

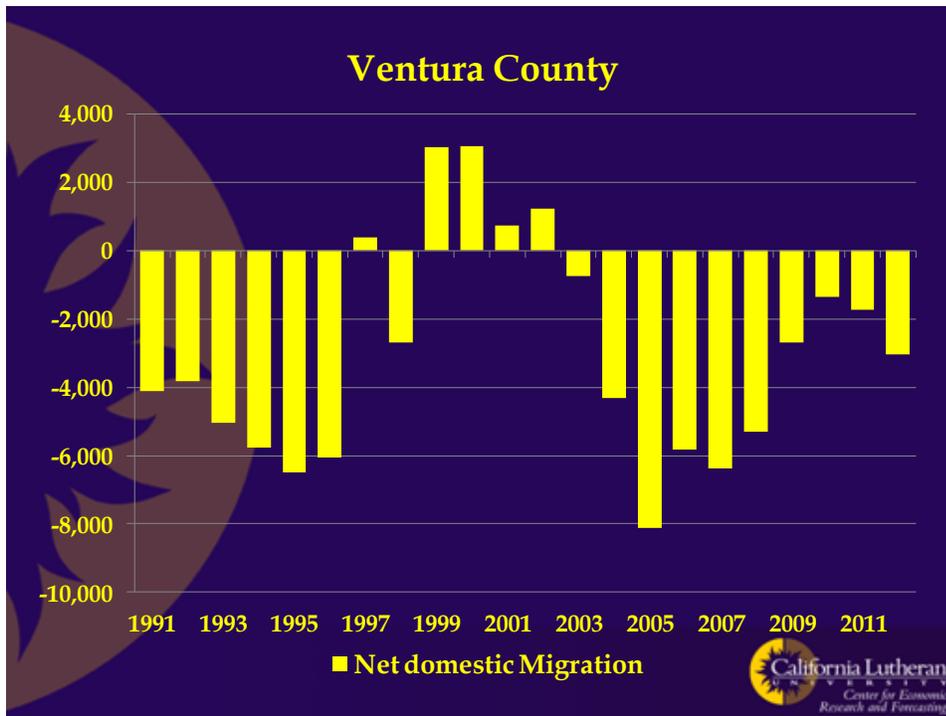
## Ventura County's Economy November 12, 2013

### ***Ventura County's Recovery***

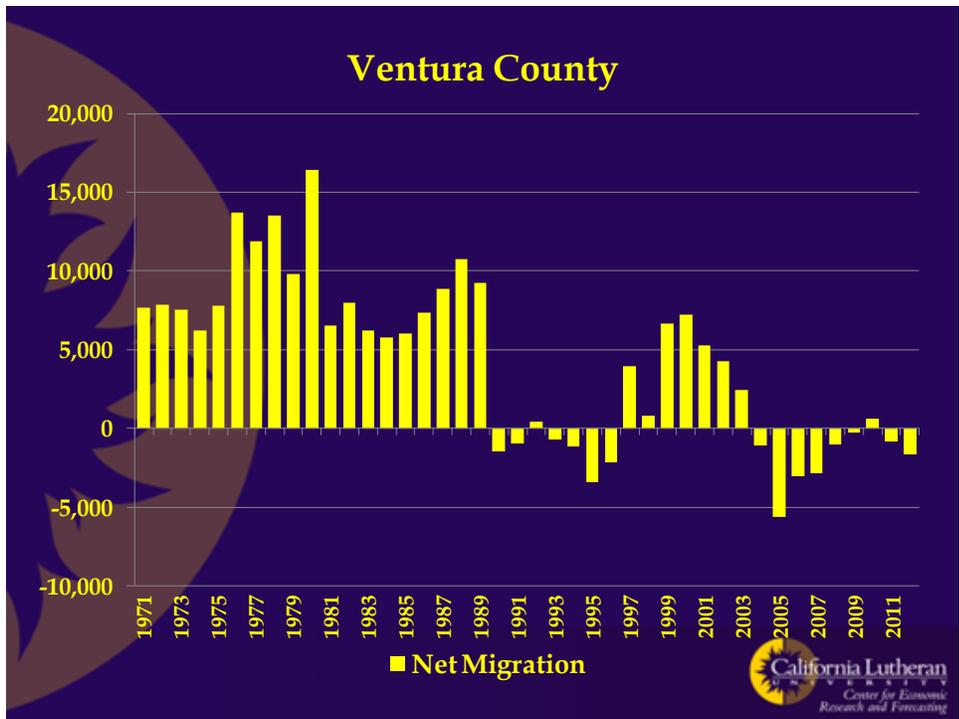
Ventura County's economy grew a touch faster over the past year than we had forecast. Consequently, we now forecast that the County will reach its pre-recession high in 2018:Q2. This is exactly the optimistic forecast from last year. Our new optimistic forecast is 2017:Q2, while the pessimistic forecast has moved up from 2022:Q2 to 2019:Q3, or about a half a year before our previous baseline of 2020:Q1.

While the County performed a bit better than our forecast, its recovery continues to be very slow, and there is plenty of evidence that the County's recovery will continue to be slow.<sup>1</sup>

Demographic data show an economy with little forward potential. Domestic migration into and out of Ventura County has been negative for each of the past ten years. Total migration, which includes international migration, has been negative in eight of the past ten years. It is our opinion that these migration statistics are the result of thousands of individuals evaluating their particular prospects and finding that their future is better somewhere besides Ventura County, even though Ventura County offers a fantastic climate and an abundance of amenities.

