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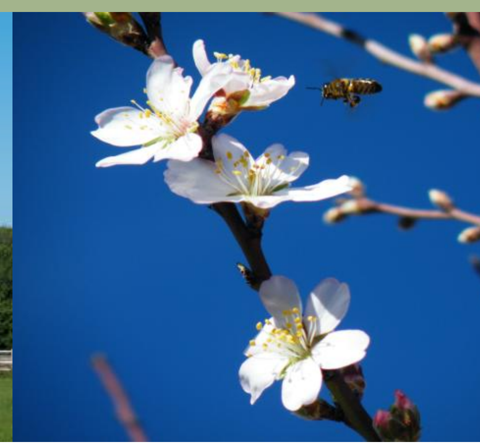
South San Joaquin Valley

An Update on the Region's Progress in 2014





Prepared by

BEACON ECONOMICS

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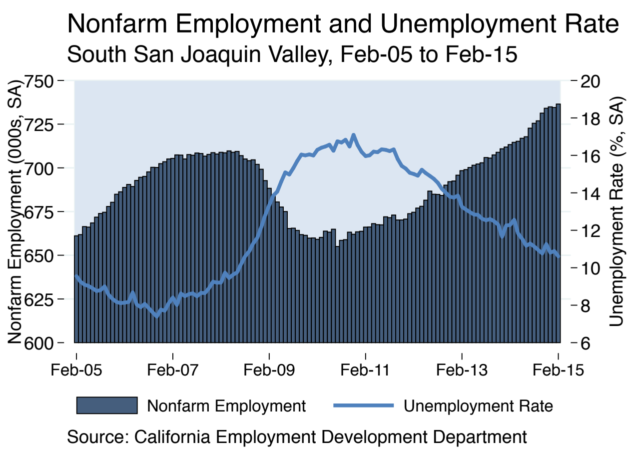
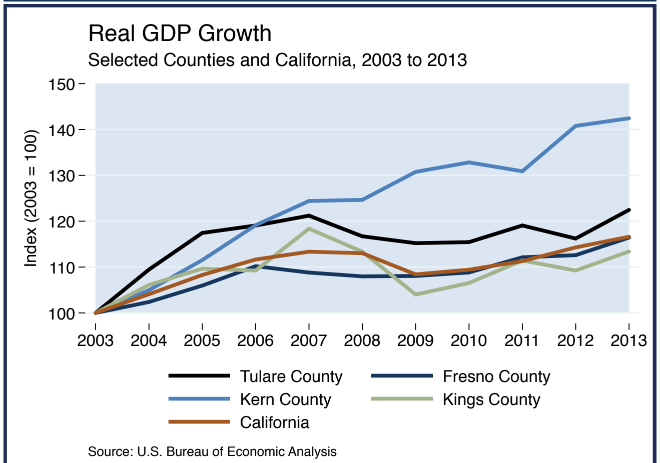
Executive Summary

The South San Joaquin Valley (defined in this report as Fresno, Kern, Kings, and Tulare Counties) is home to urban centers including Bakersfield, Fresno, and Visalia but is also the heart of California's vast agricultural sector. The region boasts a broad-based, growing economy that has posted record highs in output, employment, and consumer spending in the most recent quarters.

The region still faces a number of challenges, such as maintaining agricultural productivity in the face of several very dry years and sustaining economic growth in the face of falling energy prices. Nonetheless, 2014 was another great year for the South San Joaquin Valley, and the growth in employment, consumer spending, home prices, and other indicators suggest that 2015 will be similar.





Key Findings

- Total nonfarm payroll employment has exceeded its pre-recession peak by 3.8%. We forecast that employment will grow by roughly 3% in 2015 and 2016.
- Newly revised benchmark estimates of employment in the South San Joaquin Valley paint a completely different picture of the region's job grow in 2014-- the South San Joaquin Valley has not been trailing the nation in job growth, but has been leading it.
- Agricultural production data suggest that the dry spell throughout California has not impacted the farming industry in the South San Joaquin Valley to a significant degree.
- Consumer spending in the South San Joaquin Valley grew throughout 2014, though at a slower pace than in 2013. Consumer spending has nonetheless reached a record-high level in the region.
- The unemployment rate in the South San Joaquin Valley is relatively high at 10.6%, but it fell a full percentage point over the past year and should continue to fall in 2015.
- Wages in the region are rising, especially in high-skilled sectors like Professional, Scientific, and Technical Services.
- Home prices in the South San Joaquin Valley increased by over 9% from the third quarter of 2013 to the third quarter of 2014, but builders remain hesitant to build the kind of stock needed to stabilize home price appreciation in the region.
- The population of the South San Joaquin Valley grew by 14% over the last decade, compared to roughly 9% throughout California.
- Personal income in the region grew by 3.4% over the past year, compared to 2.8% in the state overall.

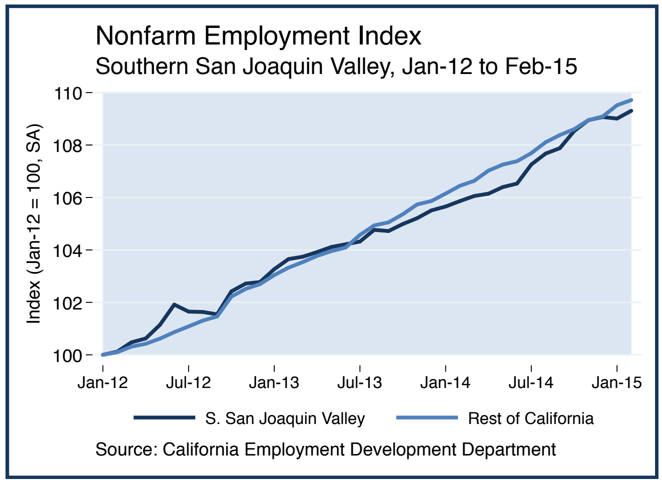
Introduction

In June 2014, the Pat Brown Institute and Beacon Economics published *The South San Joaquin Valley: The State of the Region Report* (hereinafter "Report"), which found that based on fundamental indicators of the economy of the South San Joaquin Valley region (Fresno, Kern, Kings, and Tulare Counties), such as employment, consumer spending, and real estate, the region was primed for growth in the future. Job growth in higher-skilled, higher-wage sectors and lower-skilled, lower-wage sectors alike was strong. Gross metropolitan product growth was bolstered by a surging energy sector, with both alternative and conventional energy projects (oil/gas extraction) bringing new economic activity to the region. Homebuilding, which had tapered off during the recession, was on the rise. Consumer and business spending had reached a new high. At the time the Report was released, some 2014 data was not yet available. This update serves to bring the Report up to date and to show whether the outlook for the region has changed in that time.

Since the release of the Report, the South San Joaquin Valley has continued its ongoing recovery, albeit at a more modest pace than in recent years. While the region continues to post record highs for output, employment and taxable sales, the area does face a number of challenges, which are discussed in more detail here and in the previous edition of this report.

Despite a variety of challenges, the last few decades tell a story of economic success for the South San Joaquin Valley. As detailed in the comprehensive report that preceded this update, the region has been home to some of California's fastest growing metropolitan areas over the last few decades, with average annual growth outpacing the likes of San Jose and San Francisco from 1990 to the present. Moreover, our optimism for the region going forward continues. While the South San Joaquin Valley is home to a significant portion of California's agriculture industry, it is far from a "one-trick pony." The South San Joaquin Valley is in the midst of an alternative energy boom, which is helping the region continue to diversify its economy.

Although the overall outlook for the South San Joaquin Valley is positive, the region does face a number of headwinds. For example, the recent state water crisis has been a matter of concern for the agriculture industry. While not as severe as the headlines would suggest, the South San Joaquin Valley did experience a minor pullback in agricultural activity in 2014. Farm employment declined by 1.5% from February 2014 to February 2015 and agriculture exports for the state of California have fallen from one year ago. So far, however, the data suggests that the agriculture industry has yet to see the major drought-driven contraction that had been expected.

