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President's Corner

Recessions have a way of crystallizing certain truths about the economy. What this downturn has highlighted is just how important federal spending remains to our region. The recently released 2008 Metropolitan Gross Domestic Product report shows that San Diego's economy actually grew in 2008 and that this pace of economic performance accelerated over 2007. Such findings seem counterintuitive when contrasted with falling housing prices in the region, rising unemployment and sharp declines of consumer spending.

As we note in this edition of the San Diego *Economic Ledger*, two factors seem to be at work.

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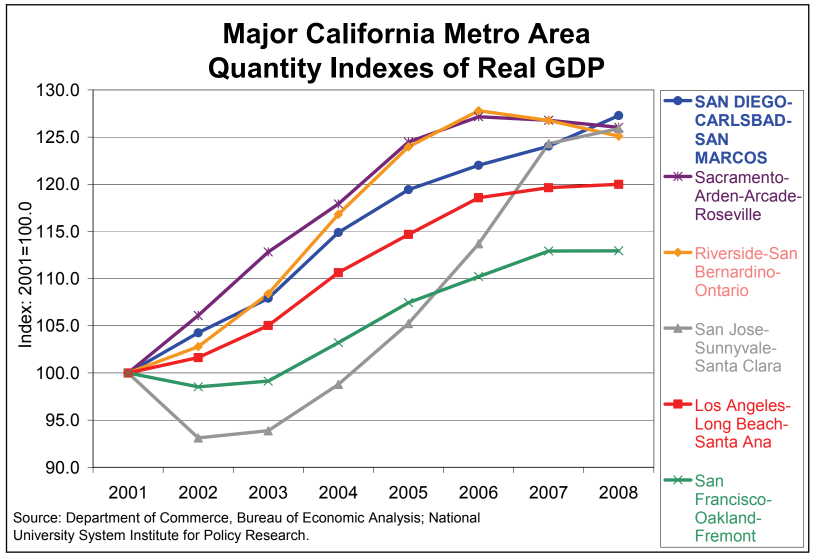
San Diego Metropolitan GDP Reveals Significant Economic Trends

According to recently released reports from the U.S. Department of Commerce's *Bureau of Economic Analysis* (BEA), the San Diego metropolitan area generated $169.3 billion in gross domestic product (GDP) during 2008. The new estimates of metropolitan GDP in 2007 and 2008, as well as revisions to 2005 and 2006, reveal a number of surprising developments for San Diego.



The BEA data indicates San Diego's overall economy not only continued to grow in 2008, but the pace of expansion accelerated. This appears to contradict other measurements of local economic activity, including slowing personal income growth, the collapsing housing market, and rising unemployment rate. This report presents key information provided by the GDP data for San Diego and examines:

—Why the local economy improved as the rest of California and the nation significantly slowed in 2008;

—How San Diego's GDP performance stacks up against other areas;

—Compares per capita GDP in San Diego with other urban areas;

—Which local economic sectors prospered while others diminished;

—What GDP does and does not measure.

San Diego GDP international and state rankings

San Diego's economic production compares prominently in a ranking of national economies. Ranking GDPs of national economies, based upon *World Bank* calculations, reveals San Diego's economic production would be 47th highest in the world. San Diego's GDP was just less than Chile's $169.5 billion in 2008, while greater than, for example, Pakistan, the Philippines, United Arab Emirates, Egypt or Hungary.

Economic production by the County or metropolitan area of San Diego alone is greater than twenty-five U.S. states. In comparison, San Diego's county *population* is larger than twenty state populations. The higher ranking for GDP indicates relatively greater economic production per capita, an important indicator of San Diego's relative economic capacity.

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WORLD RANKING OF GROSS PRODUCT - 2008 U.S. Dollars

Rank	Countries	(billions)	Rank	Countries	(billions)
	World	**$60,115.5**	26	Iran, Islamic Rep.	$385.14
1	**UNITED STATES**	**14,204.3**	27	Greece	356.80
2	Japan	4,909.3	28	Denmark	342.67
3	China	3,860.0	29	Argentina	328.39
4	Germany	3,652.8	30	Venezuela, RB	313.80
5	France*	2,853.1	31	Ireland	281.78
6	United Kingdom	2,645.6	32	South Africa	276.76
7	Italy	2,293.0	33	Finland	271.28
	CALIFORNIA	**1,846.8**	34	Thailand	260.69
8	Brazil	1,612.5	35	Portugal	242.69
9	Russian Federation	1,607.8	36	Colombia	242.27
10	Spain	1,604.2	37	Czech Republic	216.49
11	Canada	1,400.1	38	Hong Kong, China	215.36
12	India	1,217.5	39	Nigeria	212.08
13	Mexico	1,086.0	40	Romania	200.07
14	Australia	1,015.2	41	Israel	199.50
15	Korea, Rep.	929.1	42	Malaysia	194.93
16	Netherlands	860.3	43	Singapore	181.95
17	Turkey	794.2	44	Ukraine	180.36
18	Poland	527.0	45	Algeria	173.88
19	Indonesia	514.4	46	Chile	169.46
20	Belgium	497.6		**SAN DIEGO**	**169.33**
21	Switzerland	488.5	47	Pakistan	168.28
22	Sweden	480.0	48	Philippines	166.91
23	Saudi Arabia	467.6	49	United Arab Emirates	163.30
24	Norway	450.0	50	Egypt, Arab Rep.	162.82
25	Austria	416.4	51	Hungary	154.67

*Data include the French overseas departments of French Guiana, Guadeloupe, Martinique, Réunion.
Source: World Development Indicators database, World Bank; U.S. Department of Commerce, Bureau of Economic Analysis; National University System Institute for Policy Research.

