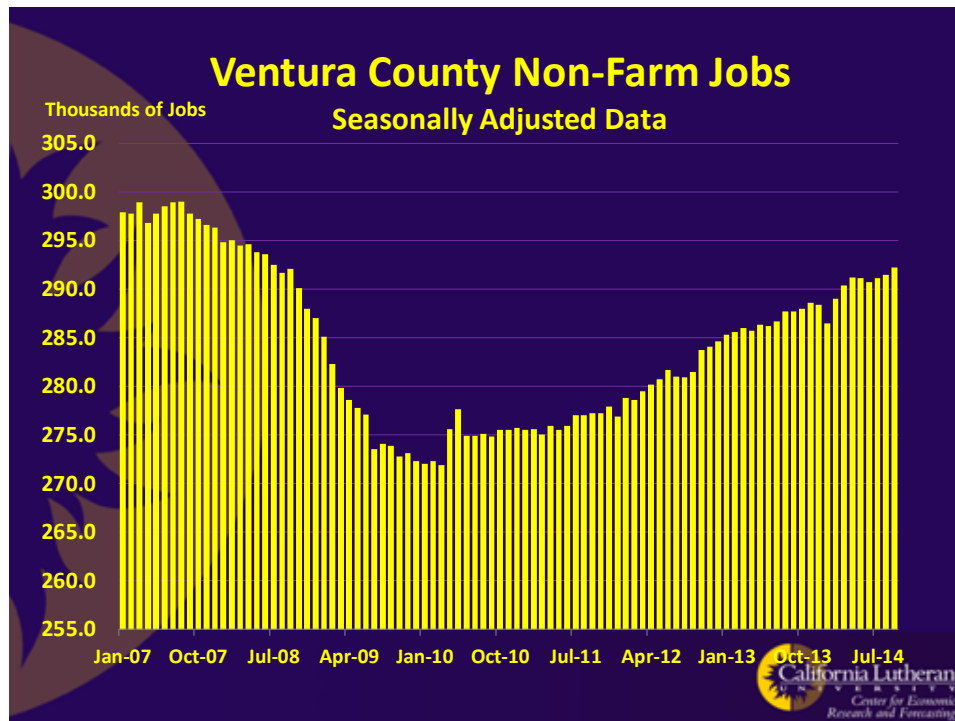


Bill Watkins
October 28, 2014

Ventura County's Recovery

History

Ventura County's long slow recovery continues. Still, seven years after the recession began, the county has about 6,600 fewer jobs than it had immediately prior to the recession:

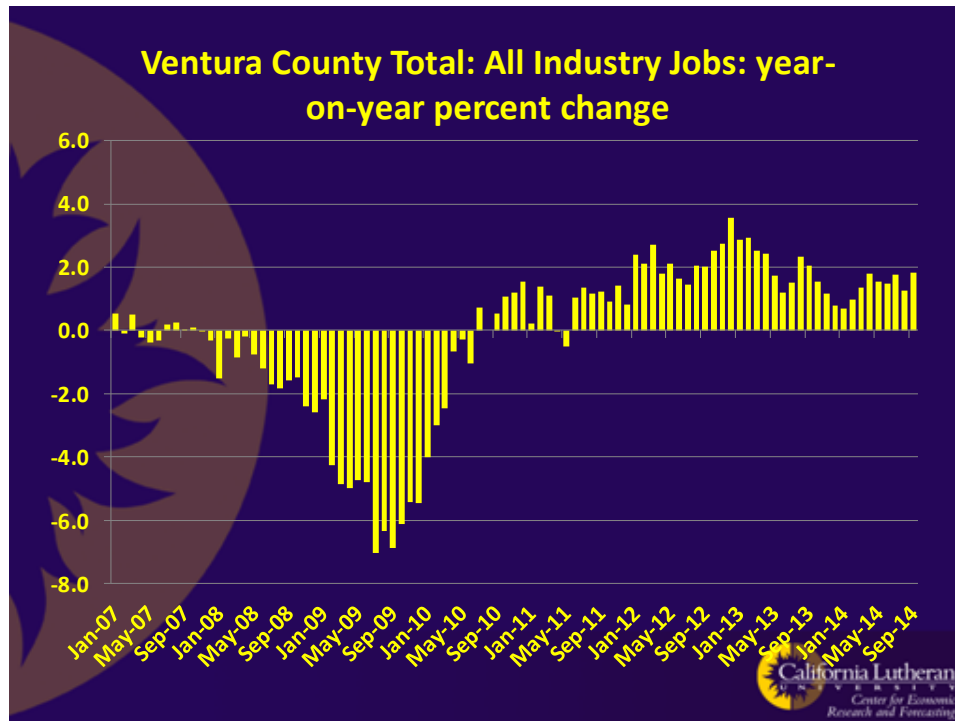


While slightly above what we expected, job growth has not been strong, nor has it been universal across sectors. It has also been slower than in the 2012-2013 period. We still have sectors losing jobs, (see next section), and we still have mixed sectors, sectors with no clear positive or negative trend.