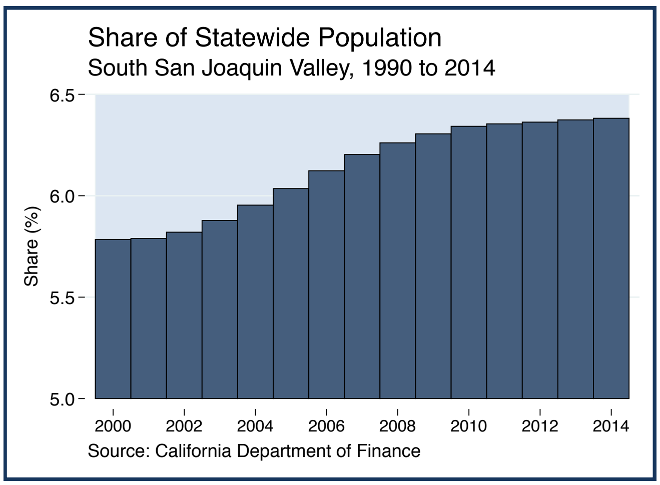


Despite these challenges, the overall direction of the South San Joaquin Valley's economy remains positive. Consider employment: while farm jobs were down over the year, nonfarm employment in the South San Joaquin Valley expanded by 3.3% from February 2014 to February 2015, which puts it just ahead of the state overall (3.1%). Additionally, as mentioned in the Report, the South San Joaquin Valley has seen an expansion in both higher-skilled, higher-wage sectors and in lower-skilled, lower-wage sectors.

Additionally, newly revised benchmark estimates of employment in the South San Joaquin Valley paint a completely different picture of the region's job grow in 2014.

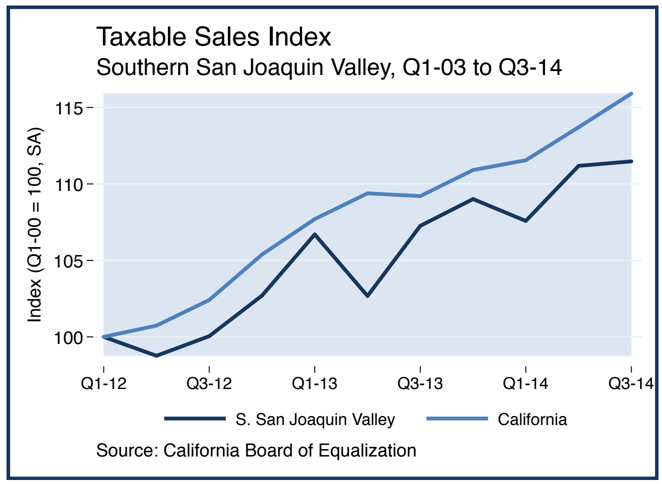
With the new revisions, growth in the South San Joaquin Valley (from December 2013 to December 2014) improved from an estimated 1.9% to 3.4%, putting the South San Joaquin Valley well ahead of the 2.3% growth in the nation over the same period.

The South San Joaquin Valley has also seen continued gains in economic growth. From 2012 to 2013, Gross Metropolitan Product (GMP) in the region expanded by 2.8%, outpacing the 2.0% expansion in the state overall over the same period. Similarly, the South San Joaquin Valley has continued to post gains in taxable sales (business and consumer spending). From the second quarter of 2013 through the second quarter of 2013, taxable sales in the region increased 2.3%. In addition, the recent drop in oil prices will provide a welcome boost in 2015 for many households whose members in the region are now saving on fuel bills.



Growth in the region's population base is continuing to outpace the state. As mentioned in the Report, since 1990, the South San Joaquin Valley has seen its number of residents expand at a more robust pace than the population in the state overall. However, influencing our optimism for the region's future is not simply that it is growing in absolute terms, but that it is continuing to outperform the majority of other parts of the state. This is making the region an increasingly important part of the statewide economy as its share of California's population grows. Moreover, with an expanding labor market and affordable local home prices, migrants from other parts of the state and country will continue to be drawn to the region in the coming years.

Construction activity in the South San Joaquin Valley is continuing to show strength. Solar projects dominate the commercial market in the region, with the annualized value of permits for solar projects increasing by 34.8% from November 2013 to November 2014. Additionally, the continued expansion of the region's population base is catching the eye of residential builders. Indeed, residential permitting, while not expanding significantly, remained solid in 2014. During the first eleven months of 2014, there were 5,326 residential units permitted in the South San Joaquin Valley, a minimal 0.3% increase from the same period one year ago but a 39.0% gain from the same period two years ago.



The region's energy boom continues to be diverse and a driving force behind job activity. GDP data suggests, however, that the energy industry appeared to take a step back in 2013, and with the recent dip in oil prices will likely do so again in 2014. It remains to be seen exactly how the region's oil and gas extraction business will be affected by the recent dip in oil prices, . It is becoming increasingly likely, however, that the drop in prices could have a significant impact on property taxes, particularly in Kern County (discussed in more detail in subsequent sections). Nevertheless, unlike other areas across the country, the South San Joaquin's energy sector is not restricted to oil and gas extraction, which accounts for less than 1% of the region's workforce. As shown in the Report, the area is continuing to see a rise in alternative energy sources, including several large-scale wind and solar projects.

Forecast

Continued optimism about the future of the South San Joaquin Valley is largely borne out by the progress the region has made recovering from the recession over the past four years. Total nonfarm payroll levels have exceeded their pre-recession peak by 3.8% in the South San Joaquin Valley. In comparison, total nonfarm payrolls in the rest of the state are only 3.2% above their pre-recession peak. The expansion in nonfarm payrolls during the recovery has been broad based.

Overall, many of the wounds inflicted by the "Great Recession" have already healed with employment and consumer spending surpassing pre-recession peaks Given that the South San Joaquin Valley continues to see steady growth, the current forecast calls for an ongoing recovery in 2015 and beyond. Specifically, we forecast that nonfarm employment will continue to move forward, posting a roughly 3% increase in both 2015 and 2016.

With more workers returning to work and the local real estate market improving, consumer spending is expected to continue to post gains as well. Specifically, taxable sales are forecast to grow between 4% and 5% over the next few years as incomes rise. While the housing market will also continue to improve, the pace of growth is expected to be more moderate in 2015. Still, home prices throughout the region are anticipated to increase by between 5% and 7% in the coming years.

The South San Joaquin Valley still faces several challenges, including boosting the educational attainment of residents, dealing with agricultural issues associated with the drought, responding to falling oil prices and continuing to diversify its economic base. The region also has many strengths, however, to leverage in the future, including relative affordability compared to other parts of the state, a burgeoning alternative energy sector and a growing population base. With the recession largely in the past, we are confident that the region's strengths will offset its challenges and the South San Joaquin Valley will remain a driver of statewide growth into the future.

Agriculture

Overview

The agriculture industry in the South San Joaquin Valley (SSJV) has continued to show resilience since the Report and the 2013 production and output statistics point to a stellar year. More recent data for 2014 is mixed, but so far there is no clear indication that the current dry spell the state is going through has significantly impacted the industry as a whole.

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In the Report, we noted that 2013 was on track to be as good, if not better, than 2012, and the region's agriculture industry did not disappoint. The total value of crop and livestock products totaled $21.01 billion in 2013, a 9.7% increase over the prior year and represented an all-time high for agriculture output. The bulk of the increase in total value was due to the increase in price of several key commodities, which was critical for increasing overall value as production was relatively flat for some of the region's top commodities.

The current agricultural data point toward a somewhat softer 2014 compared to the record highs of 2013.

