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East Asia's Impact on Regional Growth in California

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Pacific Basin Notes. *This series appears on an occasional basis. It is prepared under the auspices of the [Center for Pacific Basin Monetary and Economic Studies](#) within the FRBSF's Economic Research Department.*

The East Asian economic slowdown has reduced employment growth throughout California, but some regions have been affected more than others. In the San Francisco Bay Area, strong trade ties to East Asia combined with a slowdown in the area's prominent high-tech manufacturing sector have pushed employment growth below the state's employment growth rate for the first time in three years. In contrast, Southern California's more diversified economy has remained relatively immune from the global economic turmoil, with little deceleration in growth from last year. This *Economic Letter* examines these and other factors contributing to the changing pattern of growth in California

Variation in regional export patterns

The data for measuring the destinations and product composition of state exports are, unfortunately, not without problems. For this analysis, the data come from the U.S. Department of Commerce Exporter Location series and represent shares as of 1996. This source provides information on the dollar value of export sales for Metropolitan Statistical Areas based on the location of the exporter of record. While in most cases the location of the exporter corresponds to the location of the producer, if a firm's sales center (or another intermediary) processes the export, the exporter location data will attribute the value of the transaction to the location of the sales group, rather than to the production location (U.S. Department of Commerce). Despite this potential for mismeasurement, a comparison of state-level export numbers for California reveals little difference between the Exporter Location series and the

conceptually more appealing Origin of Movement series, which records where an export begins its journey. (Origin of movement data are not available by MSA.) Furthermore, for the three California regions examined in this analysis—the San Francisco Bay Area, Los Angeles-Long Beach, and the remaining areas of Southern California including San Diego—the product composition of exports recorded in the MSA Exporter location data is consistent with the industry employment composition of the respective regions. For these reasons, the MSA Exporter location data appear adequate to describe the destinations and product composition of regional exports.

Although about 50% of California exports are shipped to destinations in East Asia, within California export patterns vary. As [Figure 1](#) indicates, the San Francisco Bay Area is relatively more reliant on East Asia as an export market than is Southern California excluding Los Angeles-Long Beach. About 60% of all Bay Area exports are shipped to East Asia. In contrast, in Southern California excluding Los Angeles-Long Beach, just over one-third are shipped to countries in East Asia. Los Angeles-Long Beach exports about the same proportion to East Asia as the Bay Area, but the country composition differs; 50% of exports from Los Angeles-Long Beach to East Asia go to Japan, compared to 30% for the Bay Area.

Examining export shares to other parts of the world, the largest difference between the Bay Area and Southern California is in trade with Latin America. Los Angeles-Long Beach is more than twice as reliant on Latin America as an export market than is the Bay Area, shipping about 11% of its total exports to the region. In the other areas of Southern California the ties to Latin America are even stronger: about 25% of exports from these areas are shipped to Latin America. For both Los Angeles-Long Beach and the remaining areas of Southern California, export sales to Latin America are higher than to Canada. This is not true for the Bay Area, where less than 5% of all exports go to Latin America.

These differences in export shares across California regions are particularly striking when combined with recent export growth figures for the state (comparable growth figures are not available at the regional level). State exports to East Asia declined by 2.5% in 1997 and 20.6% during the first three quarters of 1998. Over the same periods, California exports to Latin America increased at double-digit rates, by 32.6% in 1997 and 14.9% during the first nine months of 1998. The combination of these export growth figures and the regional information on export destinations suggests that the Bay Area likely has borne a large fraction of the export decline in California. In contrast, lower exposure to East Asia and stronger ties with Latin America may have protected Southern California exports from some of the demand weakness depressing state export growth.

The impact of East Asia on regional growth within California also can be examined in terms of the product composition of exports. Exporter Location data indicate that Bay Area exports are dominated by three industries: industrial machinery, electrical machinery, and scientific and measurement instruments. Combined, these categories account for more than 80% of exports from the Bay Area, compared to 33% of exports from Los Angeles-Long Beach, and 68% of exports from other areas of Southern California. In contrast, a larger fraction of exports from Southern California are of non-high-tech capital goods, construction materials, and miscellaneous manufactured commodities, ranging from furniture and fixtures to plastics and chemicals. Combined, these products account for more than 20% of total exports from Southern California but less than 9% of exports from the Bay Area.