Ventura County jobs are also fragile, in the sense that there are several possible sources of new job losses. Amgen is a major Ventura County employer, one that pays relatively well, and it is going through a consolidation. It has had significant layoffs, and more layoffs are likely.

Ventura County's agricultural sector is also a potential source of job losses. It is struggling with the dual problems of labor supply and water supply. These are necessary inputs for Ventura County's labor-intensive and water-intensive crops. At this point, we have little information to guide us in forecasting that sector.

Ventura County's economy is also still very defense intensive. Estimates for total employment associated with the Navy's county operations range from 14,000 to 17,000. With all military services facing cuts, the county could see significant job losses.



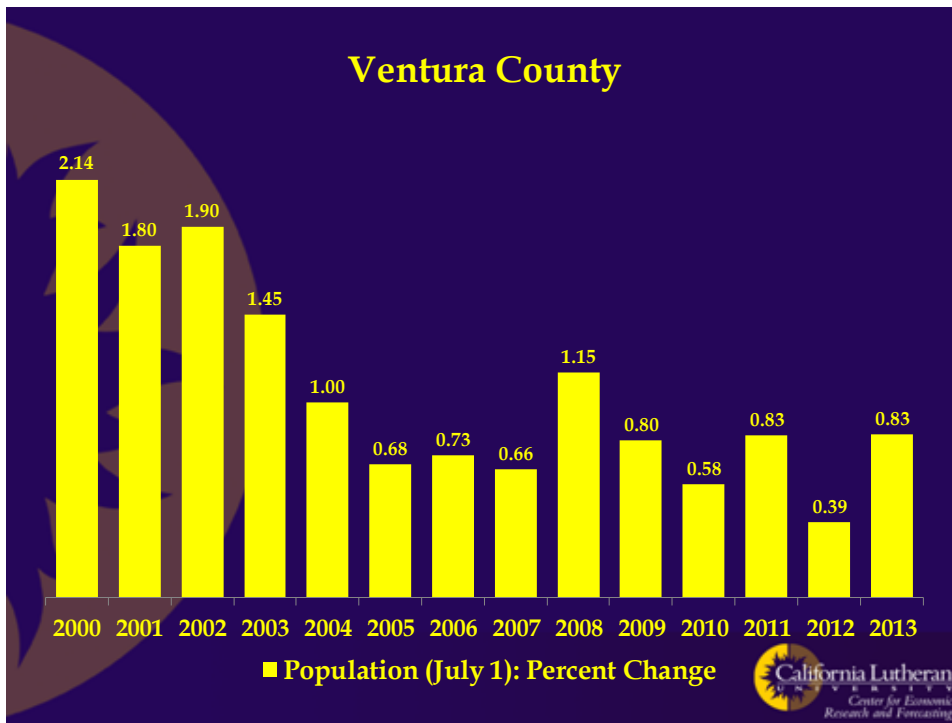
Net migration to Ventura County turned positive last year, for only the second time in ten years. This is because of an increase in international migration and a decrease in domestic out migration. Domestic migration remained negative for the 11th consecutive year. Since birth and death rates remained relatively unchanged, Ventura County's population growth rate doubled to a still-low 0.83 percent.

Going forward, we expect to see continued out domestic migration. It could accelerate as Baby Boomers take advantage of recovering real estate prices to relocate.

International migration is harder to predict. On the one hand, conditions are atrocious enough in many countries that the supply of potential immigrants from push-driven migration is large. On the other hand, more vigorous state economies, such as Texas, are drawing a larger share of international migrants.

Demand for immigrant labor in Ventura County is also hard to forecast, primarily because of uncertainty in the county's agricultural sector. Finally, national immigration policy provides another source of uncertainty. Federal immigration policy is currently chaotic. Changes are promised, but we have little confidence that the situation will

reach equilibrium anytime soon. We have even less confidence that we know what that equilibrium will look like.