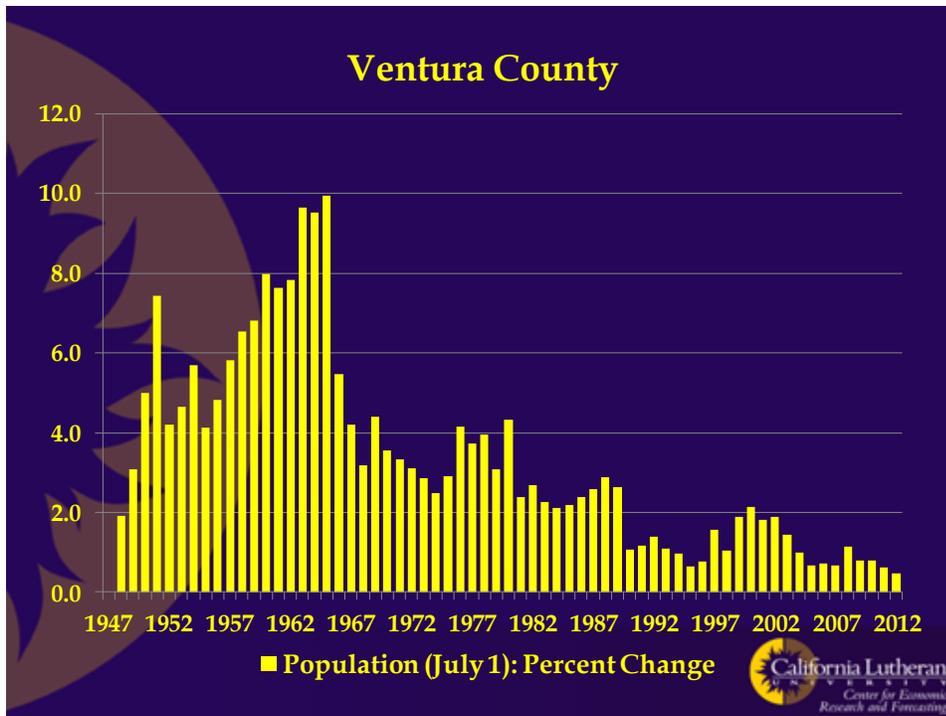


<sup>1</sup> See Appendix 1 for forecast and scenario charts.



One result of the loss of population through migration is that Ventura County's population growth has declined to less than one half of one percent in 2012. However, migration is not the sole cause of Ventura County's slow population growth. The County's births continue to decline and its deaths are increasing. The increasing death rate reflects the County's aging population. The declining birth rate reflects a trend toward lower birth rates throughout most of the developed countries.

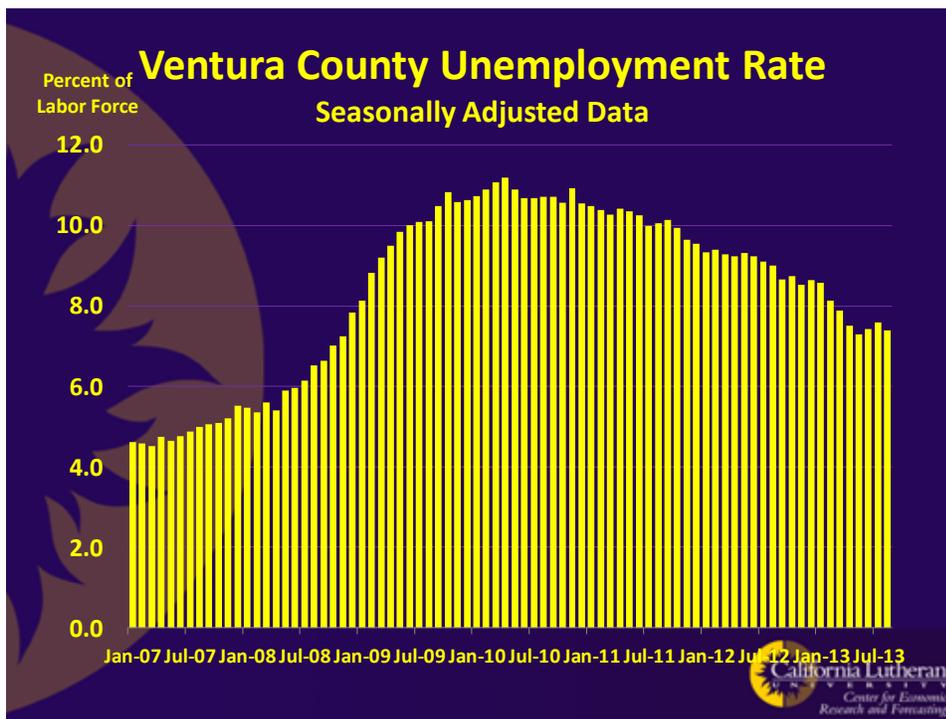
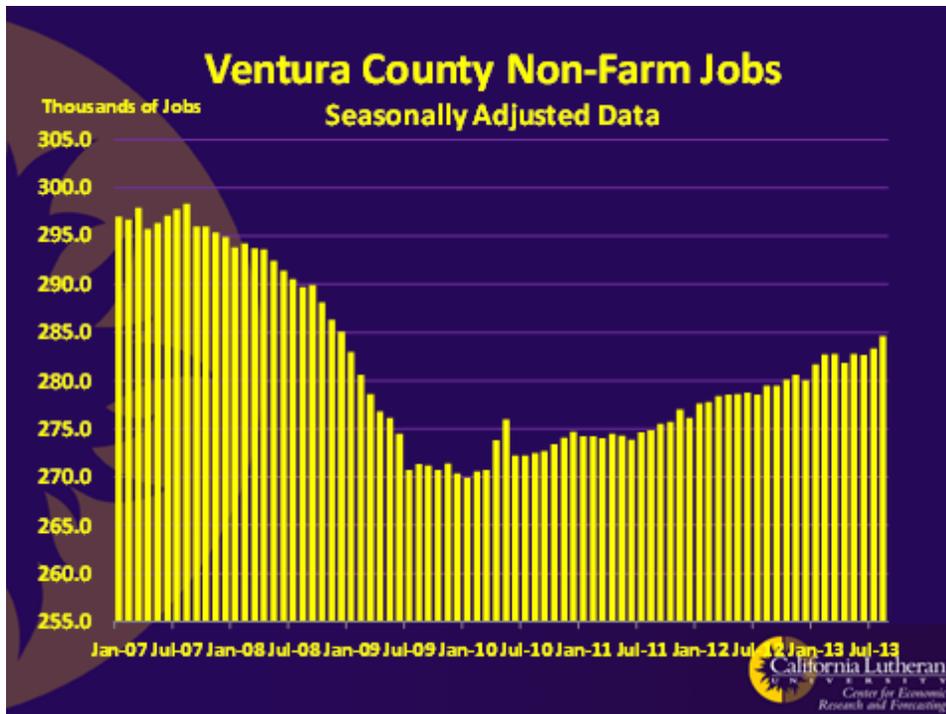
Given annual changes in magnitude of Ventura County's population growth, it's easy to produce a scenario where the County's population growth becomes negative. If this happens, it will become increasingly difficult to generate economic growth. Perhaps it is more correct to say that if it happens, it is because it has become increasingly difficult to generate economic growth.



