QUARTERLY
Review & Snapshot

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PRODUCED BY

Center for Economic Research & Forecasting at California Lutheran University

Economic Development Collaborative-Ventura County

Small Business Development Center for Ventura and Santa Barbara Counties

California Lutheran UNIVERSITY

EDC Economic Development COLLABORATIVE VENTURA COUNTY

CALIFORNIA SBDC
Los Angeles Regional Network

The United States

Bill Watkins, November 28, 2011

Forecasting is always difficult. It is even more difficult when the data keep changing. This year, we've been plagued by very large adjustments to GDP data. Most have been downward adjustments, but a few have been upward adjustments.

Productivity has been the source of most of the changes. Jobs data get revised too, but we haven't seen revisions near the size as we've seen for GDP, and GDP growth is the sum of employment growth and productivity growth.

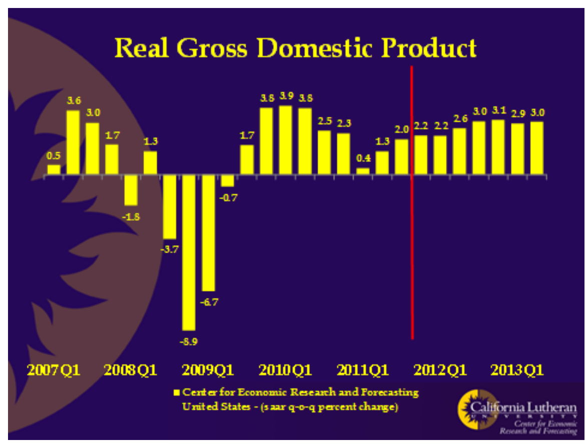
Just last week, the initial estimate for 2011's third-quarter GDP growth was revised downward from a 2.5 percent annual growth rate to only a 2.0 percent annual growth rate.

Still, even a 2.0 percent growth rate represents a nice pickup from the extraordinarily weak first two quarters. Unfortunately, much of that improvement came in the form of productivity growth rather than job growth.

It confirms our judgment last summer, when we expected the Country to avoid the second dip so many forecasters expected after the August data revisions to the first two quarters' GDP data.

That doesn't mean we're out of the woods yet. The probability of one of both of two very serious events that we've been warning about for months seems to be increasing daily.

A significant interruption in oil supply from the Middle East would have catastrophic impacts on Western economies. The probability of such an interruption is becoming alarmingly high, in our estimation. Today alone, there are headlines that a natural gas line in Egypt was sabotaged, the Kuwaiti government has collapsed, and Syrian atrocities are continuing, perhaps increasing. The likelihood of an oil-supply interruption is high, and the economic impacts of an interruption are very serious. Economic recession will affect all developed economies.

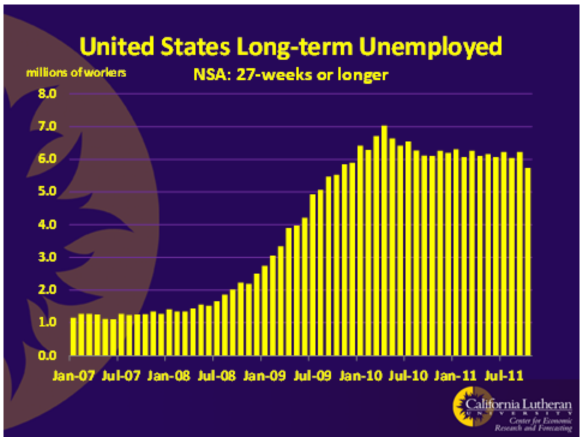


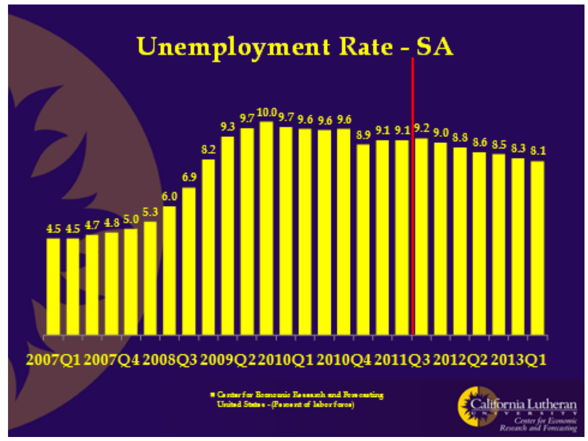
The other risk is a financial crisis associated with the breakup of the Eurozone. While the markets are giddy today with the prospect of yet more Eurozone bailouts, the bailouts are only bandages.