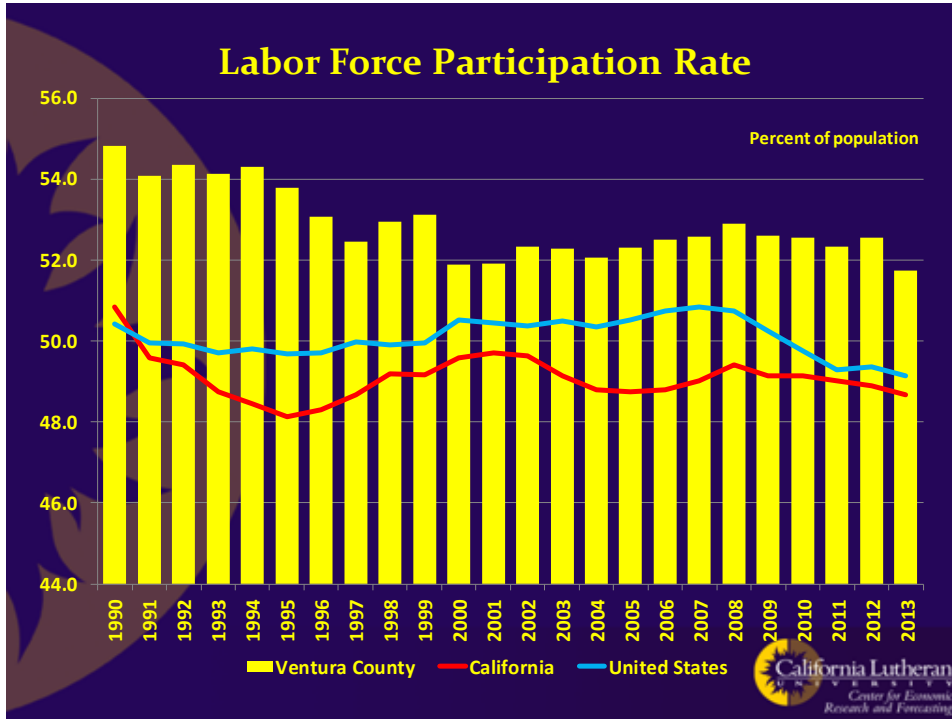


Ventura County's labor-force data pose a paradox when compared to immigration data. Before discussing that, we need to acknowledge a few stylized facts.

Ventura County's labor force participation rate runs significantly above those of the United States and California. Like the larger geographies, Ventura County's labor force participation rate has been declining.

That's where the similarities end. Ventura County's labor force participation rate has been declining at a far slower rate than either California's or the United States'. The difference is becoming quite large. We speculate that the difference is because of Ventura County's population and cost structure.

Ventura County is an expensive place to live, but it is not yet a community of the independently wealthy, as say, Marin County or the South Coast of Santa Barbara County. The various safety net programs do not provide the income for the same level of consumption in Ventura County as it does in some inland areas. The result appears to be that if a family wants to live in Ventura County, that family probably needs at least one job. If the family doesn't have at least one job, it's probably in the out-migration data. The net result is a high labor force participation rate.



But there is a twist. For the first time since the mid-1990s, when Southern California's defense industries were decimated by the collapse of Soviet Union and subsequent downsizing of the United States military-industrial complex, Ventura County's labor force actually declined.

This is a big change. For almost 20 years, Ventura County's labor force grew, even as the County's labor force participation rate declined. Of course, one data point is not a trend. The county's labor force could pick up. However, the weak recovery, and the previously identified threats to Ventura County existing jobs, and thus potential job growth, indicates that the possibility exists that the County has seen peak labor force. We don't think that is the case, but we should acknowledge the possibility.



Challenges to Job Creation

Challenges to job creation are essentially the same as challenges to reducing poverty, because jobs and the opportunity created by an economy that is generating lots of new jobs is the cure to poverty. So, we refer readers to the accompanying piece on poverty.

Here, we briefly comment on the most egregious challenges to job creation in Ventura County, all of which are a result of policy. The single most important reason that job creation is difficult in Ventura County is that a majority of Ventura County voters don't want to see large numbers of new jobs created. It is impossible to imagine the community supporting a, say, helicopter manufacturer that wanted to put a new 5,000-employee helicopter assembly plant in Ventura County. Indeed, it is probably impossible to receive approval for any project that would employ a thousand or more people in Ventura County.