President's Corner

(Continued from page 1)

First and foremost, at the same time that real estate and financial sectors were seeing some of the worst declines in decades, federal military spending and defense procurement picked up. San Diego has clearly diversified since the early 1990s but it would be a mistake to underestimate just how important DoD spending remains to our region's economy.

Second, it seems that 2008's uptick may be a function of how the fires of late-October 2007 both shifted consumption and how the rebuilding activities that occurred the following year impacted GDP measures. The findings about how the fires impacted year-over-year growth are evidence of both how disasters can impact economic activity, as well as illustrate the limitations of GDP as a measure for regional well-being.

There are some positive signs that the nation is beginning to recover from what pundits are now calling "The Great Recession." We think the dashboard shows some encouraging signs for San Diego as well, but, along with the GDP report, it is clear that construction and real estate remain extremely weak. If recovery is going to take hold it is those sectors that need to get healthy and where the attention of policy-makers needs to be focused.

— W. Erik Bruvold,
President
National University System Institute for Policy Research

San Diego GDP

(Continued from page 1)

Comparison of Metropolitan Area GDP

San Diego's GDP ranked 16th among the nation's 366 metropolitan areas in 2008. Overall metropolitan area growth in the U.S. slowed from 2.0 percent in 2007 to 0.8 percent in 2008.[1] Real GDP declined among 111 metropolitan areas. Most of these areas were in the Sun Belt, which formerly experienced the highest housing market gains and are now more adversely affected by protracted housing price declines.

In contrast, San Diego was one of only 146 metropolitan areas where growth accelerated in 2008. The real increase of San Diego's GDP from 2007 to 2008 was 2.6 percent, the highest among metropolitan areas having GDPs of $100 billion or more.

Professional and business service industry groups were a major factor in San Diego's rising economic performance, which was noted by the BEA as contributing the most to real GDP growth for 112 metropolitan areas.

GROSS STATE PRODUCT RANKING, 2008

State Rank	State GDP	2008 (billions)	State Rank	State GDP	2008 (billions)
25	Alabama	$170.0	37	New Mexico	$79.9
	SAN DIEGO	**169.3**	38	Hawaii	63.8
			39	Delaware	61.8
26	Oregon	161.6	40	West Virginia	61.7
27	Kentucky	156.4	41	New Hampshire	60.0
28	South Carolina	156.4	42	Idaho	52.7
29	Oklahoma	146.4	43	Maine	49.7
30	Iowa	135.7	44	Alaska	47.9
31	Nevada	131.2	45	Rhode Island	47.4
32	Kansas	122.7	46	South Dakota	37.0
33	Utah	109.8	47	Montana	35.9
34	Arkansas	98.3	48	Wyoming	35.3
35	Mississippi	91.8	49	North Dakota	31.2
36	Nebraska	83.3	50	Vermont	25.4

Source: Bureau of Economic Analysis, U.S. Department of Commerce; National University System Institute for Policy Research.

RANKING OF GROSS DOMESTIC PRODUCT AND POPULATION BY METROPOLITAN AREA, 2008

GDP Rank*	Metropolitan Statistical Area	GDP (millions)	Real Change# Rank	Real Change# 08/07	Population* Rank	Population* 2008	GDP per Capita Rank+	GDP per Capita 2008
1	New York-Northern New Jersey-Long Island, NY-NJ-PA	$1,264,896	68	2.5	1	19,006,798	7	$66,550
2	*Los Angeles-Long Beach-Santa Ana, CA*	*717,884*	*233*	*0.3*	*2*	*12,872,808*	*19*	*55,767*
3	Chicago-Naperville-Joliet, IL-IN-WI	520,672	273	-0.4	3	9,569,624	20	54,409
4	Houston-Sugar Land-Baytown, TX	403,202	212	0.5	6	5,728,143	5	70,390
5	Washington-Arlington-Alexandria, DC-VA-MD-WV	395,747	69	2.5	9	5,358,130	3	73,859
6	Dallas-Fort Worth-Arlington, TX	379,863	132	1.5	4	6,300,006	12	60,296
7	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	331,897	201	0.7	5	5,838,471	15	56,847
8	*San Francisco-Oakland-Fremont, CA*	*310,825*	*253*	*0.0*	*13*	*4,274,531*	*4*	*72,716*
9	Boston-Cambridge-Quincy, MA-NH	299,590	98	2.0	10	4,522,858	8	66,239
10	Atlanta-Sandy Springs-Marietta, GA	269,799	303	-1.2	8	5,376,285	28	50,183
11	Miami-Fort Lauderdale-Pompano Beach, FL	261,263	312	-1.5	7	5,414,772	37	48,250
12	Seattle-Tacoma-Bellevue, WA	218,771	92	2.0	15	3,344,813	9	65,406
13	Detroit-Warren-Livonia, MI	200,856	320	-1.9	11	4,425,110	43	45,390
14	Minneapolis-St. Paul-Bloomington, MN-WI	193,947	118	1.7	16	3,229,878	14	60,048
15	Phoenix-Mesa-Scottsdale, AZ	187,431	301	-1.1	12	4,281,899	46	43,773
16	***SAN DIEGO-CARLSBAD-SAN MARCOS, CA***	***169,325***	***64***	***2.6***	***17***	***3,001,072***	***16***	***56,422***
17	Denver-Aurora-Broomfield, CO	150,810	97	2.0	21	2,506,626	13	60,165
18	*San Jose-Sunnyvale-Santa Clara, CA*	*146,687*	*152*	*1.3*	*31*	*1,819,198*	*2*	*80,633*
19	Baltimore-Towson, MD	133,012	164	1.1	20	2,667,117	31	49,871
20	St. Louis, MO-IL	128,467	67	2.6	18	2,816,710	41	45,609
21	Charlotte-Gastonia-Concord, NC-SC	118,350	274	-0.4	34	1,701,799	6	69,544
22	Pittsburgh, PA	114,707	196	0.8	22	2,351,192	34	48,787
23	*Riverside-San Bernardino-Ontario, CA*	*113,080*	*308*	*-1.3*	*14*	*4,115,871*	*50*	*27,474*
24	Portland-Vancouver-Beaverton, OR-WA	112,420	75	2.4	23	2,207,462	23	50,927
25	Tampa-St. Petersburg-Clearwater, FL	110,510	326	-2.1	19	2,733,761	48	40,424
26	Cleveland-Elyria-Mentor, OH	104,425	309	-1.3	26	2,088,291	30	50,005
27	Orlando-Kissimmee, FL	103,985	255	0.0	27	2,054,574	26	50,611
28	Kansas City, MO-KS	101,001	149	1.3	29	2,002,047	27	50,449
29	Cincinnati-Middletown, OH-KY-IN	98,750	249	0.1	24	2,155,137	40	45,821
30	Las Vegas-Paradise, NV	97,053	279	-0.5	30	1,865,746	22	52,018
31	Indianapolis-Carmel, IN	96,382	213	0.5	33	1,715,459	17	56,184
32	*Sacramento-Arden-Arcade-Roseville, CA*	*93,652*	*282*	*-0.6*	*25*	*2,109,832*	*45*	*44,388*