Statewide statistics are mixed and regional farm employment has edged down. While the industry's performance in 2014 is not expected to exhibit the prior year's robust growth, we do not expect the year's situation to be as dire as many have feared.

The outlook for 2015 will be heavily dependent, of course, on the level of rainfall the state receives. The first few weeks of the year have shown little rainfall, and the Sierra snowpack was only 36% of normal for January 15th.[1] Nevertheless, the Department of Water Resources (DWR) announced in January that recipients of water from the State Water Project would receive 15% of 2015 requested amounts. That is up from 10% in December 2014, and well ahead of the 5% allocation for 2014.

The continuation of historically low levels of water allocations makes conservation and efficient use of current resources all the more important. Transitioning to crops that use less water, such as grapes, is one way of achieving this. The Report highlighted the increased production of grapes in recent years. On average, grapes require roughly 2 acre-feet of water per year. This is far less than more water intensive crops like rice or alfalfa, which need upwards of 5 acre-feet. Neither of these crops are in abundance in the South San Joaquin Valley. Thus, one potential silver lining to the current water issues facing the state and region is that it could help to promote the use of less water-intensive crops in the future, which will ultimately make the region less susceptible to economic volatility associated with wet and dry years.

2013 Agriculture Industry Performance

In spite of one of the driest years on record, the agriculture industry in the South San Joaquin Valley had a good year. The total value of crop and livestock products grew by 9.7% to reach a record high, buoyed by higher prices and double digit increases across each of the region's top five commodities. While Fresno County did post a 2.3% decline in total value, Kern County logged a solid 6.6% increase and Tulare County surged 25.7% over 2012 values. With the latest gains, Tulare County took over (from Fresno) as the top agricultural county in California by total value of crop and livestock products.

South San Joaquin Valley Top Agricultural Commodities

Commodity	2012 ($)	2013 ($)	Change (%)
Total	19,150,020,100	21,016,110,090	9.7
Grapes	3,468,111,000	3,844,427,000	10.9
Milk	2,953,942,000	3,360,358,000	13.8
Almonds	1,961,284,000	2,337,172,000	19.2
Cattle	1,340,372,000	1,482,071,000	10.6
Oranges	1,127,665,000	1,289,513,000	14.4

Source: County Agricultural Commissioner Annual Reports

California Agricultural Exports Values

Commodity	2012 ($)	2013 ($)	Change (%)
Total	19,033,662,625	19,449,560,576	2.2
Almonds	3,660,958,785	3,986,343,267	8.9
Grapes	1,156,978,508	1,169,295,269	1.1
Milk	1,221,583,750	1,344,252,859	10.0
Oranges	569,515,031	475,447,889	-16.5
Beef	360,978,086	312,729,681	-13.4

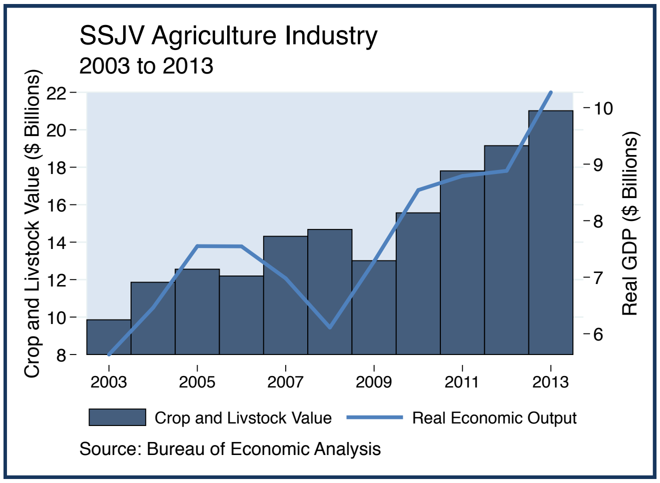
Source: WISER Trade

In addition to the value of all crop and livestock products in the region reaching record levels, economic output from the whole agriculture industry also reached new highs, even after adjusting for higher commodity prices. From 2012 to 2013, agriculture output in the region increased by 15.6% in real terms, which was slightly higher than the 15.2% growth for the statewide industry and a sharp increase over the 1% annual growth for the region in 2012.

The top five commodities (grapes, milk, almonds, cattle, oranges) retained their respective ranking from the prior year and the total value of each commodity increased by more than 10% from 2012 to 2013. Despite being the number two ranked commodity, milk made the largest contribution to annual growth and repre-

[1] http://ca.gov/drought/topstory/top-story-22.html.

sented 21.8% of the net gains to total crop and livestock value for the year. From 2012 to 2013, the value of total milk production in the South San Joaquin Valley increased by 13.8%, a sharp reversal of the 10.6% decline in production value from 2011 to 2012.



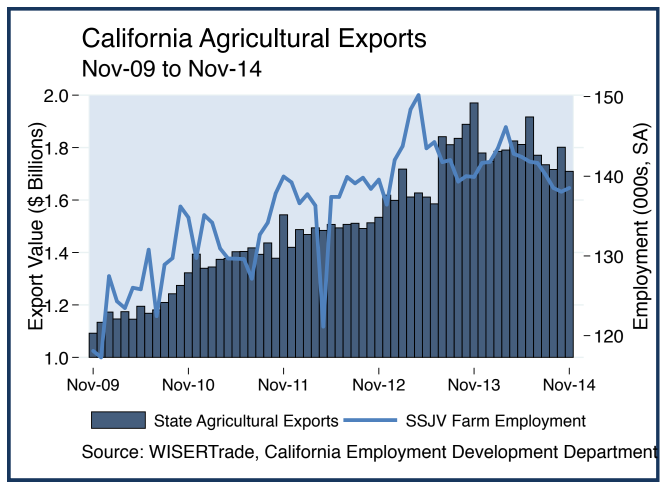
As noted, price increases were a major driver of production value growth in 2013, which helped to make up for low growth in production volumes. The per unit value of milk for market in Tulare County, for example, was 15% higher than the year prior even though production was virtually unchanged. Similarly, the per-unit value of almonds in Fresno County increased by 23.4% while production declined by 3%.

2014 Agricultural Exports and Farm Employment

While 2013 was a stellar year for the region's agriculture industry, the current available data for 2014 show a mixed picture, which suggests that the high double-digit growth from 2013 to 2014 will not be repeated. There are some indications that production for some commodities could be lower, particularly almonds, but higher prices will help the industry make up the difference.

At the state level, we are seeing nominal increases in both farm income and agricultural exports, and steady levels of farm payroll employment, which suggest that the agricultural industry is holding steady. For the first three quarters of 2014, farm income was 0.6% higher than the same year-to-date period in the prior year, and for the year-to-date period ending in November, state agricultural exports were 2.2% higher than the same period in 2013.

However, higher prices this year erode the nominal gains and leave open the possibility that production was flat to down for some of the top commodities. Our estimate of the overall agricultural trade prices year-to-date was 5.3% higher through November over the same period last year. This suggests that in real terms, state agricultural exports declined by 3%. In the case of almonds, a major cash crop for farmers in the region, exports were up 8.9% nominally, but after adjusting for a 13.0% increase in fruit and nut export prices, shipments were down 3.0% in real terms.



Still, the decline in exports should not be strictly interpreted as indicative of lower production, or that the drought is having a severe impact on the agricultural industry in the South San Joaquin Valley and the state overall. A weaker global economy could certainly be a factor as California has seen lower export volumes of agricultural products. Since farm income is up, it also suggests that the industry is bringing in the same level of revenues as the year prior, which was a strong year for the South San Joaquin Valley. The current data point to a softer 2014 than the record highs in 2013, but so far the data suggest that agriculture is holding steady despite ongoing water issues.