While Ventura County has seen about 4,300 net new jobs created over the past year (August to August), the County still has about 16,000 fewer jobs than it had before the recession. This represents almost an eight percent net job decline.

Even the most recent data are not unambiguously positive, as several sectors have lost jobs over the past year. These include the large Agriculture, Professional and Business Services, and Manufacturing Sectors.

Ventura County's unemployment rate has been declining for years. However that decline may be over. The County's unemployment rate has remained essentially unchanged over the past three months. Unfortunately, the County's unemployment rate remains high, at a seasonally-adjusted rate of 7.4 percent.



Going forward, Ventura County faces real hurdles if it is to see dynamic economic growth, particularly growth in well-paying sectors. One challenge is California’s regulatory environment; it’s almost as if it were designed to provide a governor on the State’s economic growth.

Still, Ventura County has its own challenges. The County's SOAR (Save Open-Space and Agricultural Resources) Ordinance forbids growth between incorporated cities without a County-wide election. Delay and uncertainty are huge challenges for anyone with a new project in Ventura County. Final approval can take years, and it is not unheard of for City Councils to reject a project at the last moment, even though that project may have met all the hurdles through the entire process. Sometimes, these actions appear to be arbitrary and capricious.

Ventura County's idiosyncratic economic-growth challenges probably reflect its citizens' preferences. A large percentage of the County's population doesn't want to see economic growth, and they may make up a majority of the electorate.

## Industrial Composition

Ventura County's most dynamic industrial sectors, those that have been generating persistent job growth, tend to be low paying sectors, while higher-paying sectors have lagged or lost jobs. This has contributed to increasing inequality and the trend is likely to continue.

We provide a table that displays job changes in Ventura County's various industrial sectors' employment in both numbers and percentages for three periods: July 2013 – August 2013, August 2010 to August 2013, and October 2007 (pre-recession job high) and August 2013:

<b>Ventura County's Job Market</b>		<b>Changes Since Last Month</b>		<b>Changes During the Last Year</b>		<b>Changes Since the Great Recession</b>	
	<b>Aug 2013</b>	<b>Aug 2013 - Jul 2013</b>	<b>Aug 2013 - Jul 2013</b>	<b>Aug 2013 - Aug 2012</b>	<b>Aug 2013 - Aug 2012</b>	<b>Aug 2013 - October 2007</b>	<b>Aug 2013 - October 2007</b>
<b>Sectors</b>	<b>Thousands</b>	<b>Change-thousands</b>	<b>Percent change</b>	<b>Change-thousands</b>	<b>Percent change</b>	<b>Change-thousands</b>	<b>Percent change</b>
Agriculture	24.3	-2.3	-8.6	-0.3	-1.2	-1.3	-5.1
Natural Resources and Mining	1.2	0.0	0.0	0.0	0.0	0.1	9.1
Construction	12.7	0.1	0.8	0.8	6.7	-6.1	-32.4
Durable Goods Manufacturing	17.7	-0.1	-0.6	-0.5	-2.7	-5.9	-25.0
Non-Durable Goods Manufacturing	11.6	0.1	0.9	-0.2	-1.7	-2.2	-15.9
Wholesale Trade	13.0	0.0	0.0	0.4	3.2	0.0	0.0
Retail Trade	37.7	0.6	1.6	0.8	2.2	0.3	0.8
Transportation, Warehousing, & Utilities	5.9	0.1	1.7	0.2	3.5	-0.3	-4.8
Information & Technology	5.0	0.1	2.0	0.0	0.0	-0.7	-12.3
Financial Activities	18.7	0.1	0.5	-0.6	-3.1	-4.0	-17.6
Professional and Business Services	35.2	-0.3	-0.8	-0.1	-0.3	-2.0	-5.4
Educational and Health Services	35.4	-0.4	-1.1	0.7	2.0	4.0	12.7
Leisure and Hospitality	36.8	0.2	0.5	3.2	9.5	4.8	15.0
Personal, Repair, & Maintenance Services	9.4	-0.1	-1.1	-0.1	-1.1	-1.0	-9.6
Government	41.4	0.9	2.2	0.0	0.0	-1.7	-3.9
Federal Government	7.1	0.0	0.0	0.0	0.0	-0.2	-2.7
State Government	2.6	0.0	0.0	0.1	4.0	-0.1	-3.7
Local Government	31.7	0.9	2.9	-0.1	-0.3	-1.4	-4.2
<b>Total All Industries</b>	<b>306.0</b>	<b>-1.0</b>	<b>-0.3</b>	<b>4.3</b>	<b>1.4</b>	<b>-16.0</b>	<b>-7.8</b>

Source: CA Employment Development Department

## Gainers

Four Ventura County sectors have gained or not lost jobs in each of the reported periods: Natural Resources and Mining (Oil), Wholesale Trade, Retail Trade, and Leisure and Hospitality.

Ventura County has long history in Oil. In fact, the predecessor to Union Oil was founded in Santa Paula. Today, the sector employs far fewer people than it has in the past. Still, the County has abundant resources and changes in technology and price make this small sector a potential source of at least some new well-paying Ventura County jobs.

While Wholesale Trade now has more jobs than prior to the recession, it has seen no recent growth. We don't see any reason to expect this small sector to generate many, if any, new Ventura County jobs.

Retail Trade is Ventura County's largest private sector, and it is growing. Unfortunately, Retail Trade in Ventura County is a poor-paying sector. While it is good to see jobs for relatively low human capital workers, who have been hit hard by the recession, one wonders how these workers, like agricultural workers, can afford a decent standard of living in Ventura County.