Ventura County citizens have expressed their opposition to large new employers through urban growth boundaries, SOAR (Save Our Agricultural Resources) initiatives that require a vote for a project to go ahead, green belts, restrictive zoning, resistance to a local airport, and support for slow- or no-growth political candidates. Most recently, water scarcity has been proposed as a reason to stop growth in the County.

Because Ventura County voters prefer slow growth or no growth, the accumulated policies they have put in place essentially require consensus before a project can go

forward. Along with CEQA, these policies give almost anyone a veto on a project, as they can credibly threaten to delay and litigate a project to the point that profits are destroyed.

The result is that, in addition to the challenges of doing business in California, businesses in Ventura County face innumerable hurdles, in the form of delays and project uncertainty, along with the high costs of gaining consensus approval.

Industrial Composition

Healthcare and Hospitality have been the source of most new Ventura County jobs. Unfortunately, a stated goal of national health policy is to slow the growth of healthcare spending and jobs, and the possibility exists that the policies could be successful in slowing Healthcare sector jobs.

There is no similar effort to slow the growth of Leisure and Hospitality jobs. However, most of these jobs are low paying jobs, with wages that do not support home ownership or a quality standard of living in Ventura County.

We provide a table that displays changes in Ventura County's various industrial sectors' employment in both numerically and in percentages for three periods: August 2014–September 2014, September 2013 to September 2014, and October 2007 (pre-recession job high) to September 2014. The table is followed by analysis of the sectoral changes:

Ventura County's Job Market		<i>Changes Since Last Month</i>		<i>Changes During the Last Year</i>		<i>Changes Since the Great Recession</i>	
<u>Sectors</u>	Sep 2014 Thousands	Sep 2014 - Aug 2014 Change-thousands	Sep 2014 - Aug 2014 Percent change	Sep 2014 - Sep 2013 Change-thousands	Sep 2014 - Sep 2013 Percent change	Sep 2014 - October 2007 Change-thousands	Sep 2014 - October 2007 Percent change
Agriculture	25.1	0.3	1.2	0.1	0.4	-0.5	-2.0
Natural Resources and Mining	1.3	0.0	0.0	0.1	8.3	0.2	18.2
Construction	13.8	0.5	3.8	1.1	8.7	-5.0	-26.6
Durable Goods Manufacturing	17.9	-0.1	-0.6	-0.2	-1.1	-5.7	-24.2
Non-Durable Goods Manufacturing	11.8	-0.2	-1.7	-0.1	-0.8	-2.0	-14.5
Wholesale Trade	13.0	0.0	0.0	0.2	1.6	0.0	0.0
Retail Trade	38.6	0.2	0.5	0.5	1.3	1.2	3.2
Transportation, Warehousing, & Utilities	5.9	0.0	0.0	0.1	1.7	-0.3	-4.8
Information & Technology	5.3	0.0	0.0	0.2	3.9	-0.4	-7.0
Financial Activities	18.5	-0.1	-0.5	-0.3	-1.6	-4.2	-18.5
Professional and Business Services	38.4	0.3	0.8	1.9	5.2	1.2	3.2
Educational and Health Services	39.5	0.3	0.8	0.6	1.5	6.9	21.2
Leisure and Hospitality	35.4	0.1	0.3	1.6	4.7	3.4	10.6
Personal, Repair, & Maintenance Services	9.7	-0.1	-1.0	0.0	0.0	-0.7	-6.7
Government	42.4	1.6	3.9	-0.1	-0.2	-0.7	-1.6
Federal Government	6.9	0.0	0.0	-0.1	-1.4	-0.4	-5.5
State Government	2.8	0.2	7.7	0.1	3.7	0.1	3.7
Local Government	32.7	1.4	4.5	-0.1	-0.3	-0.4	-1.2
Total All Industries	316.6	2.8	0.9	5.7	1.8	-6.6	-2.0

Source: CA Employment Development Department

Gainers

Ventura County's large Education and Healthcare sector has been the county's strongest sector throughout the recession and the subsequent long-but-anemic recovery. This is typical of other geographies, and like most geographies, most of the strength has been in the Healthcare portion of the sector. Aging, wealth, and technology trends imply that healthcare will continue to be a source of new jobs. Healthcare regulation, particularly the ACA, attempts to moderate or reverse the impact of those trends. While it is impossible to say for sure, we believe that economic and demographic trends will dominate regulatory efforts, making healthcare a likely source of Ventura County job growth for years to come.