*Ranking among 366 metropolitan statistical areas throughout the U.S. California areas in *italics*.

#Adjusted for inflation based upon on national prices for the goods and prices produced within the metropolitan area.

+Rank among 50 largest metropolitan areas.

Sources: U.S. Department of Commerce, Bureau of Econmoic Analysis; U.S. Census Bureau; National University System Institute for Policy Research.

GDP expansion in 2008?

One of the more interesting aspects revealed by the GDP report is the relatively strong rate of growth in San Diego compared to other metro areas. As California's economy slumped to a real gain of only 0.4 percent and the U.S. slowed to 0.7 percent, San Diego GDP accelerated by 2.6 percent. This surprising surge was the strongest of the past three years.

SAN DIEGO METROPOLITAN GROSS DOMESTIC PRODUCT

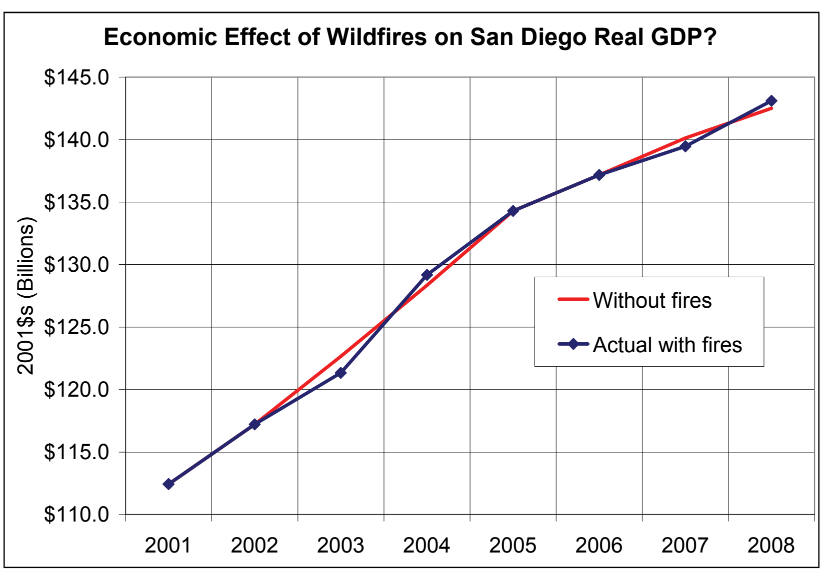
	San Diego			Annual Percent Change					
	GMP	Percentage of:		Current Dollars			Real Dollars		
Year	(Billions)	Calif.	U.S.	S.D.	Cal.	U.S.	S.D.	Cal.	U.S.
2001	$112.435	8.64%	1.12%	2.9%	1.1%	3.2%	1.4%	-0.4%	0.9%
2002	$120.165	8.96%	1.16%	6.9%	3.0%	3.4%	4.3%	1.3%	1.5%
2003	$126.838	9.02%	1.17%	5.6%	4.9%	4.7%	3.5%	3.0%	2.4%
2004	$138.630	9.12%	1.19%	9.3%	8.0%	6.6%	6.5%	5.2%	3.5%
2005	$147.733	9.07%	1.20%	6.6%	7.2%	6.3%	4.0%	4.3%	3.1%
2006	$155.458	9.00%	1.19%	5.2%	6.1%	6.1%	2.2%	3.1%	2.8%
2007	$162.118	9.00%	1.18%	4.3%	4.3%	4.8%	1.7%	1.8%	2.0%
2008	$169.325	9.17%	1.20%	4.4%	2.5%	3.3%	2.6%	0.4%	0.7%

Source: Bureau of Economic Analysis, U.S.Department of Commerce; National University System Institute for Policy Research.

San Diego's comparatively strong economic growth is also evident when focusing on California. While growth faltered or slowed over the past two years in other major California metro areas, San Diego consistently grew and as of 2008 displays the greatest real increase since 2001. (See graph on front page.)

The unexpected acceleration in 2008 also contrasts with other measurements for economic activity. A previous BEA report of metropolitan personal income, released in August 2009, indicated San Diego's personal income growth slowed from 4.8 percent in 2007 to 3.8 percent in 2008. Adjusted for inflation, this was a slight decline of .04 percent. (See the September 2009 edition of the San Diego Economic Ledger report of personal income and consumer spending.) San Diego's job numbers also started to falter in 2008 as the civilian unemployment rate steadily increased from a seasonally adjusted 4.9 percent in January to 7.2 percent by December. The rate continues upward in 2009, rising above 10 percent as of September. The housing market also plummeted in 2008, dragging construction, finance, banking, and other investment downward.