Leisure and Hospitality is Ventura County's second largest private sector, and it has generated the fastest job growth of any County industrial sector. Unfortunately, like Retail Trade, it is a relatively poor paying sector. Its growth generates the same sort of ambivalence as does Retail Trade.

## **Losers**

Three large Ventura County sectors have lost jobs in each of the reported periods: Agriculture, Manufacturing, and Professional and Business Services. These sectors are apparently declining as a source of Ventura County jobs.

Manufacturing is undergoing technological changes that result in higher output with less labor. This is a worldwide trend that will likely continue throughout any reasonable forecast horizon. Only unforcastable random events could cause this sector to increase its Ventura County employment numbers.

Ventura County's agricultural history is a fascinating example of crops, and thus employment, changing as a result of changing economic trends. About 50 years ago, lima beans were a major Ventura County crop. Today, we are not aware of any lima beans being grown in the County.

As land values increased relative to labor costs, Ventura County growers have responded by switching to more labor-intensive crops. Today, strawberries, a very labor-intensive crop, is the County's dominant crop.

The story doesn't end there. Agricultural labor has recently failed to meet demand, at the prices that Ventura County growers can pay and still profit in increasingly competitive markets. Growers are responding by moving toward more capital-intensive crops, such as raspberries.

These changes imply not only changes in the number of Ventura County agricultural jobs, but also changes in the workers' skill sets. Jobs in the more capital-intensive crops generally require higher skill sets than in previous crops, and they pay more as a result.

Professional and Business Services are perhaps the most disturbing of Ventura County's industrial sectors. Given Ventura County's amenities and its location between Los Angeles and Santa Barbara Counties, with dramatically lower costs than the latter, this seems to be a sector that should generate job growth for the County. Its persistent decline indicates that the County may be unable to generate significant growth in well-paying jobs outside of the oil industry.

## **Mixed**

Ventura County's other sectors have shown mixed results. At this point, we see no reason to expect that any of them will generate or lose enough jobs to change Ventura County's industrial composition. That is, except Healthcare.

Healthcare was, locally and in most geographies, a bright spot. It alone gained jobs as throughout the recession and in the early quarters of the recovery. New regulation makes it likely that the sector will not be a source of new jobs going forward. Instead, it is possible that the sector will lose jobs in the short to medium range.

## **Salaries**

We show Ventura County's sectoral salary data for the period 2001 through 2012. The salary growth seems to be remarkably strong for a period that included such a deep recession, no inflation, and the sustained high unemployment rates that persists even today in Ventura County. We believe this reflects, in part, Ventura County's persistent high cost of living.

A high cost of living may not be the primary cause though. We also believe a mismatch exists between the work force and job skills demanded by employers, and that this mismatch is another source of upward salary pressure. Certainly, the sectors with most rapid salary increases are sectors that demand specific skills. Our conversations with employers reinforce this opinion.

## Ventura County: Industry Data

2001 quarter 1 to 2012 quarter 4

	Employment (Jobs)	Average Salary Data (dollars)			
	2012 Q4	2001 Q1	2012 Q4	Change	% Change
AGRICULTURE, FORESTRY, FISHING & HUNTING	26,152	18.8	27.2	8.4	44.5
MINING	1,178	56.5	116.2	59.7	105.5
UTILITIES	1,177	63.9	88.7	24.7	38.7
CONSTRUCTION	12,224	34.1	55.9	21.7	63.7
MANUFACTURING-DURABLE	17,678	56.4	74.4	18.0	32.0
MANUFACTURING-NONDURABLE	11,982	95.0	108.2	13.2	13.9
WHOLESALE TRADE	12,482	52.4	74.5	22.0	42.0
RETAIL TRADE	39,510	25.2	31.1	6.0	23.8
TRANSPORTATION & WAREHOUSING	4,593	31.0	45.3	14.3	46.0
INFORMATION	4,834	59.6	67.0	7.4	12.4
FINANCE & INSURANCE	15,102	56.4	71.8	15.4	27.4
REAL ESTATE & RENTAL & LEASING	4,249	30.9	58.2	27.3	88.1
PROFESSIONAL, SCIENTIFIC, & TECHNICAL SERVICES	16,004	53.4	82.2	28.8	53.8
MANAGEMENT OF COMPANIES AND ENTERPRISES	2,314	43.3	104.6	61.3	141.7
ADMIN & SUPPORT & WASTE MGMT & REMEDIATION	17,838	20.7	41.2	20.5	98.9
EDUCATIONAL SERVICES	5,321	26.3	35.2	8.9	33.9
HEALTH CARE & SOCIAL ASSISTANCE	30,202	31.3	53.8	22.5	71.9
ARTS, ENTERTAINMENT, & RECREATION	5,059	20.2	31.0	10.7	53.1
ACCOMMODATION & FOOD SERVICES	28,553	13.3	18.2	4.9	36.9
PERSONAL, REPAIR, AND MAINTENANCE SERVICES	10,613	21.5	25.2	3.7	17.3
NON-CLASSIFIED	1,322	48.1	79.6	31.6	65.7
FEDERAL GOVT	7,148	60.2	79.5	19.3	32.0
STATE GOVT	1,713	38.9	50.8	11.9	30.6
LOCAL GOVT	33,665	38.4	54.8	16.4	42.6
<b>TOTAL, ALL INDUSTRIES</b>	<b>310,912</b>	<b>38.7</b>	<b>51.2</b>	<b>12.5</b>	<b>24.5</b>
<b>MEDIAN</b>		<b>38.7</b>	<b>57.0</b>		

Source: California Employment Development Department (QCEW data program)

## Occupational Projections

Our ten-year occupational forecast is below. We expect four sectors to generate significant job gains over the next ten years: Business and Financial Operations, Healthcare Practitioners and Technical, Personal Care and Service, and Construction and Extraction. Interestingly enough, Construction employment, even after very strong gains, will still be below pre-recession levels.

We expect four sectors to lose jobs over the coming ten years: Office and Administrative Support; Arts, Design, Entertainment, Sports, and Media; Protective Services; and Agriculture.

In general, these forecasts are consistent with an aging population and a decline in the "industrial" portion of Ventura County's economy.