For some time now, Ventura County's large Leisure and hospitality sector has been one of the county's strongest, a steady source of jobs and economic growth. This is likely to continue, and we expect that the sector's very recent growth slowdown reflects typical seasonality and volatility.

In Ventura County, the Natural Resources and Mining sector means oil, but it is a very small sector in the county. The sector's strength reflects strong oil prices and demand. Recent price declines in oil and oil derivatives prices make forecasting the sector's future growth a perilous activity. In any event, the sector is very small and unlikely to ever be as significant to Ventura County's economy as it once was. As a practical matter, the sector's small size means that whatever happens, the impacts of the change will be relatively modest in respect to Ventura County jobs. The economic impact will be larger, as those jobs tend to be high-productivity jobs.

Ventura County's Retail sector is a large sector with modest job gains. Given the internet-driven changes in retail technology, the sector's growth is probably at or near its potential. Significant gains in the future are unlikely, which may be just as well given the sector's low pay and Ventura County's high cost of living.

Our final sector is Ventura County's small and unchanged-since-the-recession Wholesale Trade sector. Whatever happens in this sector, it's unlikely to be significant enough to significantly impact county-wide jobs data.

Losers

Ventura County still has three sectors losing jobs. The relatively large Manufacturing, both Durable and Non-Durable, sectors continue to lose jobs, a result of changing technology and the challenges that face any California tradable-goods producer. These challenges include high energy costs, high taxes, high wage demands resulting from high home costs, and an oftentimes oppressive regulatory regime

Ventura County's financial sector is a continuing casualty of the 2008 financial collapse. That sector's shrinkage and consolidation resulted in the Bank of America acquisition of CountryWide Mortgage, once a major Ventura County Financial sector employer. Since the acquisition, Bank of America has steadily shed jobs.

CountryWide is not the only source of lost Financial sector jobs. The banking industry continues to consolidate. One result of the consolidation is that Ventura has fewer banks and fewer bank jobs than it had pre-recession.

Ventura County's small Personal, Repair, and Maintenance sector has been losing jobs, which is a bit counter intuitive. Given the county's high income and wealth, we would expect to see this non-tradable sector expanding.

Improving

These are Ventura County sectors that are still down jobs from pre-recession levels but have shown job growth over the most recent month and year. It includes the very large Agricultural sector.

Ventura County's agricultural sector, while up over the past year, faces very severe challenges. Labor supply has been a problem for several years now. These shortages become acute during the important planting and harvest times. One result is an increased interest among growers in automation. While we are not aware of an automated strawberry harvester in Ventura County, prototypes have been developed and tested outside the county. Ventura County strawberry growers are watching this carefully.

Water is a more immediate and existential threat to Ventura County's growers. The County's water basins have not been adjudicated. That is, the water rights are not formally assigned. Instead, growers can pump unlimited amount from underlying aquifers.

Lacking adjudication, Ventura County growers have become accustomed to below-market prices (essentially pumping costs for many) while overdrafting the aquifers.

It is not at all clear how Ventura County's growers will react to increased water prices. They could revert to lower water using crops, such as Lima Beans which once dominated the county's agricultural output. These crops tend to be less labor intensive, and decreased agricultural employment is a possibility.

Ventura County's growers could react by converting to crops that are more capital intensive. One result would be an increase in the skills required of agricultural workers, and we see some of this now. The jobs would also be less seasonal. The impact on total jobs, though is unknown.

Construction employment has been improving, modestly. We expect to see continued slow growth in this significant and well-paying sector.

Ventura County's small Transportation, Warehousing, and Utilities sector and its similarly small Information and Technology sector have grown quite slowly. Regardless, these sectors are so small as to have insignificant impact on the County's total jobs.

Mixed and Unchanged

Government is Ventura County's largest employer. The data on government employment are often in error and subject to volatility that strains credulity given other things we know. We do know that because of government revenue challenges, county employment in government shrank throughout the recession and recovery. It may still be shrinking. It is down for the year ended September 2014.

Without a more vigorous recovery than we forecast, or a war, government is not likely to be a significant source of new Ventura County jobs within the forecast horizon.

