

Matthew Fienup and Dan Hamilton

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We are pleased to release our 2018 Ventura County *Economic Forecast*. We present this forecast to the community shortly after our recently produced quarterly California and United States economic forecasts that were released on October 3rd.

Ventura County

The dominant economic story in Ventura County is a continued decline in total economic activity. We hesitate to use the word recession, but we don't know what else to call two consecutive years of economic contraction. According to the U.S. Commerce Department, Ventura County's economy contracted by 0.9 percent in 2016 and an additional 0.4 percent in 2017. Average economic growth over the past four years rounds to 0.0 percent, the worst four-year period for which we have data. While job growth remains positive in Ventura County, sectoral data give little support for optimism. Whether you look to jobs or GDP, the state of the Ventura County economy is weak.

We trust large employers when they communicate what is driving Ventura County's economic malaise. At a Business Outlook Conference in Thousand Oaks during the first week of October, leaders from the County's three largest manufacturing firms all agreed that a growing housing affordability crisis and the inability of businesses to attract and retain talent are the single biggest constraints on economic activity in Ventura County.

The dominant factor influencing affordability is housing supply. We simply don't build enough. Without substantial, almost unimaginable, improvements in housing affordability, Ventura County's future is one of an increasingly bimodal economy, an economy of *haves* and *have nots*, of wealthy residents of the County and a large commuter population that enters the County each day to work in low wage jobs.

Ventura County's population growth rate was 0.29 percent in 2017, a number higher than the previous year but still almost indistinguishable from zero. Only two times over the history for which we have data has the County's population growth been slower. Ventura County currently exhibits negative net domestic migration. Young adults who are starting careers and families are often selecting to move out of Ventura County. They often move out of California.

Ventura County will forego the high economic productivity of individuals undergoing household formation and career development.

The current forecast anticipates that the County's economy will neither grow nor contract in 2018, with forecasted growth of 0.0 percent. This would extend the current four-year long period of zero growth to an astonishing fifth year. Our forecast for growth in 2019 and 2020 is positive but very low, averaging just 0.38 percent over those two years. Congruent with this, we believe that slow population growth has come to stay in Ventura County. We continue to forecast negative net domestic migration, which most analysts would not argue with. However, we forecast that it will worsen. This might seem to be a puzzle given that home price growth is forecasted to slow. The main explanation here is job growth. With a weak economy and growth inhibiting economic development policies, Ventura County job growth will be slow.

A Brief Note on California and the United States

While both California and the nation are performing under potential, the outlook for the United States is improving while state's outlook is deteriorating. The national outlook has been boosted by corporate tax reform and by improved business and consumer sentiment. But there is substantial risk on account of trade policy. The U.S. is currently engaged in a trade war. The potential negative impacts are large enough that they could completely offset the considerable economic gains flowing from tax reform.

While economic growth for the nation has been accelerating, growth across the Golden State has been slowing, driven by high costs and growth slowing economic policies. We expect growth in California to be the same or even a little lower than that of the nation for each of the next eight quarters. If this forecast holds, the economic growth premium which California has historically enjoyed over the nation will have vanished.