



THE VENTURA AND SANTA BARBARA COUNTY OUTLOOK FOR 2012

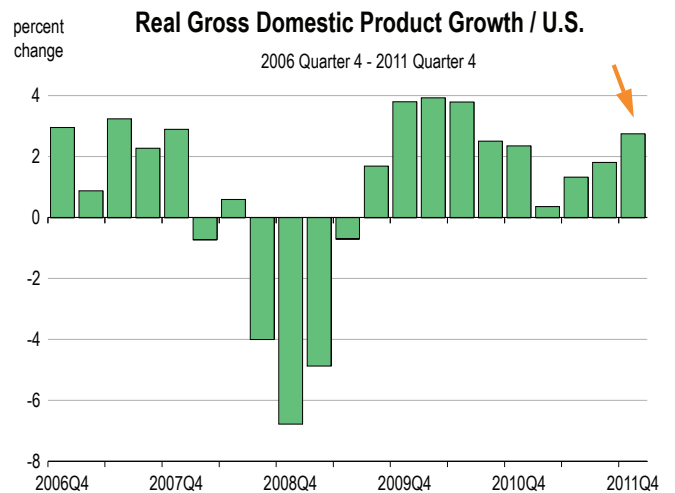
by Mark Schniepp

The economic recovery continues to gain momentum, especially since November. Consumer confidence has improved, private employment growth has accelerated, the stock market is at its highest point in 3 years, and industrial activity continues to expand. Real GDP grew 2.8 percent in the 4th quarter of 2011. A number of forecasts have it rising between 3.0 and 4.0 percent in 2012.

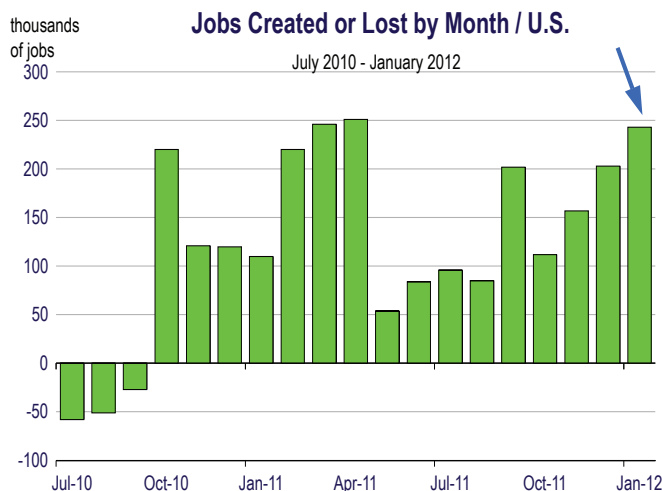
Labor Market Moving into Broader Expansion

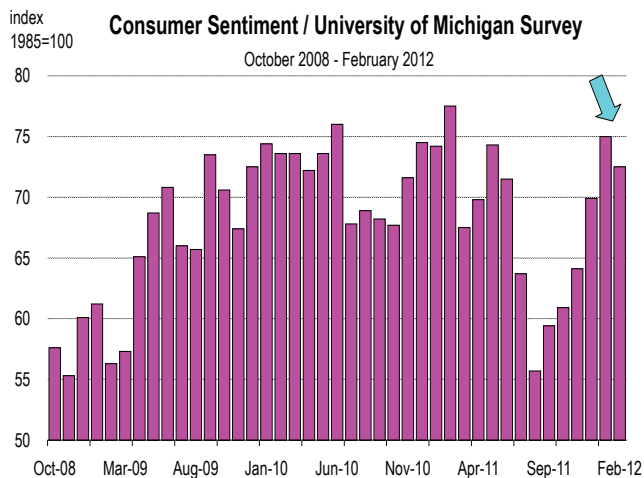
Unemployment is falling because employment is expanding while the labor force is not, reflecting slower growth in the working-age population as foreign immigration has slowed and there is a clear decline in labor force participation.

Though hiring had been the recovery's missing link through 2010 and much of 2011, more than 600,000 jobs have been created since November, a pace that will add 2.4 million new jobs in the nation this year. Companies are now striving to maintain profitability by expanding sales. To do this they must hire. This will continue to push the unemployment rate lower, raise the level of income per capita, and boost consumer spending.



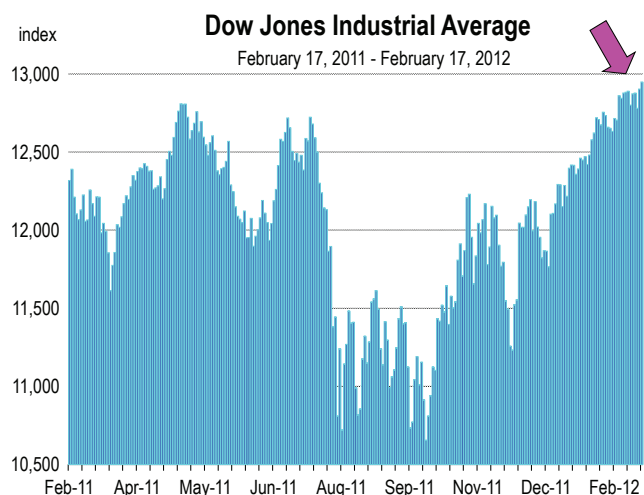
Furthermore, new jobless claims for unemployment insurance are falling sharply, and are now significantly below 400,000 per month – a level considered by economists as a critical threshold. Jobless claims can be viewed as a measure of “job destruction,” and a consistently low number is needed for new hiring to grow the job base.





Consumer sentiment, while down slightly from January, is still well above the levels of mid-2011. It began 2011 by rising to a multi-year high, but fears about a number of economic problems that arose during the first half of the year caused sentiment to tumble during the spring and summer. The better than expected retail spending reports in November and December validate the more optimistic psychology of consumers.

The Dow is now flirting with 13,000, a new cycle high. Unlike previous economic expansions, the current upturn is being lead by large, blue chip firms. For the past few years, much of the profits at these organizations had been the result of productivity gains. However, with such improvements slowing, these companies – as well as many others across the nation – have begun to hire again. A sustained upward movement in their stock prices is an indication that this trend is expected to continue.



Déjà vu all over again

Present conditions and the outlook for the U.S. economy appeared to be improving at this same time last year, only to be derailed by an unexpected surge in commodity prices, bad weather, and fallout from the Japanese earthquake. Growing concerns over the debt crisis in Europe and the ensuing implications for our export sector further interrupted the recovery's momentum. It would not take much to repeat last year's pattern this year, because business and consumer sentiment remains brittle since the Great Recession and the struggle over our own federal debt in Washington.

With 2012 an election year, the political and policy uncertainty will only intensify. There are issues producing drags on the economy now. The fiscal stimulus has been reduced, and the recession in Europe is impacting foreign trade and business confidence. In addition, tensions in the Middle East seem to be escalating, which could impact the price of oil, and in turn, economic activity in the U.S.

Nevertheless, the U.S. economy appears to be firing on 5 of 6 cylinders, the laggard being housing. And if housing activity picks up faster than anticipated, growth in consumer, industrial, and construction activity would accelerate this year. The most likely risks in the 2012 outlook are to the upside.

California Economic Forecast Staff

Mark Schniepp
Director
Ben Wright
Economist
Tyler Paras
Intern

Peter Holoien
B.A. candidate, UCSB
Andrew Nip
B.A. candidate, UCSB

For more information call (805) 692 - 2498
or visit www.californiaforecast.com