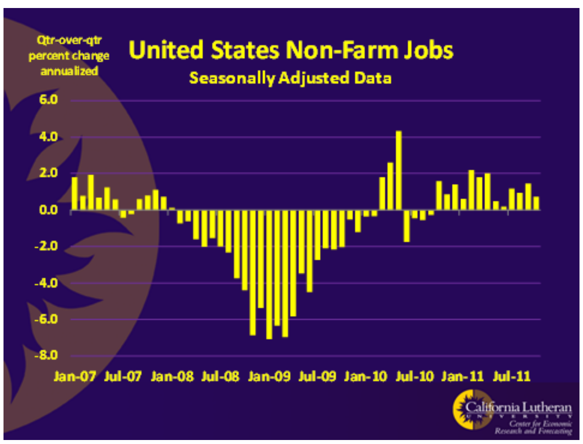
Fundamentally, the Eurozone is a contradiction that cannot be sustained. Some countries will have to leave it. When they do, there will be losses. Financial institutions and governments will face stresses not seen since September 2008. The resulting recession will be serious and widespread.

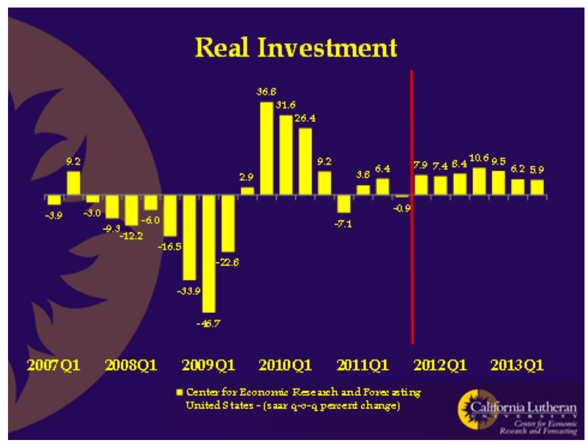
The United States – continued

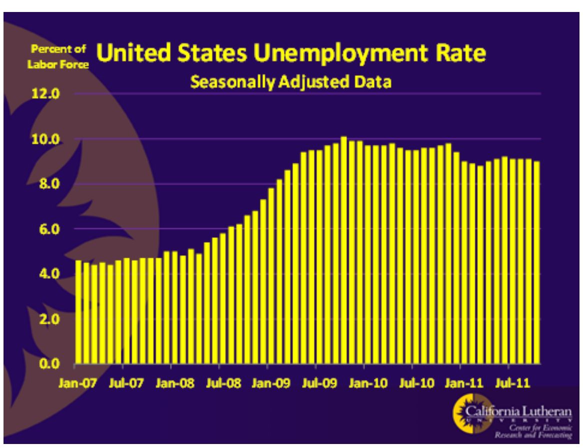
History | Forecast

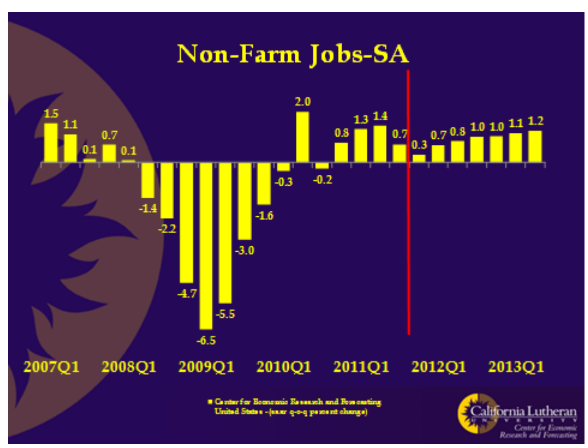












California

Bill Watkins, November 28, 2011

California has now had three consecutive months of job gains, and the State's unemployment rate has been declining, albeit slowly. That's an improvement, but it's not time to break out the bubbly.