As we see these seemingly contradictory numbers, other forces acting within the local economy were counterbalanced by those economic struggles. As shown by the following charts, the growth of government spending (including the military), manufacturing production (also largely due to increased defense spending) and information sector gains more than offset losses recorded by construction, financial activities (including real estate), and retail and wholesale trade.



In many ways, the 2008 GDP figures are another clear evidence of how government spending continues to stimulate San Diego's economy, as high levels of military spending helped offset declines elsewhere. It is not too much of a reach to say that but for the grace of Department of Defense spending, San Diego would look a lot more like other economically devastated regions in the southwest, including Phoenix, Las Vegas, and Riverside-San Bernardino.

"But for the grace of Defense spending, San Diego would look a lot more like other economically devastated regions of the southwest."

Wildfire impact on San Diego economic production

Another important consideration are the rebuilding efforts taking place following the wide spread wildfires impacting the region in 2007. We believe that a significant factor in San Diego's 2008 GDP gain resulted from rebuilding and displaced consumption following the devastating wildfires of October 2007. With mass evacuations disrupting almost the entire region during one week of 2007, economic production was dramatically disrupted. Business activity diminished as residents were either directly displaced by the fires or stayed home while fire fighting efforts were ongoing and avoided going outdoors to breathe the smoke filled air.

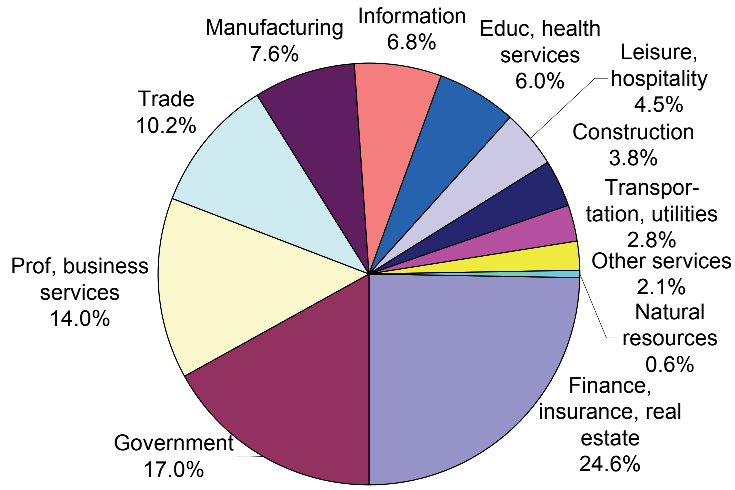
After the fires were contained and the smoke cleared, residents began rebuilding and largely returned to normal business activities. Essentially economic activity shifted forward. With the fires occurring late in the year, it is plausible to conclude the GDP disruption in 2007 was dislocated to 2008. In addition, hundreds of millions of dollars in insurance settlements began having an impact, particularly by the 3rd and 4th quarters of 2008. A similar effect from the Cedar fires in October 2003 also seems evident in the GDP figures from 2003 and 2004.

Per capita GDP metro rankings

Other surprising statistics revealed by the new GDP numbers are relatively strong gains of San Diego's per capita GDP. In 2008, San Diego per capita GDP of $56,422 ranked 16th among all 366 metropolitan areas.

A "chained" ranking of relative per capita GDP performance (adjusted for changes in price of goods and services produced within each metro area) shows San Diego ranked only 51st in 2001. By 2008 per capita GDP in San Diego jumped 21.7 percent, one of the stronger gains among all metro areas.[2] The increase was far stronger than any higher ranked metro area. Among large metropolitan areas (with GDPs of $100 billion or more), only Portland, Oregon (22.4 percent) had a higher percentage gain than San Diego between 2001 and 2008.

SAN DIEGO 2008 GDP BY INDUSTRY



The reasons for San Diego's relatively strong increase since 2001 includes an increasing shift towards high value-added industries, largely driven by technology, while lower value producing industries, such as low-cost manufactured goods and natural resources, declined. The result is a comparatively greater boost in per capita GDP for San Diego and significant climb of metro area ranking. This also reflects significant income gains per job as those jobs, on average, that produce more value tend to be more in demand and more highly compensated.

Contribution by industry to San Diego 2008 GDP

As previously noted, the exceptional increase of San Diego's GDP in 2008 was largely driven by growth among sectors closely associated to government expenditures. Looking at disaggregated numbers also is instructive in helping to understand what was driving economic growth in the region and what impacts the recession is having (and not having) on the metropolitan area.

While the production of durable goods manufacturing and transportation and utilities across the U.S. faltered in 2008, these sectors added to San Diego's economic growth. A gain in durable goods manufacturing largely resulted from defense expenditures for aerospace and shipbuilding manufacturing. San Diego was also largely responsible for all of the increase in California by this sector.

Information sectors had the most substantial increase of contribution to San Diego's 2008 GDP, far outpacing relative gains among other U.S. metropolitan areas and the rest of California. Professional and business services, education and health services, leisure and hospitality, and government services also expanded by a greater degree in San Diego than other metro areas as a whole. The increase of government in San Diego was more than three times as much as in the rest of the nation or California. The gains of these sectors overcame decreases in construction, trade, and natural resources. The increase of utilities in the past year largely resulted from higher energy prices.

That was the good news. The bad is just how serious the declines in real estate connected activities were in 2008. Falling *finances* (including real estate) for San Diego contrast with a slight gain, on average, by this sector in other U.S metro areas. This decline was more pronounced in other major California metro areas, however, including San Francisco (-.53 percent), San Jose (-.43 percent), and Los Angeles (-.27 percent).

Relative construction losses in San Diego were more than twice as much than average for other metro areas, and somewhat more than in California.