Salaries

Ventura County salaries have increased, on average, almost 22 percent over the past twelve years. Of course, there is a lot of variance in the growth rates of different occupations' salaries. Management salaries and Mining salaries have approximately doubled, while Durable Manufacturing salaries increased only about 20 percent.

It is difficult finding patterns in Ventura County salary data. Information and Durable Manufacturing salaries have been growing only slowly, as we would expect with industries with weak job growth. Then there is Construction, the weakest sector in terms of jobs, with a salary increase of just over 56 percent. Accommodations and Food Service salaries are up only 31 percent, while Leisure and Hospitality has been one Ventura County's strongest sectors.

Ventura County: Industry Data					
2001 quarter 4 to 2013 quarter 4					
	Employment (Jobs)	Average Salary Data (dollars)			
	2013 Q4	2001 Q4	2013 Q4	Change	% Change
AGRICULTURE, FORESTRY, FISHING & HUNTING	28,165	21.3	27.1	5.7	26.9
MINING	1,179	52.7	104.8	52.1	98.8
UTILITIES	1,156	52.3	87.9	35.6	68.1
CONSTRUCTION	12,199	37.7	58.9	21.1	56.1
MANUFACTURING-DURABLE	17,667	59.3	71.1	11.8	19.9
MANUFACTURING-NONDURABLE	11,954	90.1	112.9	22.9	25.4
WHOLESALE TRADE	12,631	46.6	74.8	28.2	60.6
RETAIL TRADE	38,291	26.0	32.5	6.5	24.9
TRANSPORTATION & WAREHOUSING	4,546	33.6	47.4	13.8	41.1
INFORMATION	4,934	57.0	65.9	9.0	15.7
FINANCE & INSURANCE	14,723	53.2	70.0	16.8	31.6
REAL ESTATE & RENTAL & LEASING	4,297	34.5	63.6	29.1	84.5
PROFESSIONAL, SCIENTIFIC, & TECHNICAL SERVICES	15,980	58.3	81.8	23.5	40.3
MANAGEMENT OF COMPANIES AND ENTERPRISES	2,037	40.9	82.5	41.5	101.4
ADMIN & SUPPORT & WASTE MGMT & REMEDIATION	17,855	25.9	41.6	15.6	60.4
EDUCATIONAL SERVICES	5,046	26.0	33.9	7.9	30.3
HEALTH CARE & SOCIAL ASSISTANCE	32,198	41.0	53.1	12.1	29.6
ARTS, ENTERTAINMENT, & RECREATION	5,021	24.4	32.0	7.6	31.1
ACCOMMODATION & FOOD SERVICES	28,257	14.1	18.5	4.4	31.2
PERSONAL, REPAIR, AND MAINTENANCE SERVICES	8,943	21.9	27.1	5.3	24.2
NON-CLASSIFIED	1,044	54.3	69.8	15.5	28.5
FEDERAL GOVT	7,086	56.8	76.2	19.4	34.1
STATE GOVT	1,804	39.6	57.4	17.9	45.2
LOCAL GOVT	33,861	43.0	56.3	13.4	31.1
TOTAL, ALL INDUSTRIES	310,874	40.4	51.5	11.1	21.6
MEDIAN		41.0	61.2		

Source: California Employment Development Department (QCEW data program)