Business Activity

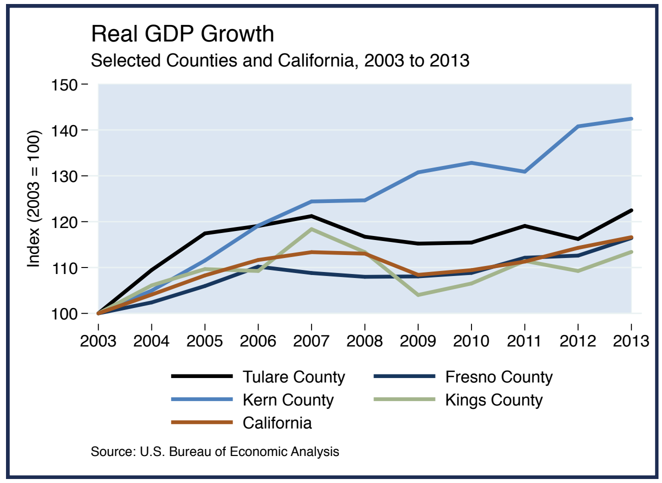
Overview

In last year's Report, we expressed a great deal of optimism about the business climate of the South San Joaquin Valley in 2014 and 2015. In the early days of 2015, however, that optimism must be tempered, as growth in measures such as consumer spending slowed in recent months. Key findings this year include:

- Gross Metropolitan Product ("GMP") in the South San Joaquin Valley increased at a faster rate in 2013 than in 2012. The sectors that drove GMP growth in 2012 continued to thrive in 2013.
- Consumer spending grew throughout 2014, although perhaps at a slower pace than expected. Business and industry spending has struggled to catch up to consumer spending in the region.
- Business travel and tourism are surging, especially in Tulare County. The South San Joaquin Valley received a significant boost in tourism from an increase in visitor attendance at local national parks in 2014, which was free from the government shutdown that crippled national park tourism in 2013 and reflected a willingness among tourists in California and other states to spend more on travel as the economy continues to improve.

Gross Metropolitan Product

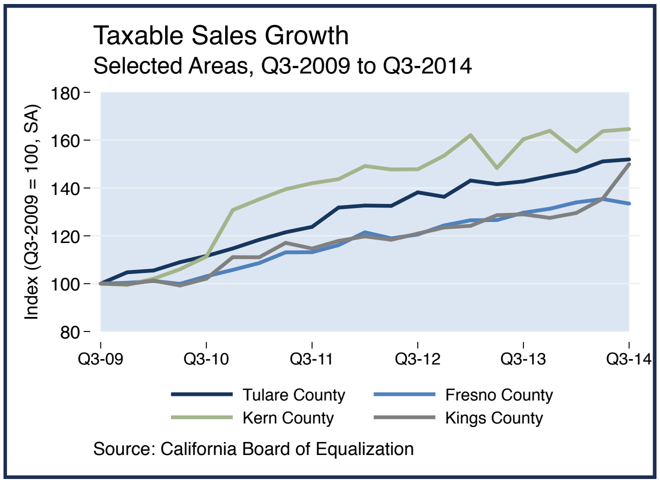
Although a somewhat lagged statistic, GMP gives a good indication of the health of the economy. The latest GMP data for the South San Joaquin Valley comes from 2013, but it reflects the strength observed in, among other components of the economy, the region's employment growth and real estate markets. GMP in the South San Joaquin Valley increased 2.8% from 2012 to 2013, which is 0.2 percentage points higher than from 2011 to 2012. By comparison, California Gross State Product (GSP) increased 2.0% from 2012 to 2013, which is 0.7 percentage points lower than from 2011 to 2012.



Several key sectors that were driving economic growth at the publication of the Report continue to lead the way. Manufacturing GMP increased 9.4% from 2012 to 2013, bolstered by 25.1% growth in nondurable goods manufacturing. GMP in the Information sector, which includes such labor-intensive industries as customer service, increased 12.6% from 2012 to 2013. Agriculture GMP increased 15.8% from 2012 to 2013, and farm yields remained high despite the fear of a slide due to lack of rainfall. Some of the economic indicators detailed below, such as consumer spending, suggest that GMP numbers for 2014 will also show solid growth over 2013 levels.

Consumer and Business Spending

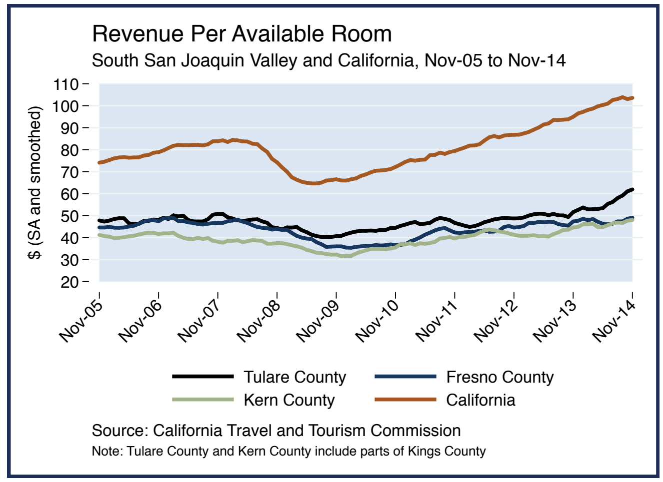
As noted in the Report, consumer spending was very strong in 2013, with taxable sales increasing by over 6% from the fourth quarter of 2012 to the fourth quarter of 2013. Since that time, taxable sales growth has slowed considerably but still remains positive. From the third quarter of 2013 to the third quarter of 2014, taxable sales increased 2.3%. Importantly, the region is already well above its pre-recession peak in terms of both spending and employment. At least some of the recent slowdown can be attributed to the area having largely recovered from the economic recession, rather than because of more troubling fundamental issues.



Taxable receipts data for the region shows that some categories of spending were very strong in 2014. Building and construction taxable receipts increased 17.5% from the third quarter of 2013 to the third quarter of 2014, while autos and transportation spending increased 10.3% during that time. Conversely, fuel and service station spending increased by just 0.9% year-over-year as gas prices continue to trend lower. Low fuel prices in 2014, and continuing into 2015, could be providing a boost to spending in other areas. For example, taxable receipts for general consumer goods increased 5.5% from the third quarter of 2013 to the third quarter of 2014.

Business Travel and Tourism

Throughout the country, consumer and business spending is strong and employment is growing, which has led to a big uptick in business and tourist travel in the South San Joaquin Valley. Hotels in the region are seeing large increases in revenue. From September – November 2013 to September – November 2014[2], hotel revenue per available room ("RevPAR") increased 4.7% in Fresno County, 8.1% in Kern County, and a substantial 20.6% in Tulare County.[3]



The growth in Tulare County is mostly attributable to growth in occupancy (8.7 percentage points), compared to between 1-2 percentage points in Fresno and Kern Counties, but the average daily room rate increased in each county's hotels by between 3%-5% from September - November 2013 to September - November 2014. Higher demand is pushing hotel occupancy up and allowing hotels throughout the South San Joaquin Valley to earn more revenue for stays.

Visitors to the region's national parks play an important role in the local tourism industry. In the Report, we forecast that park attendance would increase significantly from 2013 to 2014. The federal government shutdown led to a collapse in tourist traffic in October 2013, and while consumer leisure spending in 2013 was growing, it appeared to be headed for significantly more growth down the road. Data from the National Park Service appears to support that forecast. From January – November 2013 to January – November 2014, visitor traffic at Sequoia National Park increased by 130,000, or 14.3%,

[2]September, October, and November data were averaged to reduce volatility in hotel statistics, which can sometimes vary significantly from month to month.

[3]Kings County hotel data is included in Tulare County and Kern County.

while visitor traffic at Yosemite National Park increased by 191,500, or 5.2% overall. Attendance at Kings Canyon National Park decreased by 11.5%, but by a comparatively small 65,300 visitors overall. The extra visits to the region's national parks help introduce more spending at hotels, retail stores, and restaurants, benefiting the South San Joaquin Valley labor market and economy as a whole.