## Ventura County 10-Year Occupation Forecast

	<u>2002</u>	<u>2012</u>	<u>2022</u>	<u>2002-12</u>	<u>2012-22</u>	<u>2002-12</u>	<u>2012-22</u>
	<i>no. of jobs</i>	<i>no. of jobs</i>	<i>no. of jobs</i>	<i>change</i>	<i>change</i>	<i>percent change</i>	<i>percent change</i>
<b>Total: All occupations</b>	<b>290,370</b>	<b>288,670</b>	<b>320,920</b>	<b>-1,700</b>	<b>32,250</b>	<b>-0.6</b>	<b>11.2</b>
Management	15,230	16,460	19,058	1,230	2,598	8.1	15.8
Business and Financial Operations	11,750	16,190	22,355	4,440	6,165	37.8	38.1
Computer and Mathematical	5,860	7,010	7,501	1,150	491	19.6	7.0
Architecture and Engineering	8,010	7,030	7,814	-980	784	-12.2	11.2
Life, Physical, and Social Science	4,260	4,140	4,824	-120	684	-2.8	16.5
Community and Social Services	2,820	4,150	4,289	1,330	139	47.2	3.4
Legal	1,580	1,780	2,127	200	347	12.7	19.5
Education, Training, and Library	17,320	17,440	18,084	120	644	0.7	3.7
Arts, Design, Entertainment, Sports, and Media	3,110	3,030	2,781	-80	-249	-2.6	-8.2
Healthcare Practitioners and Technical	9,680	12,090	17,322	2,410	5,232	24.9	43.3
Healthcare Support	6,040	7,460	9,524	1,420	2,064	23.5	27.7
Protective Service	6,850	4,510	3,891	-2,340	-619	-34.2	-13.7
Food Preparation and Serving-Related	26,060	27,770	29,514	1,710	1,744	6.6	6.3
Building and Grounds Cleaning and Maintenance	10,230	8,190	9,272	-2,040	1,082	-19.9	13.2
Personal Care and Service	4,670	8,540	12,765	3,870	4,225	82.9	49.5
Sales and Related	31,460	33,350	35,050	1,890	1,700	6.0	5.1
Office and Administrative Support	53,320	49,940	46,929	-3,380	-3,011	-6.3	-6.0
Farming, Fishing, and Forestry	7,170	6,520	6,272	-650	-248	-9.1	-3.8
Construction and Extraction	14,450	9,800	14,326	-4,650	4,526	-32.2	46.2
Installation, Maintenance, and Repair	9,760	8,840	9,207	-920	367	-9.4	4.1
Production	22,360	18,590	20,527	-3,770	1,937	-16.9	10.4
Transportation and Material Moving	18,380	15,850	17,488	-2,530	1,638	-13.8	10.3

Source: CA-EDD (OES data program) and CERF

## ***Income and Poverty***

Ventura County residents are wealthy, if income is a good proxy for wealth. Certainly, they have high incomes on average. The County's median annual income (over \$70,000) is about 40 percent (approximately \$20,000) higher than that of the United State. It is about 22 percent (\$13,000) higher than that of California.

Of course, poverty exists everywhere, and in a county with large low-wage sectors (Agriculture, Retail Trade, and Hospitality and Leisure Services) one might expect high poverty rates. This isn't true in Ventura County. In fact, with a poverty rate of only 8.8 percent, Ventura County's poverty is only about two-thirds that of the United States or California.

<b>Poverty and Income, 2012</b>			
	<b>United States</b>	<b>California</b>	<b>Ventura County</b>
<b>Poverty</b>			
<b>People of All Ages in Poverty</b>	<b>12.2%</b>	<b>13.3%</b>	<b>8.8%</b>
<b>Median Household income</b>	<b>51,371</b>	<b>58,328</b>	<b>71,517</b>
<b>Per Capita Income</b>	<b>27,319</b>	<b>28,341</b>	<b>31,260</b>
<i>Source: U.S. Bureau of Census (2012 ACS 1-year estimates)</i>			

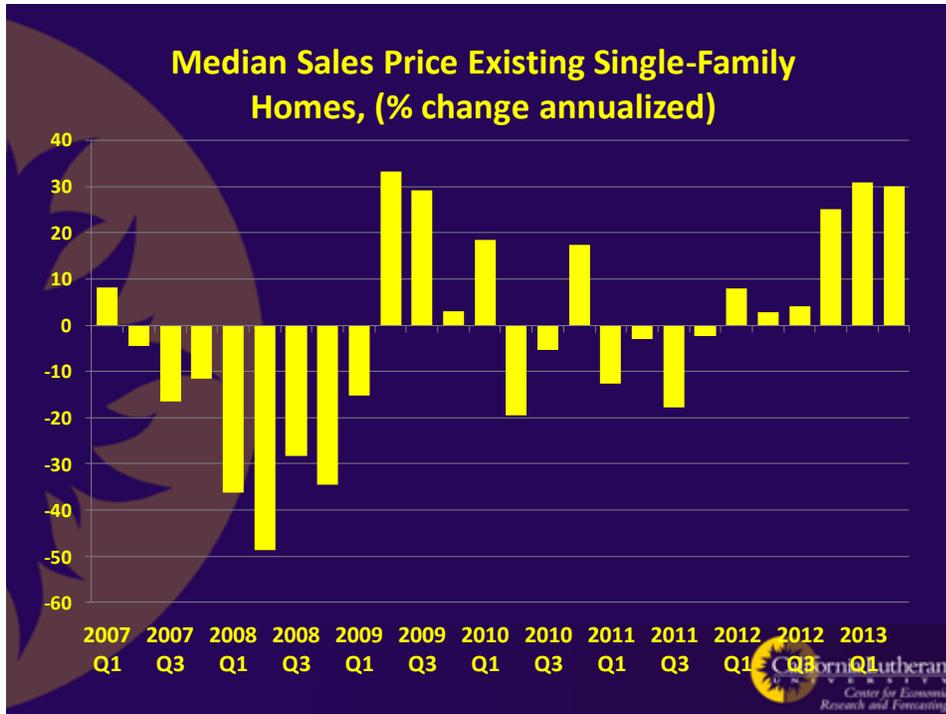
## ***Educational Attainment***

Ventura County has relatively high educational attainment. As the following chart shows, Ventura County has a higher percentage of college graduates than either the United States or California. California lags the United States in the percentage of high school graduates, in part at least, a result of its high agricultural and immigrant population. Ventura County, though, exceeds California in high school graduates.