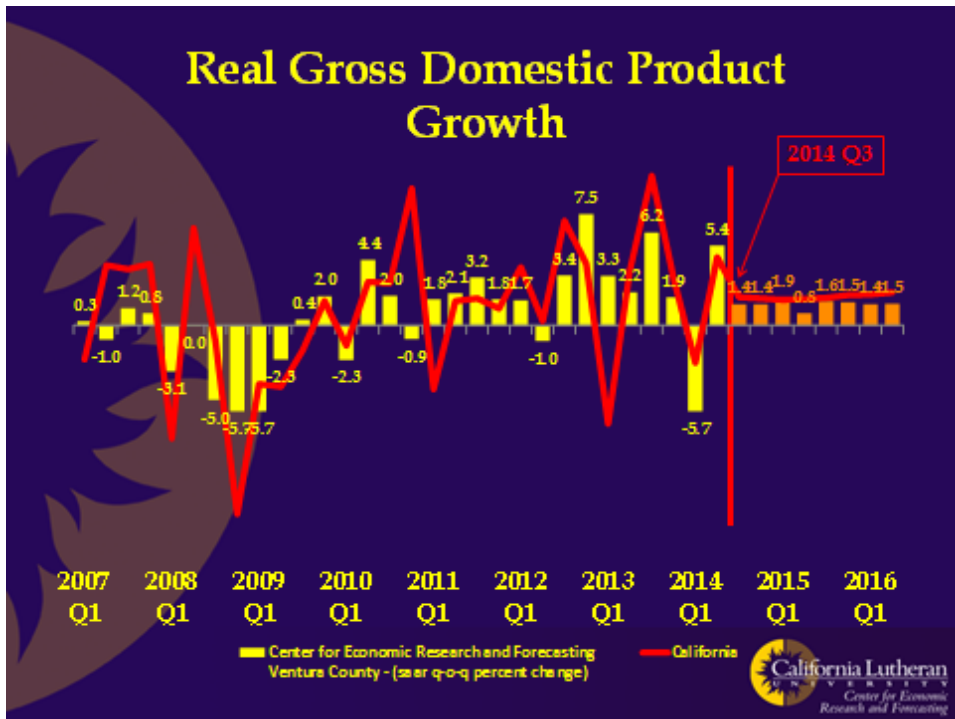
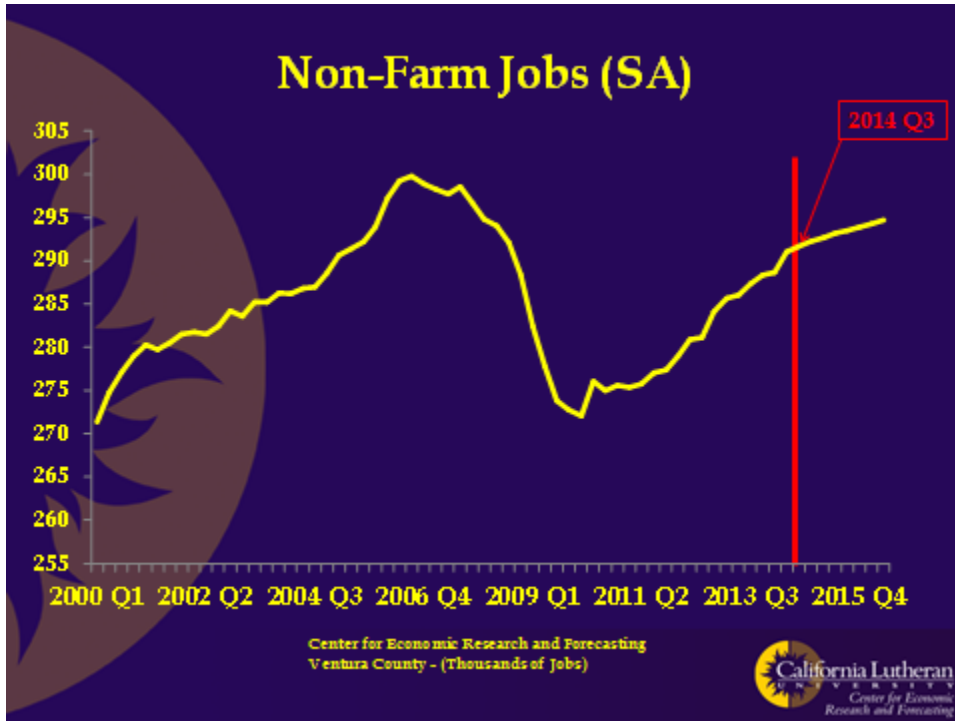
Forecasts