For one thing, those job gains have been pretty darn small, and they haven't been enough to drive down the unemployment rate. Outmigration and a shrinking labor force are the reasons that California's unemployment rate is declining.

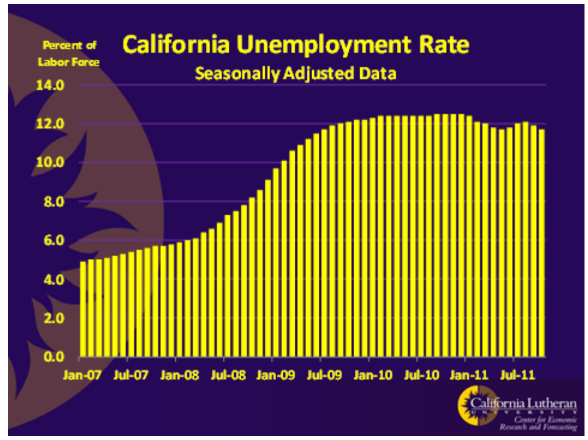
We've also seen this picture before. Almost a year ago, we commenced five months of increasing jobs, and stronger growth than we are currently seeing. Then, the growth stopped. We saw three out of five months with declining jobs.

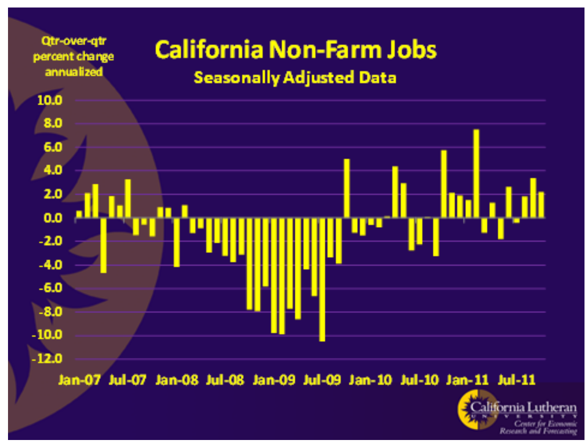
This is what data looks like when an economy is bouncing along the bottom. Long sustained periods of positive data, or negative data for that matter, just don't happen. We get some good data, sometimes very good. Then some bad data comes along. The key is not to let the good data get you too excited, nor do you want to let the bad data depress you too much.

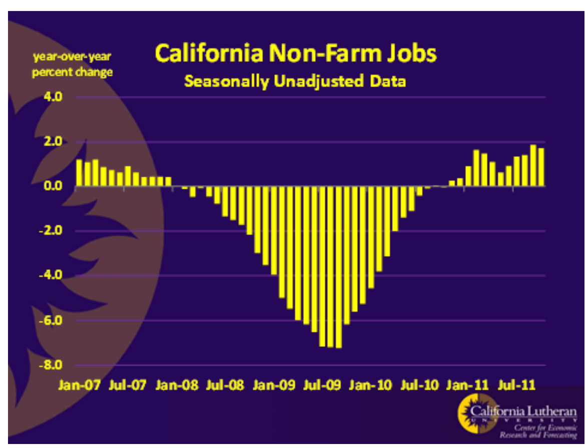
Absent a new recession, caused by, say, the collapse of the Eurozone or an oil supply interruption, California is in for a long slow recovery.

This reality is reflected in demographic data. Just today, the Los Angeles Times had an article with the headline "Proportion of California's transplant population reaches 100-year low."

People go where the opportunity is, and unfortunately, it isn't in California these days.







Ventura County

Bill Watkins, November 28, 2011

Ventura County is an expensive place to be unemployed. That is one reason the County's unemployment rate is low and falling. It is certainly not because of any real economic vitality.

