

THE GOLDEN STATE'S GROWING INDUSTRIES



Area Development Site and Facility Planning

October 1, 2006 | Bastian, Lisa A

You've got to love a state government with a sense of timing. Just prior to the nation celebrating Labor Day this past September, the State of California had its own celebration of sorts by releasing A Labor Day Briefing for California. This 11-page report heralds the significant labor market trends and statistics impacting California's economy.

It seems there is much to celebrate in this state with the largest labor force - 169 million workers - in the United States, employing one out of every 8.5 Americans who have jobs. California also is enjoying its lowest unemployment rate level - 4.8 percent - in five years. In the past three years, the state has seen a welcomed job expansion paralleling that of the nation, along with a consistently growing economy.

In what kind of positions and sectors do Californians work? Three industry sectors account for almost half of all jobs: government (16 percent, 2.44 million workers); professional and business services (14 percent, 2.19 million workers); and the "super sector" of trade, transportation and utilities (18 percent, 2.83 million workers). Other major sectors include manufacturing (10 percent, 1.5 million workers); educational and health services (10 percent, 1.6 million workers); leisure and hospitality (10 percent, 1.5 million workers); construction (6 percent, 920,000 workers); and financial activities (6 percent, 943,000 workers).

According to the state's report, more than four out of every five California jobs are in service-providing industries, and fewer than one out of every five jobs is in goods-producing industries.

What follows is an overview of some of the largest, fastest-growing California sectors.

Biomedical and Health Services

California's biomedical and health services industry is robust and growing at a fast

clip.

Take a look at the biomedical sector, with major representation in metro San Diego, San Francisco, and Greater Los Angeles. Last year alone, California companies based here made up 68.5 percent of the market value of all NASDAQ-listed life sciences companies, according to the California Healthcare Institute (CHI). CHI is an organization of 250-plus biomedical companies, academic/research institutions, and companies supporting the state's biomedical community in terms of research and policy concerns.

According to a recent CHI report produced in collaboration with PricewaterhouseCoopers, California's biomedical firms invested \$26 billion in the development of "new products for unmet medical needs in 2005, an \$11 billion increase over 2003," and the typical California biomedical company "invested 42 percent of its revenues back into R&D." Regarding product development, the report states that 802 new medicines are in the state's pipeline - "an increase of nearly 25 percent since our 2004 industry report. Nearly half of today's therapeutic candidates are already being tested in patients." The top disease category targeted by survey respondents in the 2006 report is cancer, followed by cardiovascular disease, infectious disease (e.g., HIV/AIDS), cancer, diabetes, and respiratory disorders.

Are the state's biomedical firms making money? Definitely. "California's biomedical companies' revenues for 2005 topped an estimated \$62 billion; nearly \$30 billion higher than in 2003," according to CHI. "Over \$17.5 billion was generated by biologics products; [and] California firms commanded 33 percent of the global biologics market in 2005."

Success also is seen in facility growth plans. The world's largest biotech company, San Francisco-based Genentech, announced in April 2004 that it would be expanding at its Vacaville location. When completed and (hopefully) approved by the FDA by year-end 2009, the new facility will be the biggest biotech cell culture manufacturing site of its kind on the planet. The \$600 million project is expected to create more than 5,500 jobs.

California also garners major NIH grants for biomedical projects - more than \$3.6 billion in 2004, according to CHI, which is "approximately 37.4 percent more than the second-largest grantee (Massachusetts). Between 2000 and 2004, [NIH] funding to California has increased approximately 31.9 percent." And in terms of venture capital funding, the report reveals that the state's life sciences industry brought in "\$2.86 billion in venture capital investment in 2005 - 28 percent more than investments in the other 'top nine' recipient states combined."

Regarding employment, government data secured by the California Regional Economies Project reveals the biomedical and health services industry employed more than 87,000 people in 2002. The project conducts research analyzing key California industry cluster information from a regional perspective.

Manufacturing

California Manufacturers and Technology Association (CMTA) feels the pulse of an industry that contributes more than \$250 billion annually to the state's economy.

"We represent 800 large and small manufacturers," says Gino DiCaro, vice president of communications for CMTA. "There are about 30,000 manufacturing facilities here, employing 1.5 million manufacturing employees." He points out that California is the most efficient industrialized state in terms of greenhouse gas emissions, and the third-most efficient overall in energy consumption.

Skilled manufacturers in California earn salaries of between \$50,000 and \$80,000 a year, according to CMTA president Jack Stewart: "The average industrial technician, for example, earned \$54,643 last year, while all other full-time U.S. workers earned a median income of less than \$34,000."

Some of California's well-known manufacturing entities include Alcoa, Bayer, Baxter Healthcare, Boeing, California Steel, Miller Brewing Co., Northrup Grumman, NUMMI, Lockheed Martin, Procter & Gamble, Shell Oil, and Temple Inland.