Again, these differences in product composition of regional exports are particularly notable when combined with state export growth by industry. State exports of industrial machinery and electrical equipment (75% of Bay Area exports) grew slightly in 1997 and declined during the first three quarters of 1998. Moreover, exports of these products to East Asia, the Bay Area's primary trade destination, declined by much more, about 20% during the first nine months of 1998. In contrast, exports of these products to Latin America have increased this year. Exports of other types of goods to Latin America also have increased; for example, exports of non-high-tech capital goods have grown by 24% during the first nine months of 1998 compared to the same period a year ago. Overall, the product composition and trade relationships in Southern California make it a likely beneficiary of the limited growth in state

exports this year.

Declining exports and manufacturing employment growth

The disproportionate exposure of the San Francisco Bay Area to the East Asian turmoil and the high-tech slowdown together with the relative immunity of the Southern California economy to these factors are evident in the growth rates of the respective manufacturing sectors. [Figure 2](#) compares the 12-month % change in manufacturing employment in the Bay Area, Los Angeles-Long Beach, and the remainder of Southern California. As the figure shows, weakening export demand was accompanied by slower manufacturing employment growth in all three regions, with the decline most dramatic in the Bay Area.

Underlying these trends are slowdowns in industries composing the bulk of state and regional exports. In the San Francisco Bay Area, manufacturing employment growth in the three dominant industries (industrial machinery, electrical machinery, and scientific and measurement instruments, which include most of the Bay Area's high-tech producers) account for more than 55% of manufacturing employment in the region. As of October, 12-month employment growth among these three industries fell 1.9%, a decline of more than 7.7 percentage points over the 1997 pace. Although growth in other Bay Area manufacturing industries has been positive, it has not been sufficient to offset the dramatic slowdown in these key industries.

In contrast, in Los Angeles-Long Beach and the rest of Southern California, the combination of a manufacturing sector less dependent on high-tech production and rapid expansion in other key industries has helped maintain manufacturing growth in the region. In Los Angeles, growth in the area's largest manufacturing sector, apparel and textiles, has remained solid: 12-month growth as of October was 5.1%. In the remaining areas of Southern California, manufacturing employment growth remains strong. As of October on a 12-month basis most sectors recorded growth in excess of 3%. Even the industrial machinery and electrical machinery manufacturing sectors have been expanding in Southern California. This is consistent with the growth of exports from these industries to Latin America and the mix of products produced in Southern California.

Changing pattern of regional growth in California

The disproportionate effects of East Asia and the high-tech slowdown on Bay Area manufacturing is changing the pattern of regional growth in California. [Figure 3](#) shows 12-month employment growth for the Bay Area, Los Angeles-Long Beach, and Southern California excluding Los Angeles-Long Beach. Between July 1995 and November 1997, employment growth in the Bay Area averaged 4%, well above the pace of expansion in Los Angeles-Long Beach, and slightly higher than growth in the remaining areas of Southern California. In December of last year this pattern began to change, and by May of this year the employment growth rate in the Bay Area had fallen below that of Los Angeles-Long Beach. As of October on a 12-month basis, employment growth in the Bay Area was 2.1%, compared to 2.4% for Los Angeles-Long Beach and 3.6% for the remaining areas of Southern California.

Conclusions

Diversification in both trade and manufacturing has helped Southern California weather the global economic storm from East Asia. While Southern California has not escaped Asia's problems unscathed, it has continued to post solid growth, moving many of its economic indicators to their pre-recession levels. In contrast, strong trade ties with East Asia and a highly concentrated manufacturing sector have left the Bay Area vulnerable to recent global economic developments and have damped employment growth in the region. Although some sectors of the Bay Area economy have strengthened in recent months, total payroll employment growth in the area remains below that for Los Angeles-Long Beach and the other areas of Southern California, a significant change from 1997.

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Reference

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