<b>Education Attainment 2012</b>			
	<b>United States</b>	<b>California</b>	<b>Ventura County</b>
<b>Education Attainment in Persons &gt;25 Years</b>			
<b>High School Diploma</b>	<b>86.4%</b>	<b>81.5%</b>	<b>82.7%</b>
<b>Bachelor's Degree or Higher</b>	<b>29.1%</b>	<b>30.9%</b>	<b>31.6%</b>
<i>Source: U.S. Bureau of Census (2012 ACS 1-year estimates)</i>			

## Ventura County's Housing Markets

With a median single-family-home price \$522,410 as of 2013:Q2, Ventura County's housing is a bit more expensive than the California median home price. It is however, far below that of other high-amenity coastal counties, such as Marin, Santa Barbara, and San Mateo Counties. However, because Ventura County is a relatively high-income county, its affordability exactly matches the State average, at 36 percent. That is, it is estimated that 36 percent of Ventura County households could purchase the County's median-priced home at standard rates and terms.



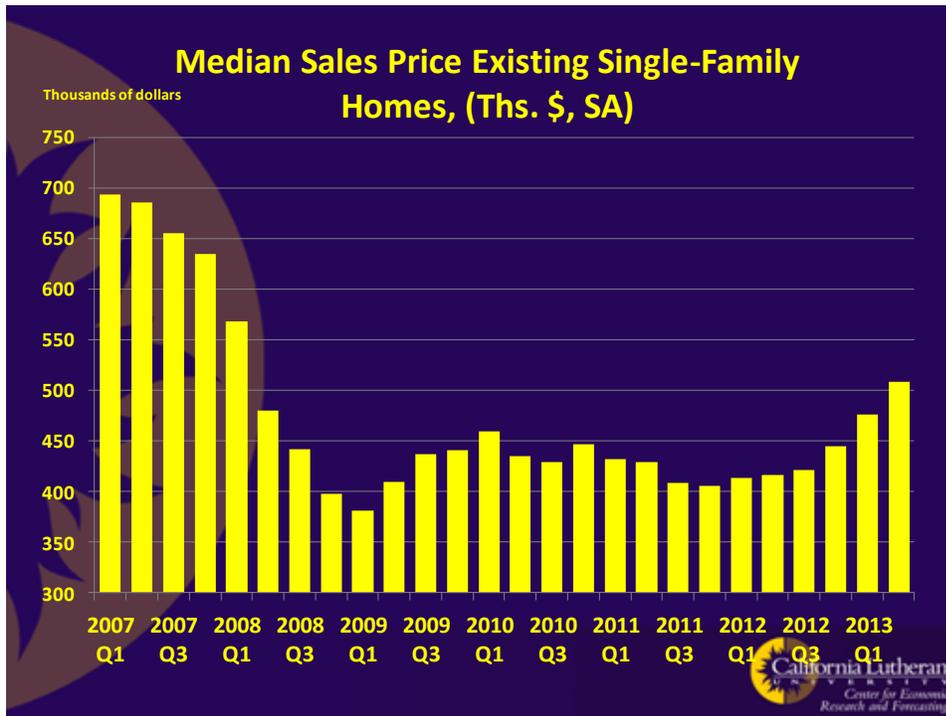
As is the case with most California counties, Ventura County's home market has been hot in terms of price gains. The County as seen annualized quarterly price gains in excess of 20 percent for each of the past three quarters for which we have data. The two most recent quarters are even more impressive, with annualized gains of about 30 percent.

This invites the questions: Are these rates of price growth sustainable? Are current prices a bubble?

We believe that the growth rates will not be sustained, but the gains so far will be sustained. This is because the gains are a result of investor models rather than new household formation. That is, with recent gains in rents and existing interest rates, investors are purchasing homes, including single family residences, because they are profitable investment opportunities. The resulting price gains are safe unless rents fall or interest rates rise. We consider these to be low-probability events.

The investor-driven gains will cease when profit opportunities have been bid away. At that point, prices will stabilize, unless a new source of demand materializes. Furthermore, unless interest rates increase

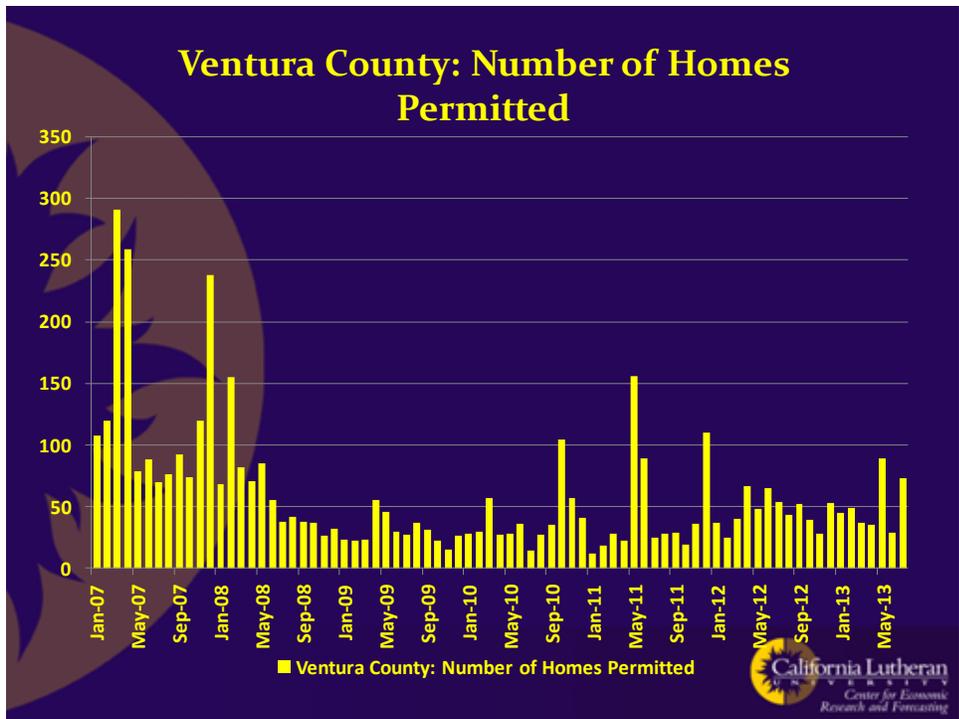
or rents fall, any slippage in price will attract renewed investor demand, which should provide a price floor.