The role of government is significantly more prominent in San Diego's economy. The public sector contributed 17 percent of San Diego's GDP, which by comparison accounted for nearly 12 percent of California's economy and 13 percent of the U.S. overall. Government chips in only 8.7 percent of neighboring Los Angeles-Long Beach-Santa Ana's GDP. According to the BEA, the military directly accounts for about 6 percent of San Diego's GDP.[3] This, however, is only the measure of direct military contribution, and does not include additional billions in defense related spending among manufacturing and service sectors, including aerospace, shipbuilding, research and development, and other production induced by defense spending.

As San Diego's GDP production increased far faster than the state or the nation in 2008, the local unemployment rate was rising above the national rate. This seemingly contradictory signal is partly attributable to the fact that active duty military employment is not included among civilian labor force numbers. (Including active duty military employment in San Diego with civilian labor force numbers would lower the County's unemployment rate below the national rate.) Gains from military employment in 2008, accompanied by payroll income and spending increases, helped stimulate overall production even as civilian job losses were mounting.

Industry sector shifts between 2001 and 2008

The disaggregated GDP numbers also show San Diego mirrors nationwide restructuring from goods producing industries toward services. Over the past eight years, goods-producing industries lessened from 14.4 percent of San Diego's GDP in 2001 to 12.0 percent by 2008, while the portion of private services-providing industries rose from 69.1 percent to 71 percent. During the same period, the U.S. shifted from 67.6 percent to 68.2 percent.

According to the BEA, finance, insurance and real estate (FIRE), of which "real estate, rental, and leasing" make up the greater portion, combined to account for the largest sector of San Diego's economy, one-fourth (24.6 percent) of GDP in 2008.[4] This sector also had the greatest increase in terms of total dollar contribution to GDP since 2001. The gains occurred primarily be-

CONTRIBUTIONS BY INDUSTRY TO PERCENT CHANGE OF REAL GDP, 2008

	Industry	San Diego Metropolitan	California	U.S. Metropolitan Portion
	Percent change in real GDP	2.6	0.4	0.8
Percentage points	Natural resources and mining	(0.08)	(0.12)	(0.07)
	Construction	(0.58)	(0.52)	(0.26)
	Durable goods manufacturing	0.35	0.06	(0.05)
	Nondurable goods manufacturing	(0.07)	(0.24)	(0.24)
	Trade	(0.22)	(0.33)	(0.15)
	Transportation and utilities	0.17	(0.08)	(0.08)
	Information	1.17	0.42	0.23
	Financial activities	(0.15)	(0.25)	0.02
	Professional, business services	0.85	0.79	0.70
	Education and health services	0.41	0.37	0.35
	Leisure and hospitality	0.14	0.10	0.06
	Other services	0.01	0.01	0.00
	Government	0.63	0.20	0.23

Source: U.S. Bureau of Economic Analysis; National University System Institute for Policy Research.

tween 2001 and 2005, than leveled off and slightly declined in 2008 from a sharp drop in finance and insurance.

Real estate and rental/leasing activities also account for a much greater share of production in San Diego than most metro areas. Among larger metropolitan areas, only Miami (20.8 percent) and Orlando, Florida (24.5 percent) metro areas had a higher dependence upon on real estate in their economies than San Diego (20.1 percent). The Los Angeles-Orange County metro area (18.9 percent) was next. Real estate and rental/leasing accounts for 16.7 percent of California's total economy, and 13.2 percent on average for all U.S. urban areas.

"Real estate and rental and leasing activities account for a much greater share of San Diego's economy than most metropolitan areas."

Professional and business services are next in total contribution to San Diego's GDP. Professional and technical services specifically produced significant gains in value over the past eight years and are a major factor for San Diego's improvement in per capita GDP.

Retail and wholesale trade sectors are fourth highest in San Diego's GDP. Over the past year, however, this sector declined 1.0 percent in terms of real dollars from slumping consumer spending.

Despite growing in terms of real dollars, the manufacturing proportion of the region's economy has declined since 2001. Whereas manufacturing accounted for 9.1 percent of San Diego's economy in 2001, it was only 7.6 percent by 2008. Retail trade, finance and insurance, and construction have also diminished as a percentage of total GDP, with most of the decline recorded the past three years.

Adjusted for inflation, the information sector has seen the largest proportional increase over the past eight years. This sector includes information and data processing services, broadcasting and telecommunications, and publishing (including software). The continued gains of telecomm accounts for much of the growth.

Construction suffered the most significant downturn after rising through 2004, industry production than fell 30.5 percent. Similarly,

RANKING OF REAL ESTATE, RENTAL AND LEASING PERCENT OF GDP AMONG MAJOR METROPOLITAN AREAS*

Percent Rank*	Metropolitan Statistical Area	2008 ($Millions)	Percent of GDP
	U.S. Metropolitan Portion	1,684,092	13.2%
1	Orlando-Kissimmee, FL	25,478	24.5%
2	Miami-Fort Lauderdale-Pompano Beach, FL	54,418	20.8%
3	***SAN DIEGO-CARLSBAD-SAN MARCOS, CA***	***34,090***	***20.1%***
4	*Los Angeles-Long Beach-Santa Ana, CA*	*135,862*	*18.9%*
5	Phoenix-Mesa-Scottsdale, AZ	33,733	18.0%
6	New York-Northern New Jersey-Long Island, NY-NJ-PA	219,474	17.4%
7	*San Francisco-Oakland-Fremont, CA*	*51,331*	*16.5%*
8	*Riverside-San Bernardino-Ontario, CA*	*18,231*	*16.1%*
9	Seattle-Tacoma-Bellevue, WA	34,954	16.0%
10	Boston-Cambridge-Quincy, MA-NH	45,566	15.2%
11	Washington-Arlington-Alexandria, DC-VA-MD-WV	57,608	14.6%
12	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	47,124	14.2%
13	Chicago-Naperville-Joliet, IL-IN-WI	73,535	14.1%
14	Minneapolis-St. Paul-Bloomington, MN-WI	27,083	14.0%
15	Cleveland-Elyria-Mentor, OH	13,849	13.3%
16	Tampa-St. Petersburg-Clearwater, FL	14,070	12.7%
17	Pittsburgh, PA	14,236	12.4%
18	Detroit-Warren-Livonia, MI	24,714	12.3%
19	*San Jose-Sunnyvale-Santa Clara, CA*	*17,949*	*12.2%*
20	Baltimore-Towson, MD	15,909	12.0%
21	Dallas-Fort Worth-Arlington, TX	44,870	11.8%
22	St. Louis, MO-IL	12,670	9.9%
23	Charlotte-Gastonia-Concord, NC-SC	11,548	9.8%
24	Houston-Sugar Land-Baytown, TX	28,588	7.1%