Recently CMTA spotlighted USS-POSCO's Pittsburg, Calif., operation as an example of how local manufacturers create powerful economic ripple effects statewide. Employing 840 workers, this major steel firm has a network of more than 750 suppliers, an average factory worker wage of \$60,000, and an investment of more than \$758 million in California. USS-POSCO generates nearly 2,100 additional California jobs through a supply chain reaching 29 counties and increases sales/payroll taxes as well, according to CMTA.

DiCaro says two things need to happen to help replace the nearly 375,000 sector workers lost since January 2001. First, manufacturing costs need to be reduced. To that end, CMTA is pushing for a five cent sales tax exemption on the purchase of manufacturing equipment. Second, he says, like other states, "we need to train more workers for the 21st century."

Training gets a boost from Governor Arnold Schwarzenegger's 2005-06 budget, which includes \$20 million to expand and improve career technical education courses at high schools, regional occupational centers and community colleges. The current

budget already invests \$100 million in that area. CMTA also contributes in this area by looking at a manufacturer's training plan (at no charge) and "finding 'a fit' in terms of available state funds; namely through ETP," says Rob Sanger, CMTA's manager of training services. ETP, a state agency, funds training in certain skilled worker categories. For example, this past July it awarded \$16 million to train 14,000 workers employed by 15 manufacturing businesses.

Agriculture

Since 1948, year after year, the Golden State has earned the right to call itself the home of America's largest agricultural economy. Thanks to the activity from 88,000 farms and ranches, agriculture is "almost a \$32 billion dollar industry generating \$100 billion in related economic activity," according to the California Department of Food and Agriculture.

California produces almost one out of every five glasses of milk in the United States, and some of the world's finest wines. In 2000 alone, 92 percent of all U.S.-produced grapes and more than half of the nation's nuts, fruits, and vegetables came from there, according to the California Energy Commission (CEC). That same year, California farmers and ranchers created more than \$27.2 billion in gross cash receipts.

According to the University of California (UC), the state ships more than \$6.5 billion in food and agricultural products worldwide, and agriculture accounts for 1.1 million jobs and more than \$60 billion in personal income. More specifically, UC reports that the state grows more than 350 commodities, including all of the country's almonds, artichokes, brussel sprouts, dates, dried plums, figs, kiwi fruit, nectarines, olives, pistachios, and walnuts. Billion-dollar commodities include milk and cream, grapes, nursery products, lettuce, and cattle and calves. Tomatoes, cotton, flowers and foliage, strawberries and hay round out the 10 leading commodity income generators" for 2002-2003.

The CEC reports that eight of America's top 10 producing counties are in California. Fresno reigns as the country's most prominent agricultural county in the nation, posting an agricultural value in 2000 totaling more than \$3.5 billion. Ranked alone, CEC contends that county's agricultural cash receipts would be ahead of "more than half of the other states in the union."

According to the state's Department of Food and Agriculture, in 2001, Canada was the chief export market (items valued at \$1,137 million), followed by the European Union (\$1,024 million), Japan (\$948 million), Hong Kong (\$321 million), South

Korea (\$278 million), Mexico (\$275 million), Taiwan (\$218 million), Indonesia (\$96 million), India (\$94 million), and Malaysia (\$64 million).

Aerospace and Defense

A statewide 1999 Southern California Edison study revealed that 42,000 aerospace companies and suppliers are located in California. This massive industry includes organizations working with and for the U.S. Department of Defense, NASA, commercial space businesses, and civil aviation companies.

According to Scott Sacknoff, manager of the SPADE Defense Index, the aerospace and defense industry in California "represents the largest collection of firms operating in this business area in the United States. More than 27 percent of the companies represented in the [Index] either have their headquarters or major operations in the state. Similarly, more than a quarter of the space industry has roots in California. In total, the California economy sees more than \$30 billion of direct spending creating more than 250,000 jobs." Created by the International Space Business Council, SPADE is comprised of publicly traded companies and measures the performance of securities in the defense, homeland security, and space marketplace.

An online report by the nonprofit California Space Authority (CSA) notes that the state has multiple key "space assets." For example, California "owns approximately 50 percent of the global satellite market and is home to several major satellite producers [e.g., Boeing Satellite Systems; Lockheed Martin Commercial Space Systems; and Space Systems/Loral]."

The Golden State is also home to Vandenberg Air Force Base ("premier polar launch site" with five launch complexes and one commercial spaceport); Edwards Air Force Base (aerospace R&D center, supports manned/unmanned aerospace vehicles); and Los Angeles Air Force Base and Space & Missiles Systems Center (manages \$56 billion in space assets). CSA notes that about 8,500 employees work in and around Air Force Plant 42, a government-owned, contractor-operated facility "representing about one half billion dollars in payroll to the region and state." Then there's the San Diego-based Space and Naval Warfare Systems Command, which operates as the national headquarters for one of the Navy's three hardware systems commands.