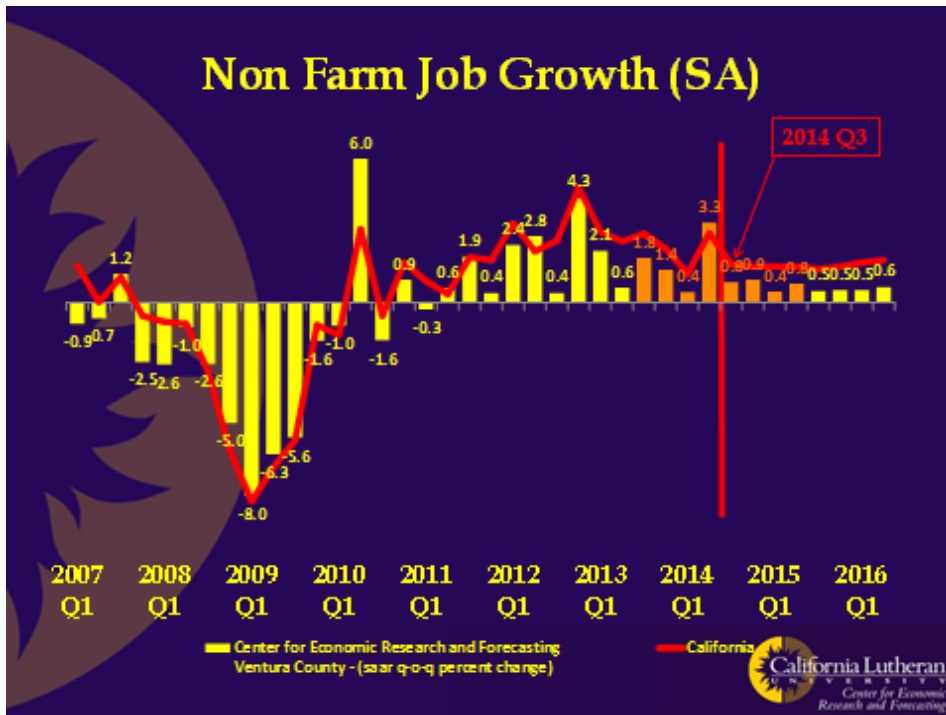
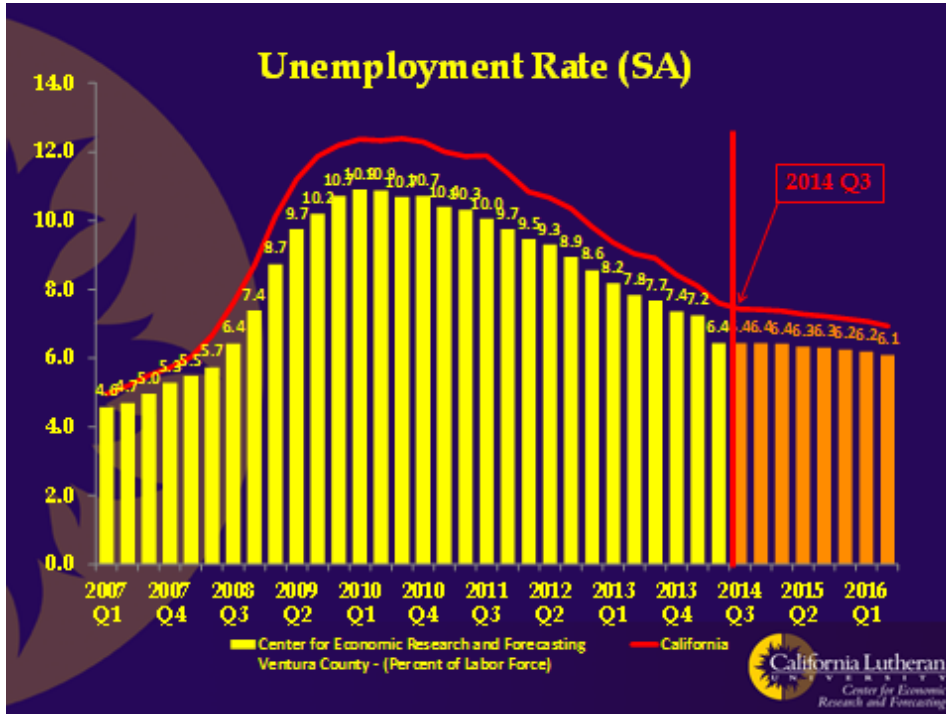
We've prepared three forecast scenarios, a most-likely, an optimistic, and a pessimistic. These scenarios are symmetric, but we don't believe the probabilities of the scenarios are symmetric. We believe the distribution of possible scenarios is skewed to the pessimistic side. We see the optimistic scenario as a very low probability event, while the probability of the pessimistic scenario is depressingly high.

Our most likely forecast anticipates Ventura County recovering to pre-recession job levels in 2018's third quarter. This is one quarter later than we forecast last year. This is a result of a lower forecasted job growth rate, itself a result of our assessment that the County's economic fundamentals appear weaker this year. This assessment reflects analysis addressed in this report.

Our revised baseline impacts the other scenarios. The forecasted full recovery date for the optimistic scenario is also moved back one quarter, to 2017's third quarter. The pessimistic scenario moves the full-recovery date back more than a year, to 2020 quarter four.

Short-Term Forecast





Scenarios of Long-Run Jobs Forecast