*Metropolitan area GDP of $100 billion or more. California areas in *italics*.

Note: Real estate production in Atlanta, Denver, Portland, and Kansas City metropolitan areas not available for 2008.

Source: Bureau of Economic Analysis, U.S. Department of Commerce; National University System Institute for Policy Research.

SAN DIEGO METROPOLITAN AREA GROSS DOMESTIC PRODUCT BY INDUSTRY

Industry	2001 (millions of dollars)	2007	2008	Change 08/07	08/01	Real Change 08/07	08/01	Percent of Total 2001	2008
All industry total	$112,435	$162,118	$169,325	4.4%	50.6%	2.6%	27.3%	100.0%	100.0%
Private industries	93,919	135,262	140,538	3.9%	49.6%	2.4%	31.2%	83.5%	83.0%
Private goods-producing industries	16,192	20,833	20,361	-2.3%	25.7%	-3.0%	11.3%	14.4%	12.0%
Private services-providing industries	77,727	114,429	120,178	5.0%	54.6%	3.4%	35.3%	69.1%	71.0%
Natural resources and mining	$719	$1,167	$1,027	-12.0%	42.8%	-11.8%	-0.3%	0.6%	0.6%
Agriculture, forestry, fishing, hunting	581	904	749	-17.1%	28.9%	-12.0%	4.3%	0.5%	0.4%
Mining	138	263	278	5.7%	101.4%	-11.2%	-19.6%	0.1%	0.2%
Construction	5,273	7,341	6,455	-12.1%	22.4%	-12.8%	-23.8%	4.7%	3.8%
Manufacturing	10,200	12,326	12,879	4.5%	26.3%	3.6%	43.0%	9.1%	7.6%
Durable goods	7,535	8,665	9,040	4.3%	20.0%	6.6%	53.3%	6.7%	5.3%
Nondurable goods	2,665	3,660	3,839	4.9%	44.1%	-3.1%	19.7%	2.4%	2.3%
Trade	12,902	17,519	17,350	-1.0%	34.5%	-2.1%	24.9%	11.5%	10.2%
Wholesale trade	5,105	7,215	7,413	2.7%	45.2%	-0.4%	17.0%	4.5%	4.4%
Retail trade	7,797	10,304	9,937	-3.6%	27.4%	-3.3%	29.7%	6.9%	5.9%
Transportation and utilities	2,405	4,129	4,666	13.0%	94.0%	6.4%	52.6%	2.1%	2.8%
Transportation and warehousing	1,248	1,791	1,839	2.7%	47.4%	-2.5%	20.8%	1.1%	1.1%
Utilities	1,156	2,339	2,827	20.9%	144.6%	13.3%	86.9%	1.0%	1.7%
Information	6,918	9,413	11,434	21.5%	65.3%	20.2%	89.5%	6.2%	6.8%
Financial activities (FIRE)	26,938	41,274	41,713	1.1%	54.8%	-0.6%	30.6%	24.0%	24.6%
Finance and insurance	6,338	8,181	7,624	-6.8%	20.3%	-7.4%	5.0%	5.6%	4.5%
Real estate and rental and leasing	20,600	33,093	34,090	3.0%	65.5%	1.1%	38.2%	18.3%	20.1%
Professional and business services	15,264	22,264	23,781	6.8%	55.8%	6.2%	35.7%	13.6%	14.0%
Professional and technical services	10,406	15,511	16,943	9.2%	62.8%	9.3%	50.6%	9.3%	10.0%
Management of companies, entrprs	1,430	1,705	1,648	-3.3%	15.2%	-7.5%	-28.0%	1.3%	1.0%
Administrative and waste services	3,428	5,047	5,190	2.8%	51.4%	1.4%	25.5%	3.0%	3.1%
Education and health services	6,218	9,305	10,155	9.1%	63.3%	7.2%	34.7%	5.5%	6.0%
Educational services	621	1,108	1,226	10.6%	97.4%	7.4%	42.8%	0.6%	0.7%
Health care and social assistance	5,597	8,197	8,929	8.9%	59.5%	7.2%	33.8%	5.0%	5.3%
Leisure and hospitality	4,501	7,117	7,544	6.0%	67.6%	3.2%	34.1%	4.0%	4.5%
Arts, entertainment, and recreation	1,127	1,741	1,833	5.3%	62.6%	2.6%	30.9%	1.0%	1.1%
Accommodation and food services	3,374	5,376	5,711	6.2%	69.3%	3.4%	35.2%	3.0%	3.4%
Other services, except government	2,582	3,408	3,535	3.7%	36.9%	0.4%	6.0%	2.3%	2.1%
Government	18,516	26,856	28,786	7.2%	55.5%	3.7%	8.9%	16.5%	17.0%

Source: Bureau of Economic Analysis, U.S. Department of Commerce; National University System Institute for Policy Research.

the category for natural resources, including agriculture, forestry, fishing, and mining, fell 22.2 percent since a peak in 2005.