Current prices, while up significantly over the past year, remain far below pre-recession levels, providing another source of confidence that we are not likely to see another crash.

We note that the previous arguments are based on existing interest rates and rents. While we consider significant changes in either over the next year to be unlikely, we can come up with scenarios where these rents decline or interest rates rise. In that event, we would argue that the resulting price decline was not the result of a bubble collapse, but rather a change in fundamentals.

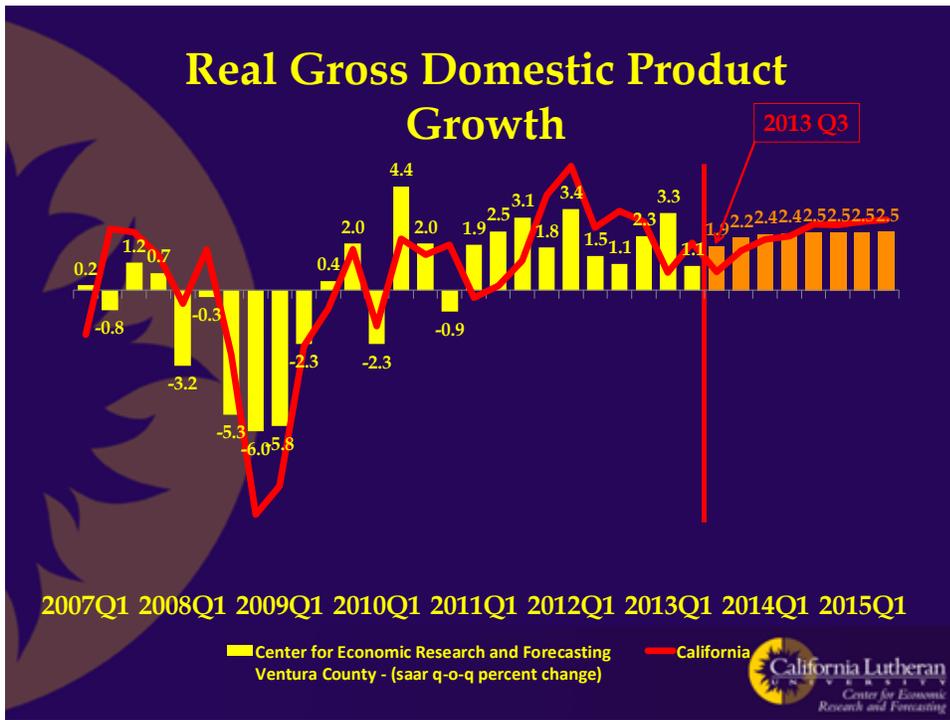
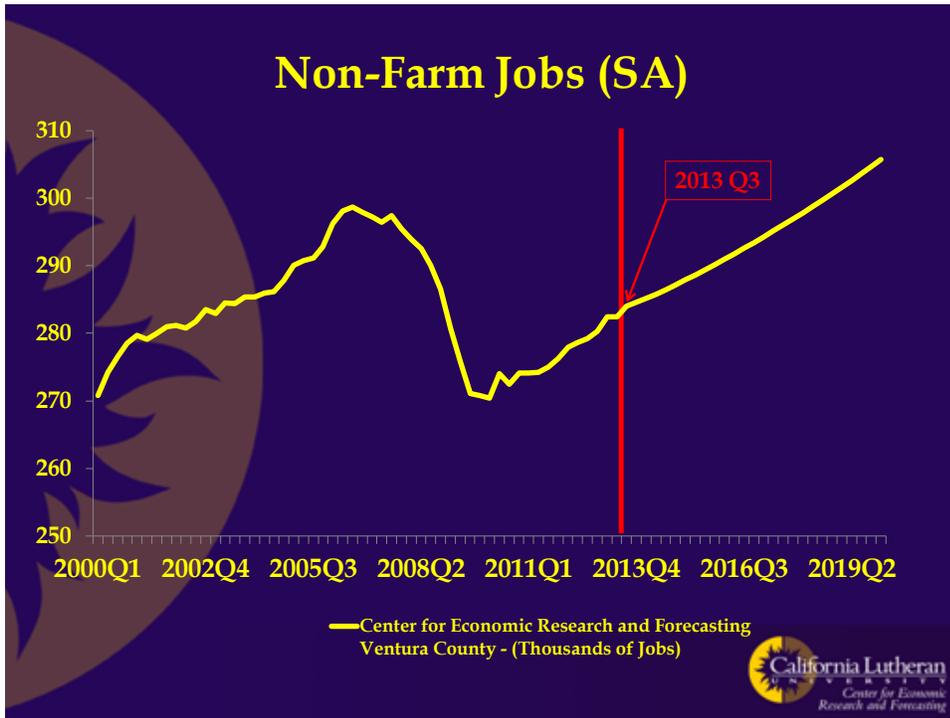
New housing permits support our contention that home demand is investor driven, as opposed to the sustainable new demand that would result from new household formation. While we have seen a couple of recent activity spikes, it is nothing we haven't seen before in this recovery. Certainly, there is no sign of strong new construction.