Energy Sector

The Report indicated that oil production—primarily through hydraulic fracturing in the Kern oil fields—is starting to become a flagship industry for the South San Joaquin Valley economy. Yet, GMP data suggests that the industry stepped back in 2013, and likely did so in 2014 as well. Mining GMP, which includes GMP for oil and gas extraction[4], decreased by 18.4% from 2012 to 2013. With oil prices falling rapidly in the latter part of 2014, oil producers in Kern County may cut back new drilling substantially, and, if oil prices remain low for some time, may begin to cut back on production out of existing wells.

For Kern County in particular, falling oil prices could have a critical impact on tax revenues. Counties in California set property taxes for oil fields based not only on the value of the fields themselves but on the value of oil reserves within those fields. When the price of oil drops, the assessed value of the oil reserves within each property also drops. Kern County oil producers could pay a significantly lower property tax in 2014 and 2015 than in years past because the value of their oil reserves is so low in relative terms. Kern County, where one-third of the countywide property tax roll comes from oil properties[5], could stand to lose a significant portion of its tax revenue as a result. (In fiscal year 2012, property taxes accounted for 83.7% of total taxes in Kern County[6]).

As noted in the Report, however, the region benefits from having expanded its energy production to green sources, such as wind, solar, hydro, and biomass. For example, the Alta Wind Energy Center and the Tehachapi Pass Wind Farm in Kern County are two of the country's largest wind farms. These types of projects ensure that the South San Joaquin Valley remains at the forefront of a still young and growing renewable energy industry, while helping to offset some of the revenue lost as a result of declining oil prices.

Business Activity Outlook

Looking ahead, Beacon Economics is optimistic about business activity in the South San Joaquin Valley. Although growth has been slower in some areas than it was during 2013, the region's economy nonetheless continues to expand. The energy sector faces challenges due to the recent slide in oil prices, but oil is only a part of the region's energy production profile. Renewable energy also plays an important and expanding role. In addition, tourism in the South San Joaquin Valley is booming, and the region's hotels are in better shape than they have been at any point in recent years. With employment growing, consumer and business spending still trending upward, and with the real estate markets improving, the outlook for the region's business activity is bright.

Employment

Overview

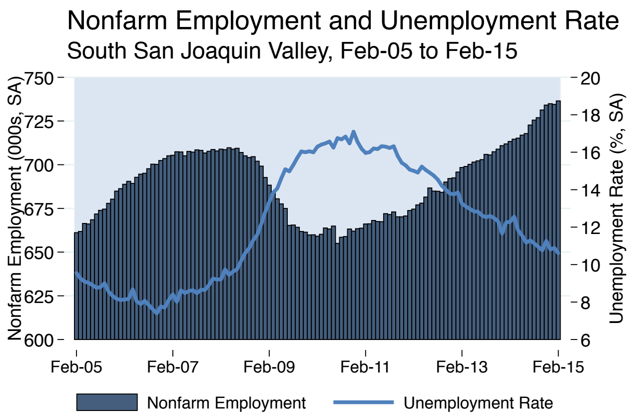
Since the Report, the South San Joaquin Valley (Fresno, Kern, Kings, and Tulare Counties) has continued to experience steady employment gains, with total non-

[4] Data for oil and gas extraction GDP is currently unavailable for recent years.

[5] John Cox, "Dropping Oil Prices: Good for Consumers, Potentially Crippling for Kern." *The Bakersfield Californian*. October 18, 2014.

[6] *California State Controller*, "Counties Annual Report, Fiscal Year 2011-12," January 28, 2014.

farm payrolls increasing by 3.3% from February 2014 to February 2015. This puts the region just ahead of the state overall, where payrolls expanded by 3.1% over the same period. At the county level, Fresno County continues to lead the way with nonfarm payrolls growing by 4.4%, while Kern (2.3%), Kings (3.0%), and Tulare (2.2%) Counties grew at lower rates.



Source: California Employment Development Department

In addition, newly revised benchmark estimates of employment in the South San Joaquin Valley paint a completely different picture of the region's job grow in 2014—the South San Joaquin Valley has not been trailing the nation in job growth, but has been leading it. With the new revisions, growth in the South San Joaquin Valley (from December 2013 to December 2014) changed from an initial estimate of 1.9% to a revised 3.4%, putting the South San Joaquin Valley well ahead of the 2.3% growth in the nation over the same period. In sum, the initial employment in figures in December 2014 undercounted nonfarm jobs in the South San Joaquin Valley by 6,200 positions.

Despite the recent growth and improved outlook from the revised benchmark estimates, the South San Joaquin Valley continues to face near-term challenges including water shortages and falling oil prices. Owing in part to the recent water shortage, farm payrolls in the region have declined by 1.5%. This decline in farm payrolls may also have a negative effect on other aspects of the economy as a variety of local industries are interconnected with the agriculture economy. However, the impact has not been as severe as some news headlines would suggest.

The region also continues to face longer-term challenges. One of the best documented is its less educated workforce, which has largely developed due to the preponderance of agriculture and the large number of workers with lower educational attainment who come to the region seeking employment opportunities.

While payrolls continue to rise in the South San Joaquin Valley, the unemployment rate in the region remains stubbornly high. However, it is important to note that unemployment *is* continuing to decline. From February 2014 to February 2015, the unemployment rate in the South San Joaquin Valley fell by 1.7 percentage point to 10.6% on a seasonally adjusted basis. Similarly, California saw its overall unemployment rate fall 1.3 percentage points, to 6.7% on a seasonally adjusted basis over the same period. Perhaps more importantly, in contrast to last year's report, the South San Joaquin Valley's labor force has started to expand. From February 2014 to February 2015, the labor force in the region increased by 0.4% and the number of employed residents grew by 2.3%. This means that more area residents are finding work and are more optimistic about their employment prospects than earlier in the year.

The gap between the unemployment rate in the state overall and the South San Joaquin Valley is not a recent occurrence and is largely related to the demographics of the region's workforce rather than a symptom of a lagging recovery.

Unemployment Rate by Education

Education	California	SSJV
Less than HS	12.0	15.6
High School	11.4	12.5
Some College	9.6	11.2
Bachelor's Degree or Higher	5.6	5.4

Source: U.S. Census Bureau ACS

If one compares the unemployment rate for individuals with a Bachelor's degree or higher, the gap between the region and the state nearly disappears. According to the American Community Survey from the U.S. Census Bureau, the unemployment rate for California residents with a Bachelor's degree or higher was 5.6% in 2013 and their unemployment rate in the South San Joaquin Valley was slightly lower at 5.4%.

Construction Sector Continues Surge

At the industry level, the construction sector continues to be one of the South San Joaquin Valley's shining stars. Over the past year, construction payrolls have increased by 4.3% (1,600 jobs). However, this sector still has a long way to go to regain all the jobs it lost during the recession. With groundbreaking for the California high-speed rail commencing in January, we expect the construction sector to continue driving the region's growth in the coming years.