According to a May 2006 report created by CSA, California is the only state with three NASA centers, and historically has received almost 20 percent of NASA's total budget each year. NASA contracts contribute significantly to the state's economy, too. The agency brought \$3.52 billion in direct contracts in FY2004 and \$98.3 million to nonprofits; and was responsible for a \$21 billion impact via indirect job activity

connected to aerospace. The report also says that more than 6,800 NASA jobs in the state generate an annual payroll of more than \$800 million.

This past September, the Los Angeles Times reported a "resurgence" in industry orders that "has led to a sharp increase in jobs for [California] aerospace engineers, to 24,330 last year from 16,010 in 2004....And that tally doesn't give the full extent of regional employment in aerospace, because it excludes mechanical, electrical and other types of engineers who work in the industry."

Construction

The current housing boom in California is feeding the job growth in the construction sector. Over the past three years, it expanded at the fastest rate of any industry, growing by 15.8 percent, according to the state's Employment Development Department.

In the June 2006 report *The Economic Benefits of Housing in California* (produced for California Building Industry Association), it is asserted that new housing construction contributes nearly \$68 billion to the state's economy, creates almost 487,000 jobs annually, and makes up about 3 percent of its economic activity. The entire housing market generates almost \$273 billion of output, supports about 960,000 jobs statewide, and is responsible for about 11 percent of economic output.

High-Tech Industry

This past June, the AeA published a comprehensive review of the statewide high-tech industry entitled *California Cybercities 2006*. Using data from the year 2004, it describes the 17 largest metropolitan areas by high-tech employment, wages, payroll, and establishments.

California's leading technology centers are in San Jose/Silicon Valley, Los Angeles, and San Francisco-Oakland. According to the report, these metro areas make up almost 60 percent of the state's total high-tech employment (904,900 workers). Specifically, the San Jose/Silicon Valley region boasts the most tech industry workers (214,900) with the highest annual average wage of all California cybercities (\$126,700). San Francisco ranked first in software publishing employment.

[Sidebar]

LOCATION CALIFORNIA

I am delighted to extend my warmest greetings to the readers of Area Development

magazine.

California not only exhibits beautiful scenery, exciting entertainment, and world-class cultural events, but it also offers a very attractive and successful business climate.

Since 2003, I have led a charge to reverse the economic downturn that I inherited when I took office. During these past three years, California's economy has made a huge recovery. We have created more than 600,000 new jobs; we have reformed workers' compensation, bringing the costs down 47 percent, saving business owners millions of dollars; and we have vetoed bills that would hinder job growth.

These trends show no sign of slowing. Numerous reports from groups like the Los Angeles County Economic Development Corporation, the Silicon Valley Leadership Group, and the California Department of Finance all forecast continued economic growth this year. California's economy has been consistently gaining momentum and is poised to continue its ascent in the years to come.

As you read through these pages, I hope each of you will consider the remarkable advantages of locating your business in the Golden State.

Sincerely,

Arnold Schwarzenegger

[Sidebar]

TEAM CALIFORNIA

TeamCalifornia links new and existing businesses with ECONOMIC DEVELOPMENT ORGANIZATIONS across the Golden State. We provide area demographics, one-on-one contacts, and quality-of-life information, and expedite projects.

[Sidebar]

SACRAMENTO MUNICIPAL UTILITY DISTRICT (SMUD)

The Sacramento Municipal Utility District (SMUD) provides dependable and affordable electric service to the 1.33 million people living in the 900-square-mile area of Sacramento County. As a community-owned utility, SMUD generates and buys enough power to provide its customers constant, reliable, and affordable electricity. The company also offers leading-edge programs in ENERGY EFFICIENCY AND CLEAN POWER. And SMUD offers a wide range of business services, including

economic development and energy-efficiency incentives; technical consultation on lighting, heating, and cooling systems; power-quality measures; and energy-efficient design. SMUD's economic development staff can assist with business relocation to the Sacramento area.

CITY OF CONCORD

Located just 29 miles east of San Francisco, the city of Concord is your premier Bay Area location to live, work, and do business. Its business community is served by three major freeways and two Bay Area Rapid Transit (BART) stations. Most of Concord's highly skilled and well-educated citizens live and work in the community.

Concord's LOWER COST OF DOING BUSINESS AND PROBUSINESS GOVERNMENT are a winning combination that has attracted many successful companies such as Bank of America, Chevron, Siemens, Cerus Corp., and BEI Systron Donner Inertial Division.

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