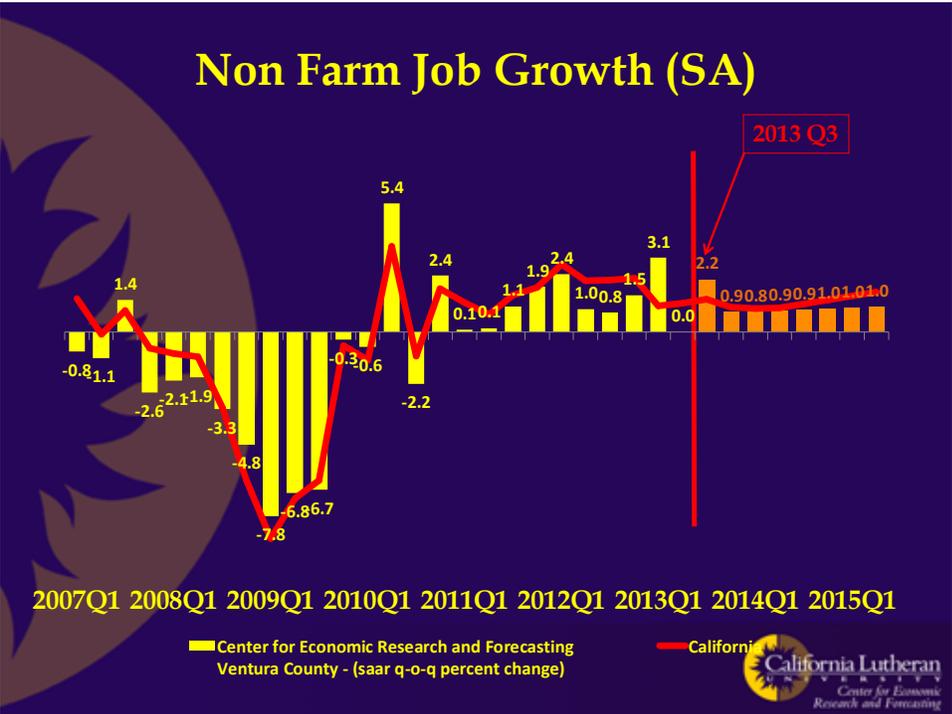
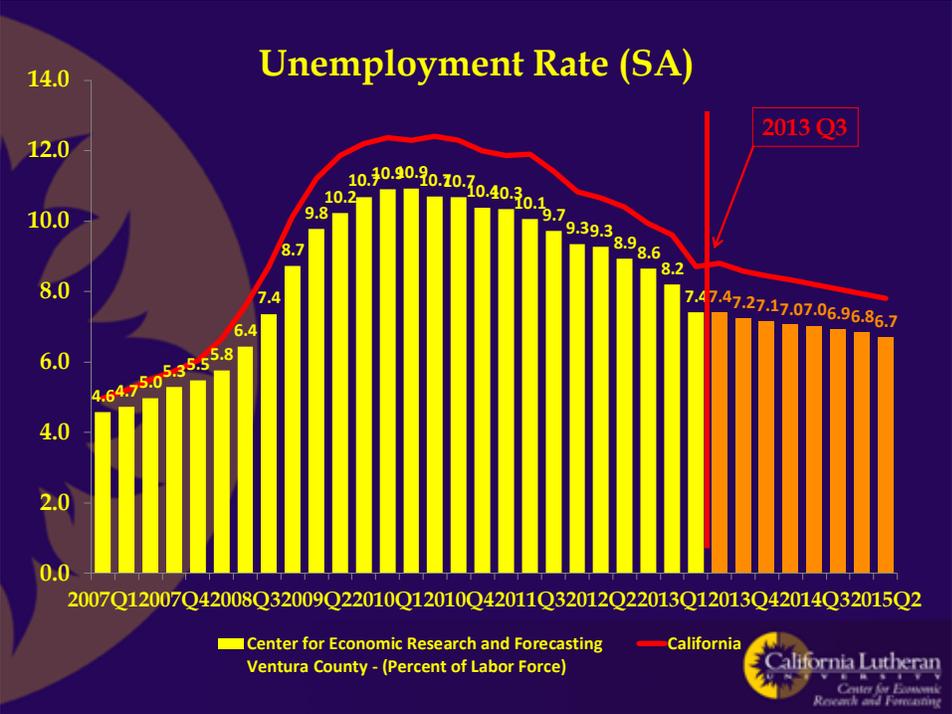


Finally, we note that distressed sales and foreclosures have been steadily declining, indicating that the overhang of shadow inventory is working its way out of the system. While we've seen a slight pickup in foreclosure activity with the last data point, we believe this is mostly a result of a rebound in foreclosures after lenders adapted to new State regulation.

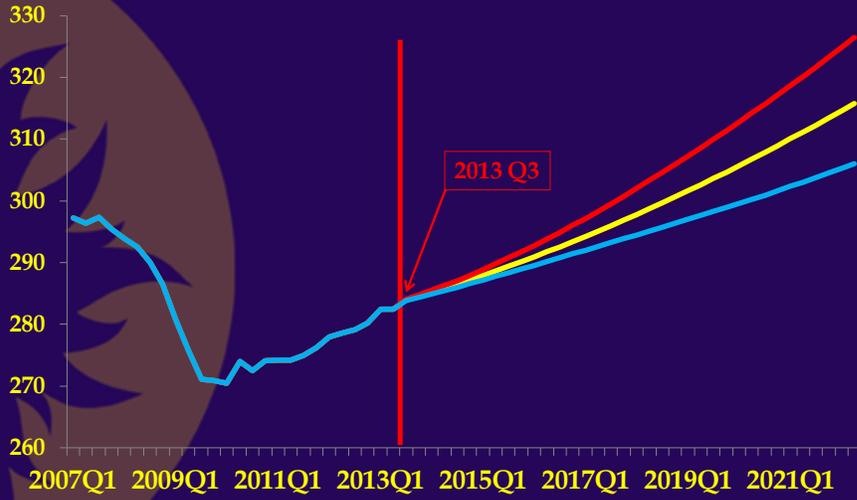
It's possible that the rebound is a result of increased lender willingness to foreclose as prices increase. However, that same increase provides debtors with additional options to prevent foreclosure. On net, if this phenomenon exists, we believe it is small.

## Appendix: Jobs Forecast and Scenarios





# Non-Farm Jobs (SA)



Center for Economic Research and Forecasting Ventura County - (Thousands of Jobs)

Optimistic Scenario Pessimistic Scenario