While leisure and hospitality industries are generally considered major drivers of San Diego's economy, the direct contribution to GDP of 4.2 percent is not much greater than many other major metropolitan areas. The Los Angeles metro area (including Orange County) shows a higher contribution at 4.8 percent. Las Vegas (19.5 percent) and Orlando (10.2 percent) economies, not surprisingly, are most dependent upon leisure and hospitality. While this remains an important part of the local economy it would be a mistake to label San Diego only a "tourist" town.

Conclusions

The release of the 2008 GDP numbers help illustrate a number of key facts about the San Diego economy and should help dispel some previous myths. The relatively stronger performance of the economy in 2008 underscores just how important government spending remains in San Diego. These recent numbers are another indication that the story since the early 1990s needs to be recast as more than the emergence of a diversified economy replacing aerospace manufacturing. Rather, it is a story about rebirth and reinvention of San Diego's traditional ties to defense. Our "success' in 2008 is stark evidence of just how important that part of our economy remains.

High tech sectors of "information" and "professional business services" show significant growth and are largely responsible for the prominent improvement in San Diego's per capita production. The visitor industry also remains an important but not necessarily dominant part of the regional economy. Education and health services maintained steady growth the past eight years.

The 2008 numbers also are testament for just how much real estate development remains a part of the region's economic engine. The relatively large percentage of the economy compromised by FIRE sectors and the declines seen there should remind readers how important construction, real estate, and related finance are to the economy and the role they will need to play in helping restore the region to economic health.

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[1]Metro area growth rates may differ from the national rates of GDP growth because of the exclusion of non-metropolitan areas.

[2]The ranking in constant or chained or inflation adjusted dollars is 22nd, while San Diego's per capita GDP ranking is 16th in current dollars. The difference results from San Diego's greater inflation than other areas, partly due to the housing bubble.

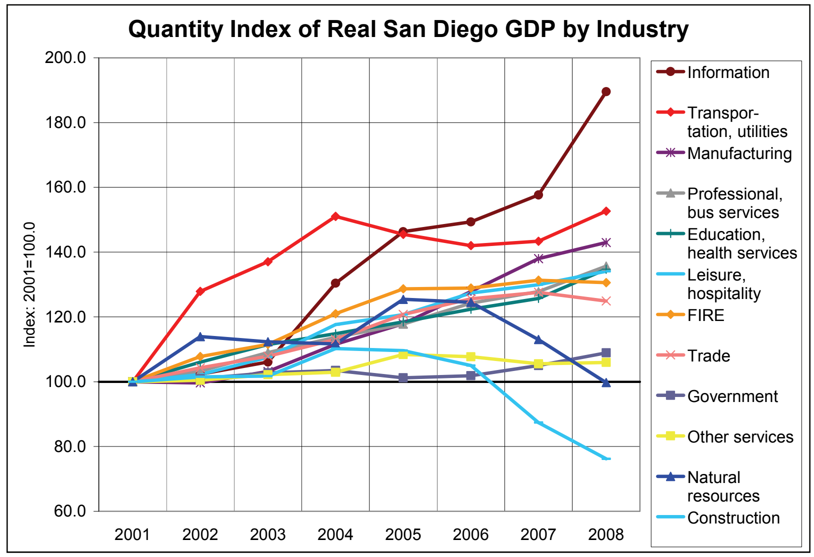
[3]The BEA report for 2008 GDP did not detail the subcategory for military under government. However, the military accounted for 6.1 percent of San Diego's GDP in 2007.

[4]The surprising attribution to FIRE industries as the largest contributing sector of San Diego's economy reflects how GDP figures are determined. Only the final value of services or goods is counted toward GDP in order to not double count inputs or intermediate supplies. The FIRE sectors encompass nearly all other sectors of economic production and includes a portion apportioned from nearly every other industry. The costs of buying or leasing property represented in the FIRE sector come from revenues generated form business activity in other industry production.

RANKING OF LEISURE AND HOSPITALITY PERCENT OF GDP AMONG MAJOR METROPOLITAN AREAS*

Percent Rank*	Metropolitan Statistical Area	2008 Millions	Percent of GDP
	U.S. Metropolitan Portion	$480,217	3.8%
1	Las Vegas-Paradise, NV	18,937	19.5%
2	Orlando-Kissimmee, FL	10,645	10.2%
3	Tampa-St. Petersburg-Clearwater, FL	5,491	5.0%
4	Miami-Fort Lauderdale-Pompano Beach, FL	12,486	4.8%
5	*Los Angeles-Long Beach-Santa Ana, CA*	*33,399*	*4.7%*
6	***SAN DIEGO-CARLSBAD-SAN MARCOS, CA***	***7,544***	***4.5%***
7	Phoenix-Mesa-Scottsdale, AZ	8,065	4.3%
8	*Riverside-San Bernardino-Ontario, CA*	*4,834*	*4.3%*
9	St. Louis, MO-IL	5,322	4.1%
10	Cincinnati-Middletown, OH-KY-IN	3,811	3.9%
11	*San Francisco-Oakland-Fremont, CA*	*11,819*	*3.8%*
12	Denver-Aurora-Broomfield, CO	5,625	3.7%
13	Detroit-Warren-Livonia, MI	7,251	3.6%
14	Kansas City, MO-KS	3,610	3.6%
15	Chicago-Naperville-Joliet, IL-IN-WI	18,484	3.6%
16	Baltimore-Towson, MD	4,614	3.5%
17	Atlanta-Sandy Springs-Marietta, GA	9,155	3.4%
18	Seattle-Tacoma-Bellevue, WA	7,367	3.4%
19	Boston-Cambridge-Quincy, MA-NH	10,042	3.4%
20	New York-Northern New Jersey-Long Island, NY-NJ-PA	41,103	3.2%

*Metropolitan area GDP of $100 billion or more. California areas in italics.
Source: U.S. Department of Commerce, Bureau of Economic Analysis; National University System Institute for Policy Research.