What happens is that if a primary wage earner becomes unemployed, they either find a new job quickly, or they move. From the data, it appears that many are forced to move.

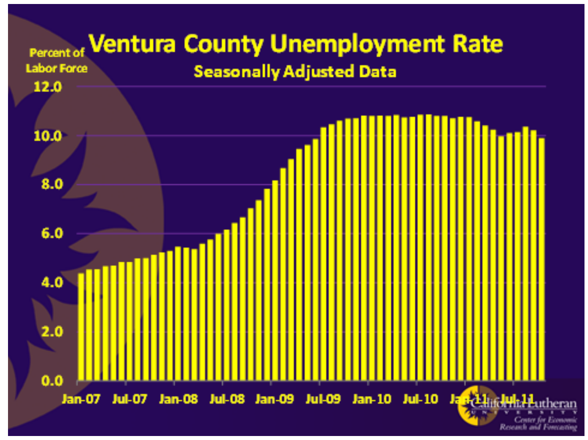
Cost of living is not the only reason for Ventura County's low-for-California unemployment rate. The County has some large economic anchors. The military facilities and agriculture are the most significant, but others include, governments, Amgen, colleges, and hospitals.

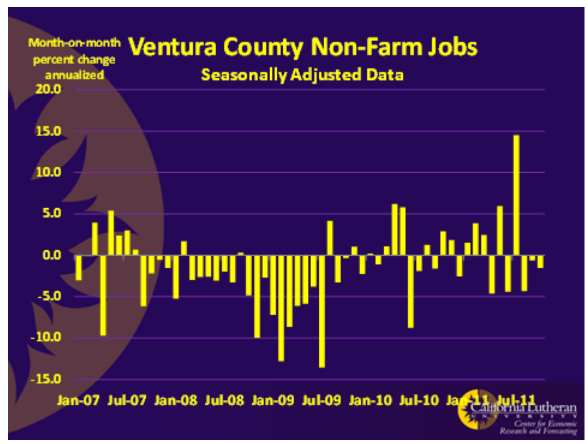
Then, there is Los Angeles County and Santa Barbara County. Tens of thousands of Ventura County workers commute to Los Angeles County daily. Most of the commuters are going to relatively well paying jobs that require college degrees, just the type of job least impacted by the recession.

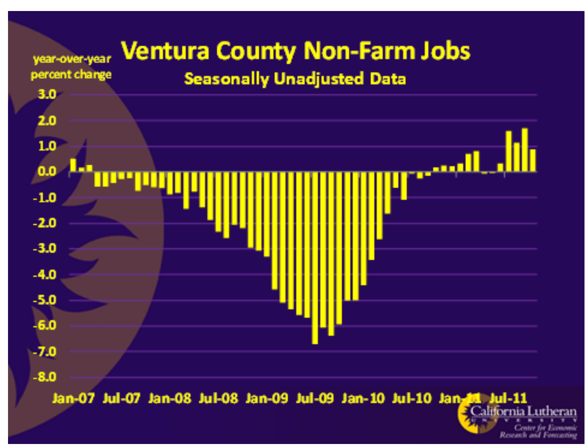
Similarly, somewhere between 15,000 and 20,000 Ventura County residents commute to Santa Barbara County. These jobs are also relatively well paying and secure.

The problem with all this is that we don't see an obvious engine for new Ventura economic growth. Healthcare will add jobs, but not enough to drive a vigorous economy. Government and the military will likely be soft. Agriculture is facing all sorts of challenges.

So, we can see why Ventura looks better than much of California, but seeing an engine for renewed growth is a lot more difficult.







California

Bruce Stenslie, November 28, 2011

Maybe it's the holiday season or maybe it's just our nature, but as bad press continues on the California economy, at EDC-VC we continue to look for—and find—positive signs. Two points recently caught our attention about the California economy.

First, there's progress against Sacramento gridlock with some well-placed reform on California's regulatory structure. Earlier this fall, California's Little Hoover Commission, an independent state oversight agency, released a new report, "Better Regulation: Improving California's Regulatory Process" (see www.lhc.ca.gov/studies/209/report209.html).

