while only *supporting 112*.
- ◆ Much of approved legislation has been onerous on business, resulting in closing or displacement of manufacturing establishments.
- ◆ Moderate legislative votes, which have been supportive of business in the past, have evaporated due to creation of safe districts.

Legislative Issues – Cost of Doing Business

- ◆ Local land use decisions are driven by the desire of cities and counties to gain sales tax revenue. There is little fiscal incentive to maintain or increase manufacturing.
- ◆ The State legislature has not properly addressed California workers' compensation that is the highest in the nation.
 - Average workers' comp rate increased from **\$2.25** to **\$5.10** per \$100 payroll from 1999-2002 for all California jobs.
 - Average *manufacturing comp rate* in California was **\$5.23** per \$100 payroll in 2002.
- ◆ The cost of doing business is less expensive in other states compared to California in part due to high taxes and utility rates.

Recent California Legislation Either Opposed or Supported by the California Manufacturers and Technology Association (CTMA)



Top 10 Keystone Conclusions

1. California is losing manufacturing employment and sales at an accelerated rate.
 - *261,000 jobs and \$98 billion in sales* from July 1999 – October 2002
2. Manufacturing jobs have a high “multiplier effect” that creates jobs in other sectors.
 - Twice as high as retail jobs
3. Manufacturing jobs pay well and are a ticket to the middle class.
 - Almost 50% higher than the median income
4. Manufacturing losses have the greatest negative impact on Latinos.
 - Large population in California and predominance in manufacturing jobs

Top 10 Keystone Conclusions

5. California legislation in recent years had a negative bias towards manufacturing.
6. Local land use policies exacerbate the loss of manufacturing businesses and jobs in California.
 - Fiscalization of land uses
7. The cost of doing business in California is higher than in neighboring states.
 - Workers compensation, paid leave, employer liability, health care
8. California economy appears to be hollowing out - replacing higher paying jobs with lower paying.
 - Development of a showroom economy where goods are sold and distributed, but not made

Top 10 Keystone Conclusions

9. A cohesive, state-wide economic development policy would enable California to retain businesses in growth areas such as Riverside and San Bernardino, instead of losing them to other states.
10. Until California can reverse its perceived reputation of being more expensive and less competitive, the State will continue to lose quality jobs and mid-to-large sized businesses, the impact of which will be increasingly detrimental to the overall quality of life in California.

Primary Data Sources

- ◆ BizMiner
 - National data source that tracks individual firms through credit reporting agencies and other private sector databases using attributes such as addresses and other business characteristics and are aggregated by industry, area
 - Data includes one person establishments unlike County Business Patterns and other government sources
 - Data collected at the 4-digit SIC code level
- ◆ State Employment Development Department
- ◆ California Department of Finance
- ◆ US Bureau of Census 2000