Metropolitan area GDP measurement

GDP is the most comprehensive measure of U.S. economic activity and the basic measurement of overall economic performance. GDP is defined by each of the following: 1) total expenditures for all final goods and services produced by and within a given area, 2) the sum of value added in each stage of production added from all industries, plus taxes, and less subsidies on products, 3) the sum of all income generated from the production, including compensation for employees, taxes on production and imports less subsidies, and gross operating surpluses (or profits).

Metropolitan GDP is the substate counterpart to national GDP. The concept for metropolitan GDP is the sum of all production originating from industries located within metropolitan areas and contributing to the nation's GDP. The BEA also provides an inflation adjustment of real GDP based upon the national prices of specific goods and services produced within each metro area. The adjustment for inflation is derived by applying national implicit price deflators to current-dollar GDP-by-metropolitan-area statistics among 61 detailed NAICS-based industries.

(Continued on page 7)

GDP Measurement

(Continued from page 6)

The release of 2007 and 2008 estimates for metropolitan area GDP were accelerated a full year ahead by the BEA. The newest estimates are based upon a more limited set of source data and an abbreviated estimation methodology compared with former releases.

Criticisms of GDP measure for prosperity

The GDP measurement has generated criticism as an indicator of economic performance. The GDP measure arguably does not entirely encompass the value of all goods and services produced within the nation (or area). No account is taken for depreciation of capital goods, and therefore may overstate real production values.

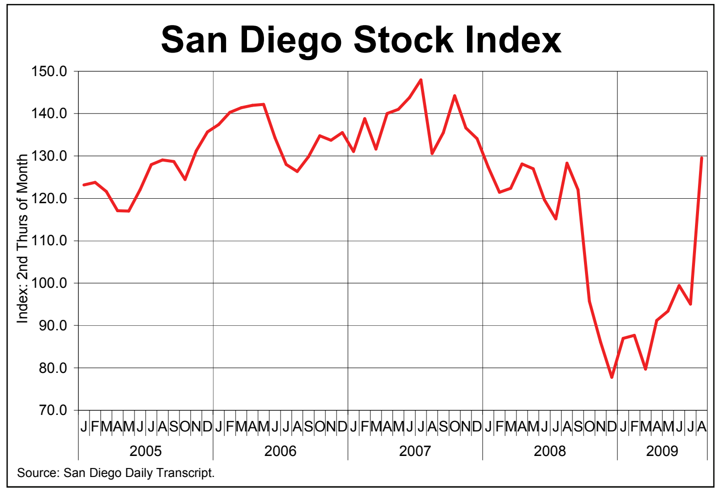
Moreover, the value of production is based upon market prices. Several economists analyzing the current recession have pointed out that the combination of using market prices and the housing bubble led to mistaken conclusions about how well the economy was actually performing. The worth of services not supplied through markets, such as state health care or education, owner-occupied housing or unpaid child care by parents, is "imputed" or estimated with often debatable assumptions, or may be left out entirely, even though private health care and schooling, renting and childcare are directly measured.

GDP also ignores externalities of economic harm, such as damage done to the environment. By counting only goods that increase utility but not taking into account negative effects, such as more pollution or destruction of natural resources, GDP overstates economic welfare from production values. "Environmentalists have long complained that GDP treats the despoliation of the planet as a plus (via the resulting economic output) rather than a minus (forests destroyed)."

Dashboard Observations—August 2009

By Kelly Cunningham, Economist, Senior Fellow

Despite the tumult of the past year, San Diego's stock index of locally headquartered companies stands at the highest point of the past two years. Jumping 36.3 percent from the previous month, the index was 1.0 percent above where it stood in August 2008, before falling 39 percent the next four months. The improvement is a significant indication that investors are seeing a vastly improving outlook.



Unemployment numbers, unfortunately were moving in the opposition direction, climbing to 10.6 percent in August 2009, the highest rate reported in San Diego since 1976. This could be the high point of the year, if normal seasonal patterns hold, but the rate is not anticipated to greatly improve through the end of the year.

Indicator	Aug 2009	Month Change (Sea. Adj.)	Annual Change
Unemployment Rate[1] San Diego County	10.6%	0.5% ▲	4.2% ▲
Residential Building[2] Units authorized for construction San Diego County	106	-39.7% ▼	-76.4% ▼
New Business Licenses[3] Issued by City of San Diego	1,115	-18.7% ▼	-26.1% ▼
San Diego Stock Index[4] San Diego based companies 2nd Thursday of month	129.6	36.3% ▲	1.0% ▲

[1]California Employment Development Department.
[2]U.S. Bureau of the Census.
[3]Business Tax Program, City of San Diego.
[4]Second Thursday of month, Bloomberg News, San Diego Daily Transcript.

New residential construction continued to slump with only 106 units approved in August. This was 40 percent less than in July, and 76 percent lower than one year ago in August 2008. The inventory of unsold homes and foreclosed properties is reportedly shrinking, which foretells a constrained supply of homes. Given the long lead time needed to approve new projects, there is are looming housing shortages in 2010 and especially by 2011.

The City of San Diego issued 1,115 new businesses licenses in August. This was still down 18.7 percent from July, however, and off 26.1 percent from one year ago.

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National University System Institute for Policy Research (NUSIPR) is a non-partisan organization that formulates and promotes high quality economic, policy, and public-opinion research so as to improve the efficiency and effectiveness of local governments in San Diego County.