South San Joaquin Valley Industry Employment Growth

Industry	Nov-14	Change (%)
Transport,Warehouse,Util.	30.6	5.8
Leisure and Hospitality	70.8	5.1
Professional/Business	69.7	4.6
Retail Trade	90.3	4.5
Construction	38.4	4.3
Wholesale Trade	28.9	3.6
Manufacturing	56.0	3.4
Other Services	23.5	2.8
Education/Health	110.7	2.7
Government	171.7	2.5
Financial Activities	26.7	2.1
Information	7.3	-0.3

Source: California Employment Development Department

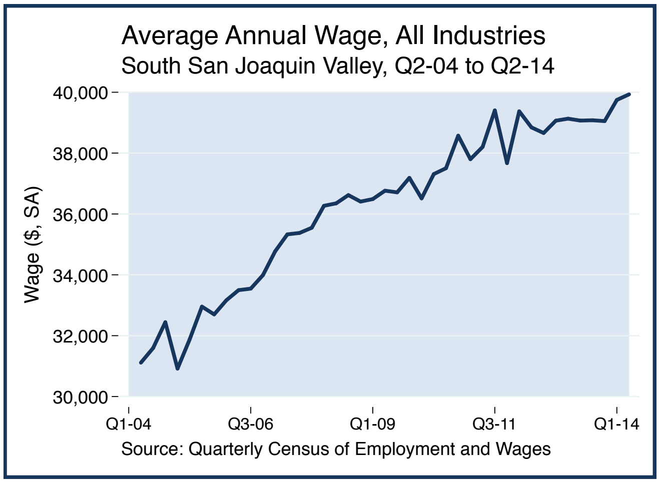
The leisure and hospitality sector also continued to post solid gains in the South San Joaquin Valley. Payrolls in the sector increased by 5.1% (3,500 jobs) from February 2014 to February 2015. The region's national parks and monuments continue to attract visitors to the area, with both Sequoia National Park and Yosemite experiencing upticks in visitor traffic through the first 11 months of 2014.

The South San Joaquin Valley's growth is not limited to just the region's "internal" job sectors. The transportation and warehousing sector increased payrolls by 5.8%, adding 1,700 jobs. While growth has slowed since the Report, the continued growth in logistics indicates that, despite recent water issues in the state and region, sectors linked to the agriculture economy have yet to be substantially impacted.

Additionally, since the Report, government payrolls have started to expand. From February 2014 to February 2015, government sector payrolls increased by 2.5%, or roughly 4,200 jobs. With rebounding local revenue streams, much of the growth in the sector was fueled by local governments, which grew by 2.3%, or 2,800 jobs. Payrolls for state government also expanded over the period (+3.5%) while federal government payrolls expanded by a more modest (2.1%).

Wages Continue to Gain Ground

Wages in the South San Joaquin Valley continued to trend upward in 2014, and at a faster pace than was reported in last year's Report. According to the Quarterly Census of Employment and Wages, the average annual wage across all industries was $39,930 in the second quarter of 2014 on a seasonally adjusted basis. This represents a 2.2% increase from the second quarter of 2013, which was a healthy bump from the 0.6% increase experienced the year prior and just below wage growth in the state overall (2.6%). Regionally, Fresno (1.8%), Kern (2.0%), Kings (3.4%) and Tulare (2.1%) Counties all saw wages rise over the past year.



The professional and business services sector in the South San Joaquin Valley saw the fastest pace of wage growth over the past year, rising by 7.1% to $43,760 annually in the second quarter of 2014. However, the recent wage growth in this sector is largely a result of increased employment levels in the professional, scientific, and technical services sector, which tends to have high-wage positions, rather than a substantial increase in wages in the majority of jobs in the industry. This is in contrast to the Report, when the administrative support sector, which tends to have lower-wage positions, accounted for the majority of the professional and business services sector job growth.

Wage growth was not limited to individuals employed in high-wage occupations. Wages in the natural resource and mining sector grew by 2.5% from the second quarter of 2013 to the second quarter of 2014, to just over $30,000 on a seasonally adjusted basis. Similarly, wages increased by 2.1% in the trade, transportation, and utilities sector to $37,640 on a seasonally adjusted basis. As noted, this indicates that wage growth in the region is occurring across the entire skills spectrum, with both high-skilled and low-skilled occupations experiencing increases.

Overall, the labor markets remain poised for ongoing growth in 2015 and beyond. Employment levels are surpassing pre-recession peaks, growth is occurring across the spectrum of industries, and wages are starting to rise. With many of the wounds of the Great Recession already healed in the region, we are confident that the South San Joaquin Valley will remain an engine of growth in California into the future.

Wages in the South San Joaquin Valley continued to trend upward in 2014, and at a faster pace than was reported in last year's analysis.

Real Estate

Overview

The 2015 real estate picture in the South San Joaquin Valley shows a great deal of resemblance to the market covered at length in the Report. Home price growth in the region continues to outpace the nation as a whole, although growth has slowed to a more stable rate over the last quarter. Growth in residential prices continues amid a backdrop of sluggish housing permit growth. Fortunately, local housing remains affordable given the current low-interest rate environment, and the relative affordability of the region's housing market as compared to the state and nation overall is still significant. The modest growth in permits, however, will keep upward pressure on local prices, as more housing will be needed in the South San Joaquin Valley in the near future—particularly in light of a population that continues to expand at a faster rate than the state overall.

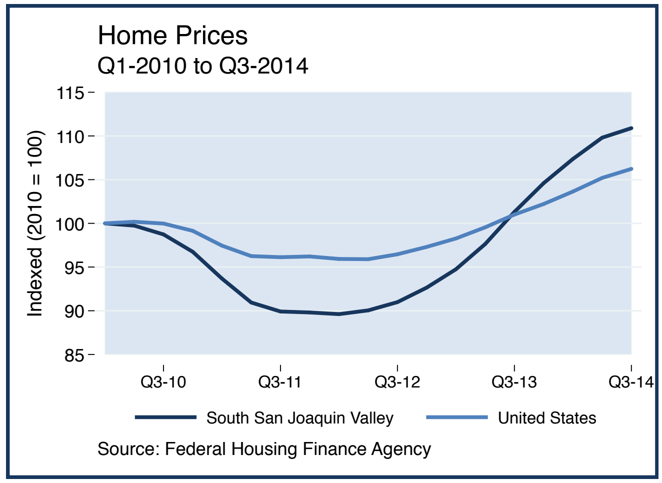
Builders remain hesitant to build the kind of housing needed to stabilize home prices.

On the non-residential side of the market, the trends that were detailed in the Report continued to play out over the last six months. The office and industrial markets continue to see sluggish growth in permitting along with modest growth in rents and modest declines in vacancy rates. Solar and retail permits continue to be the two sources of growth in the nonresidential real estate market. Since the Report, the retail market has cooled somewhat while permit growth for solar projects remains robust.

Overall, the real estate market in the South San Joaquin Valley has experienced a solid recovery and continues to grow at a moderate, although uneven, pace.

Housing: Affordability & Availability

Various metrics indicate that local home prices have been increasing over the last year. According to estimates based on the Federal Housing Finance Agency's (FHFA) home price indices[7] median home prices in the South San Joaquin Valley appreciated by 9.5% from the third quarter of 2013 to third quarter of 2014. In comparison, California as a whole experienced home appreciation of 8.1% over the same period, and the United States as a whole experienced home appreciation of approximately 5.2% by the same measure. Furthermore, home appreciation in the South San Joaquin Valley continues to outperform the rest of the nation when compared to home prices at the beginning of 2010.

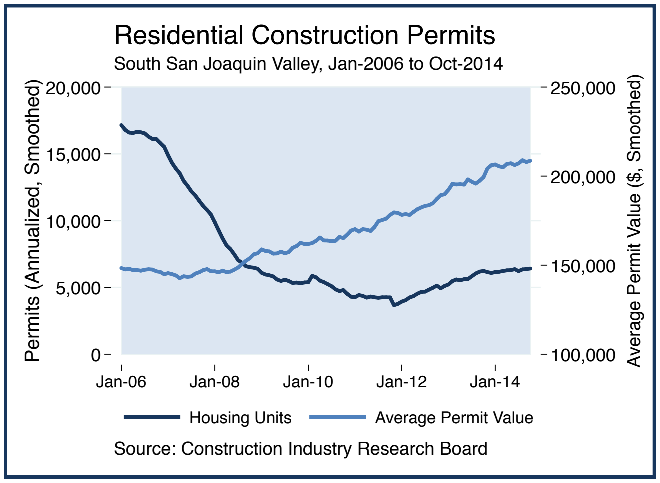


Still, despite the recent uptick, home prices remain affordable for many living in the region, especially when comparing the South San Joaquin Valley to other residential markets in the state. The median price for an existing single-family home sold during the third quarter of 2014 was $174,000 in Kern County, $195,750 in Fresno County, $162,202 in Kings County, and $159,252 in Tulare County[8]. If these median prices are compared to the median home price in California as a whole, which was $381,000 as of the third quarter of 2014, it is apparent that despite faster home price appreciation in the region, the South San Joaquin Valley boasts affordable housing.