The report is not entirely groundbreaking—in fact, several of the report's recommendations already became law at the end of the last legislative session, in SB 617—but it's practical and right to the point. It chastises state government for failing to use contemporary analytical techniques used routinely by competitor states. The report's reasonable and actionable recommendations make the case for independent analysis and consideration prior to any legislation or rule-making on what will be the costs and benefits to business.

Given progress on this front in the last legislative session, we're optimistic that we'll see more in the next year on how California government impacts economic opportunity. At the least, there is finally some informed attention to economic development in Sacramento.

For the second point, it's important to note how weary we've become from all the negative press about California. Surely there's plenty of reason to call for reform, but when we fail to champion the positive, we play to the advantage of our competitors.

As one counterpoint to the negative, at EDC-VC we participate in Team California, a private, non-profit membership-based organization that helps economic development corporations from across the state to market their communities for business investment and job creation (http://teamca.org).

Team California recently released some important facts worth careful consideration:

- More Jobs: Between September 2010 and September 2011, California created 250,700 new jobs, more than any other state in the nation and significantly outpacing the national average.
- Quality Jobs: California has more high tech jobs than any other state, with almost one million people employed in high tech jobs. The next closest states are Texas with 492,000 (less than half) and New York with 312,000.
- More Capital: California is the No. 1 state for venture capital. California receives four times more venture capital than the national average.
- More Globally Connected: California is the No. 1 state for attracting foreign direct investment.
- More Cleantech: California has the highest number of cleantech jobs in the U.S., with over 318,000 Californian's

employed in high paying cleantech jobs, a workforce second only to high-tech.

- More Sustainability: California is the No. 1 state in for agriculture revenues, with $34.8 billion in revenue representing 12.3 percent of the U.S. total.

- More Small Business Innovation: California's 3.5 million small businesses represent the largest network of small employers of any state.

There's no shortage of press on how California is last among the states in economic competitiveness. From a certain point of view there may be some truth to that. A truth remains, however, that recent reports from national business and site selection leaders place California back in the top 10 states for doing business.

We're California. We should be better off than our current circumstance. While moving ahead on improvement, let's convey the good news, not just the bad, as an important step in our return to the top.

Center for Economic Research and Forecasting

The Center for Economic Research and Forecasting at California Lutheran University provides regularly updated forecasts of the United States, California, Oregon, Central Oregon and Ventura County economies. The state forecasts include regional breakdowns of key measures. The center also performs custom applied economic research and forecasts for clients on a contract basis.

CERF executive director Dr. Bill Watkins and his team – Dan Hamilton, Ph.D., and Kirk Lesh, Ph.D. candidate, – are known for accuracy and innovative economic models. They use multiple data sources, track major indicators plus the details to forecast what lies ahead so business leaders can plan, budget and conduct business in a fiscally prudent manner. The CERF team has provided local, state and national forecasts for more than 10 years and is quoted regularly by news organizations including the Wall Street Journal, NBC, Fox Business, Forbes and Bloomberg News.

Economic Development Collaborative-Ventura County

Small Business Development Center

Established in 1996, the Economic Development Collaborative-Ventura County is a private, nonprofit organization whose mission is to maintain a healthy Ventura County economy through collaboration, education and training to create quality jobs, help companies grow and enhance the standard of living and quality of life throughout the region. EDC-VC provides business assistance through loan programs, the Manufacturing Outreach Program, Global Entrepreneur Training in Trade (G.E.T. Trade) program and hosts the Small Business Development Center for Ventura and Santa Barbara Counties. SBDC connects businesses to consulting services, offers free and low-cost business services to sustain and create jobs, and expands the number of opportunities for all workers.

The Lead Center for the Los Angeles Regional SBDC Network is operated by Long Beach Community College District. The Small Business Development Centers are funded by the U.S. Small Business Administration, center host institutions, state and local funds, and corporate partners. Funding is not an endorsement of any product, opinion, or service. All Federal and State funded programs are extended to the public on a nondiscriminatory basis. Special arrangements for individuals with disability will be made if requested in advance.

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