Correspondingly, median incomes are also lower in the region as compared to California, and much of the recent inbound migration has been comprised of workers employed in lower wage industries. As a result, when looking at monthly owner costs as a percent of income, absolute home affordability in the South San Joaquin Valley is similar to that of the state overall. For example, 41.9% of California homeowners spend 30% or more of their monthly income on housing costs, which is in line with homeowners in Fresno (39.5%), and Tulare (41.3%) Counties. Kern and Kings Counties are the exceptions at 32.3% and 29.3%, respectively.

[7] The FHFA provides home price indices that are consistent for most regions across the United States, while other better-known home price indices (such as the Case Shiller index) only cover major metropolitan areas. The FHFA home price index, however, only accounts for homes purchased with conforming mortgages obtained from the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae).

[8] DataQuick



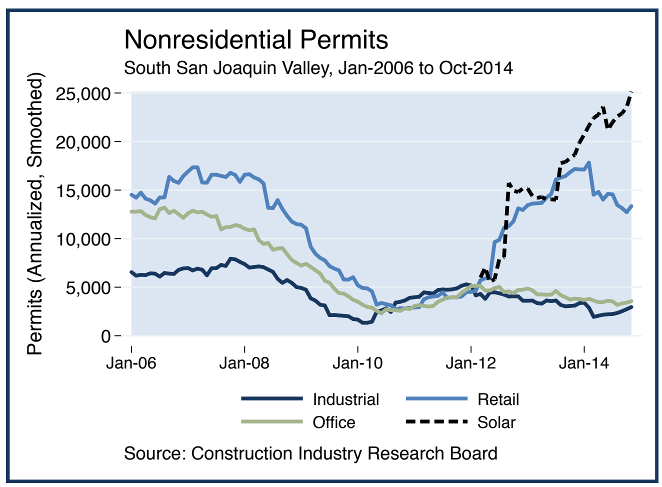
With prices rising faster in the region than in the state overall, lower income inbound workers are going to find it increasingly difficult to afford a home. While rising prices remain a positive for the economy over the short run (the increases help homeowners recover equity lost during the downturn), prices rising faster than incomes will make home ownership increasingly difficult from a longer-term perspective. This trend is likely to persist, however, unless there is an increase in the pace of new residential permits. From November 2013 to November 2014, the number of new residential permits issued on a monthly basis declined 5.5%. Against a backdrop of population and employment gains that are outpacing new permit growth, builders remain hesitant to build the kind of housing needed to stabilize home prices.

Commercial Projects: Solar & Retail Maintain Relative Strength

Further home price appreciation and demand for residential units in the South San Joaquin Valley will also depend on the advancement of commercial real estate. Energy projects have largely dominated this sector in recent years, with numerous facilities being established in all four counties. Kern County has experienced the most growth in this category, accounting for just over half the solar permits issued in the South San Joaquin Valley. Whereas these types of projects may be rejected in other parts of the state, they are expanding in South San Joaquin Valley where there is ample developable land. From November 2013 to November 2014, the annualized value of permits for solar projects increased 34.8% to $25.1 million.

Retail permits may appear to be in a disappointing decline, but during that earlier twelve month period (October 2012 to November 2013) the region was seeing exceptional growth in retail permits.

New retail centers can be even more effective in attracting residents to the South San Joaquin Valley because they provide entertainment and consumption opportunities that are especially appealing to younger households. Additional retail store development would support growth in the region, particularly developments similar to the Shops at River Walk in the City of Bakersfield. Construction permits for new retail stores over the last twelve months (October 2013 to November 2014) have fallen to $177.3 million in the South San Joaquin Valley, compared to $179.0 million in the previous twelve months.



This may appear to be a disappointing decline, but during that earlier twelve month period (October 2012 to November 2013) the region was seeing exceptional growth in retail permits. Even if growth this year was flat, it came after a blockbuster year for retail construction.

Overall, commercial construction activity should continue to progress in 2015 in South San Joaquin Valley. This includes both new commercial structures, and renovations and alteration projects: $1.46 billion in permit values were filed in the four-county South San Joaquin Valley region over the last 12 months (October 2013 to November 2014), on top of $1.61 billion filed in the previous twelve months (October 2012 to November 2013). In comparison, only $0.68 billion in permitting value was filed, on average, in the three preceding twelve-month periods.

Real Estate Outlook

The real estate market in the South San Joaquin Valley continues to be a mixed bag. There are positive trends on both the residential and commercial sides of the market, but these trends not necessarily broad based, with some counties and sectors of the market doing better than others. Local residential real estate remains affordable when comparing prices in the region to California or the United States as a whole. Sluggish building permit growth and a growing population, however, are pushing prices up at a fairly rapid rate, which over the last year or so has eroded some of the relative affordability enjoyed by the region. Solar projects continue to dominate the commercial market in the South San Joaquin Valley. However, retail permits have also seen significant growth, which should help attract additional spending to the area.

Demographics

Overview

The demographic landscape in the South San Joaquin Valley continues to resemble its profile of last year. Despite the ongoing drought, which has affected much of the agricultural industry in the region, overall population growth continues to outpace California. Ongoing improvement in the region's labor markets and an improving housing market continue to drive positive net migration. Increased personal income and median household income growth reflect the improving economy throughout the South San Joaquin Valley.

Moreover, what was once considered a negative factor in the region has turned relatively positive. Crime rates throughout the South San Joaquin Valley have decreased since last year, which lends credence to improved economic conditions. This should bode well for the region, as decreased crime activity will attract more business.

Continued Population Growth in the SSJV

Over the last year, the South San Joaquin Valley has continued to demonstrate growth in its population. From July 2013 to July 2014, the entire region experienced a 0.8% increase in its population, reaching nearly 2.5 million residents. While this growth rate is slightly less than that of the State of California, where population grew by 0.9% over the last year, the South San Joaquin Valley's population growth over the last decade has clearly surpassed that of the state, expanding by over 14% compared to less than 8% for California. Despite lingering concerns about the ongoing statewide drought, the effects on the local agriculture industry have not been as severe as many expected. The South San Joaquin Valley remains a growing region and an attractive destination for migrants seeking employment and affordable housing.

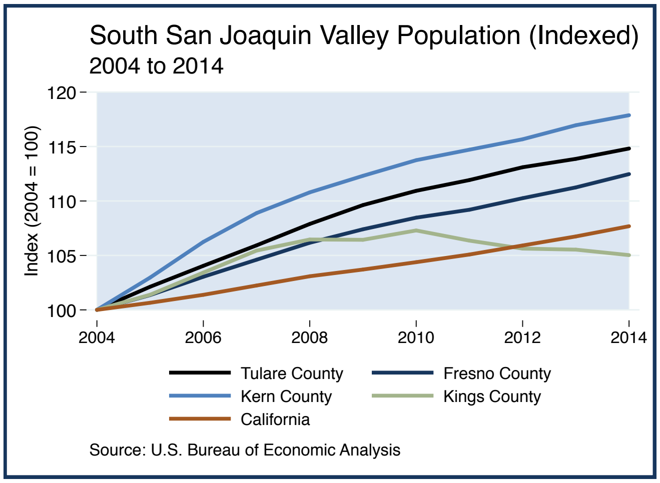
While Kern County has clearly led the region in terms of population growth over the last decade, Fresno County led in terms of growth over the last year, expanding its population by 1.1% to 967,000 residents. The commencement of the California High-Speed Rail line in Fresno County will attract more residents, as increased construction activity on this long-term infrastructure project will draw labor migrants. It should also provide added stimulus to both Fresno County and the region as

South San Joaquin Valley by Race/Ethnicity, Percentage of Population, 2013

Race/Ethnicity	Fresno County	Kern County	Kings County	Tulare County	California
Hispanic or Latino	51.6	50.9	52.7	62.3	38.4
White	31.3	36.8	34.0	30.9	38.8
Asian	9.9	4.4	3.5	3.5	13.4
Black/African American	4.9	5.3	6.5	1.3	5.7
Two or More Races	1.7	1.8	2.2	1.2	2.8
Some Other Race	0.2	0.1	0.1	0.0	0.2
Nat. Hawaiian/Pacific Islander	0.2	0.1	0.3	0.1	0.3
Am. Indian/Alaska Native	0.4	0.6	0.8	0.7	0.4

Source: United States Census Bureau

a whole in the form of spill-over effects from increased household earnings and spending.

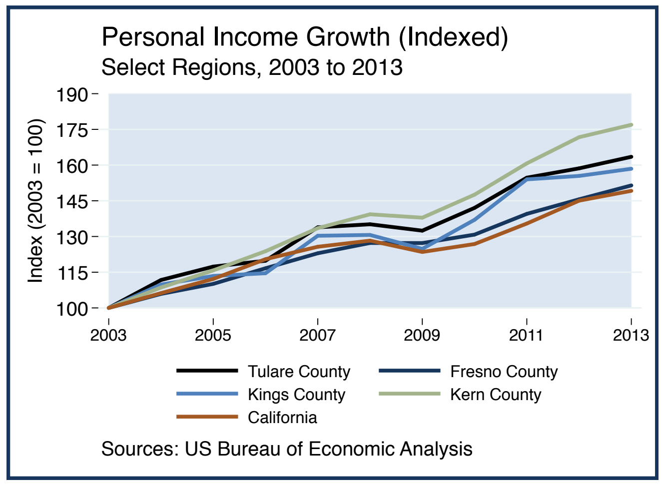


In terms of net domestic migration, the South San Joaquin Valley actually experienced negative net migration, losing approximately 8,000 residents from July 2013 to July 2014, as reported by the California Department of Finance. Thus, the primary component driving the positive population growth was through the natural increase in population. From July 2013, to July 2014, the natural increase in population grew by 23,500. Despite this minor setback in domestic migration, the overall region still experienced positive population growth. In addition, as the local labor markets continue to slowly improve, one should expect increases in migration. Its relative affordability compared to the rest of the state, as well as the upcoming construction of the California High Speed Rail System in Fresno County, should entice those struggling to find work in construction to migrate to the region.

Personal Income Growth Persists in the SSJV

Income growth throughout the South San Joaquin Valley remains robust. Over the past year, personal income increased 3.4% to nearly $85 million, compared to a 2.8% increase for the entire state. Since 2008, personal income in the South San Joaquin Valley grew 22.3%.

Fresno County experienced the highest year-over-year growth in personal income in the region. Over the last year, Fresno County's personal income grew by 4.0%, due in large part to an improved labor market and increased overall spending activity, which has created spill-over effects across the South San Joaquin Valley in relation to household income.



As personal income continues to grow, so does median household income throughout the region. Over the last year, median household income in the South San Joaquin Valley grew by 1.3%. While this growth rate falls short of the 3.2% annual growth rate for the state as a whole, the area, of course, was one of the hardest hit during the recession. There is also positive growth, albeit slow, in median household income, which should be taken as a positive sign of economic improvement. Given that Fresno and Kern Counties comprise a majority of the population and can be considered more developed areas within the South San Joaquin Valley, it is no surprise that these two Counties led the region in

Median Household Income
South San Joaquin Valley and California, 2013 ($)

Year	SSJV	Fresno County	Kern County	Kings County	Tulare County	California
2012	43,444	41,627	45,910	45,935	40,302	58,328
2013	44,000	43,925	46,879	45,774	39,422	60,190

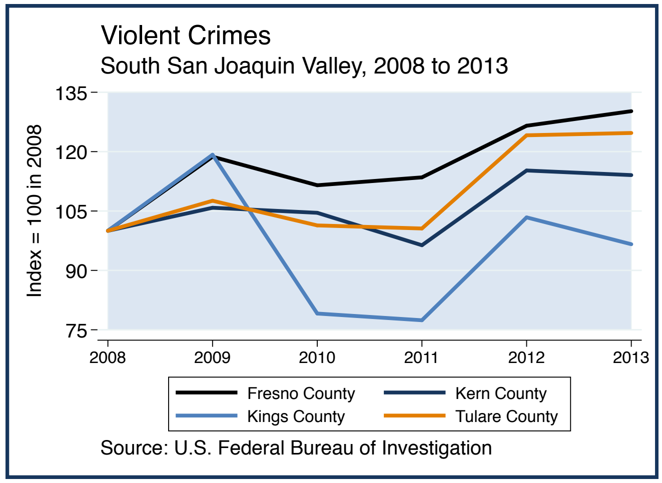
Source: U.S. Census, American Community Survey

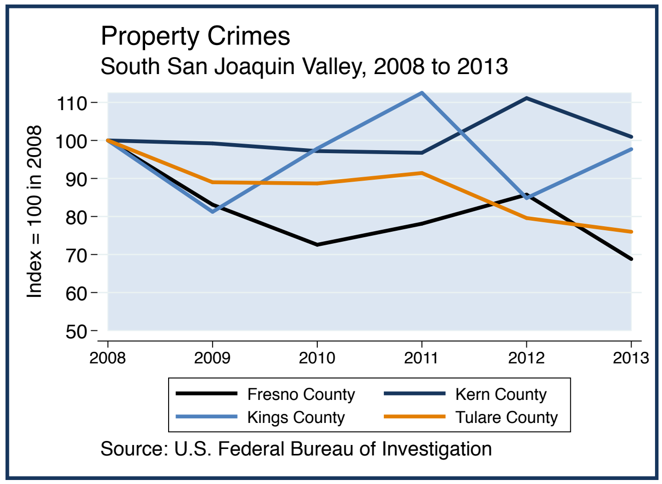
median household income growth. In particular, Fresno County experienced a 5.5% increase in median family income from 2012 to 2013, while Kern County experienced a 2.1% annual increase.

In terms of income levels, those who have migrated into the South San Joaquin Valley continue to be primarily lower-income individuals. Compared to 2012, however, there has been some change in the income composition of inbound migrants to the region. In 2013, the share of net migrants with incomes between $75,000 and $99,000 increased to 4.8%, compared to just 1.4% in 2012. The same is true for those with incomes between $40,000 and $49,999. In 2012, the share of net migrants with incomes in this latter range was only 0.5%, while in 2013, the share increased to 12.5%. Income in the South San Joaquin Valley continues to improve at a steady pace.

Crime Showing Improvement in the SSJV

Crime in the South San Joaquin Valley has also fallen over the last year. The number of violent crimes in the region has remained flat, while the number of property crimes fell by 10.4%. Since 2008, reported incidences of property crime have dropped by 13.3%.





Although the number of violent crimes over the past year remained steady, the violent crime rate in the South San Joaquin Valley (defined as the number of violent crimes per 100,000 residents) is actually down 1.2%, due to increases in population throughout the region over the past year.

Encouragingly, the increase in population is not being met by a proportional (or greater) increase in reported incidences of violent crime. Furthermore, the property crime rate in the region is down 11.3% over the last year, lower by about 100 reported incidences per 100,000 people.

About Beacon Economics

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