Institute for Global Economic Research presents

Economic Outlook for Santa Barbara County

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The Santa Barbara County economy is performing well, with the unemployment rate dropping by 0.3% in March compared to a year earlier to 5.3%. While the situation has improved, labor market conditions remain very different in the North County versus the South County. The unemployment rate in the South County cities of Santa Barbara, Goleta and Carpentaria, estimated to be between 3-4%, is much lower than the North County due to the higher cost of living in the region; the median home price in the city of Santa Barbara, for example, is more than double the statewide median, while the median monthly rent for a two bedroom apartment is about 29% higher than the statewide median. The higher cost of living makes it such that many South County workers move away if they lose their job or opt to live in the more-affordable North County and travel to work. Since labor market statistics are based on location of residence, these workers, and the joblessness among them, are not counted in South County’s labor market.

The growing trend of commuting workers has resulted in a surge of new housing development in the North County. Greater housing availability, along with a robust tourism industry in the South County, has been the main driver of the recent improvement in the county’s overall labor market. Santa Barbara County’s coastal region continues to enjoy a soaring tourism market, with employment growth in the Leisure and Hospitality industry outpacing every other sector. Since jobs in this sector typically do not pay much, however, many of these workers live in the more-affordable North County. As a result, North County’s unemployment rate, which is estimated to be between 6-7%, has dropped significantly compared to the double-digit rates experienced just over a year ago.

Labor market conditions are expected to continue improving in the near term, with the county’s overall unemployment rate reaching pre-recession rates of around 4% in the next couple of years. The county’s level of employment, which has already exceeded those before the Great Recession, is also expected to continue growing in the near term. New job creation will continue to occur mostly in the North County due to greater housing availability and affordability.
In addition to the Leisure and Hospitality sector, work in the South County is concentrated in the State and Local Government, Education and Healthcare and Professional and Business Services sectors. Top employers in the South County area include UCSB, SB Community College, Santa Barbara Cottage Hospital and The Four Seasons Biltmore. In March, employment in the county’s Education and Health Services sector, which consists almost entirely of workers in Health Care and Social Assistance occupations, grew the second-fastest. The combination of the county’s aging population and rising insurance coverage under Obamacare has contributed to rapid employment growth in this industry. This trend is expected to continue in the near term and the health care industry will remain a key driver for Santa Barbara County’s economy.

Employment growth in Santa Barbara County’s Retail Trade sector also remains strong; many South County residents are wealthy retired workers and full-time college students, creating many jobs to service them. Robust consumer spending by these residents, along with tourists visiting the area, has contributed to sharp growth in the county’s retail and food service industries. This trend is expected to continue in the near term. Overall, the outlook for South County’s labor market is bright; however, employment growth will continue to be restricted by the lack of affordable housing in the region.

Meanwhile, the outlook for North County’s labor market is very mixed; while commuting workers are benefiting from new jobs created by the thriving South County economy, employment growth among non-commuting workers is sputtering. North County’s non-commuting employment is heavily concentrated in the agriculture sector, with almost half of Santa Maria’s workforce in the farm industry. Unfortunately, El Dorado Berry Farms recently terminated its operations in Santa Maria and Los Alamos due to economic reasons, resulting in almost 900 workers being laid off. The record drought continues to hurt agribusinesses as farmers face rising water costs. Although this year’s El Niño has brought bouts of rain, much more is needed after the 4-year drought. Santa Barbara County’s farm industry is fueled by strawberries, a very water-intensive crop; strawberries alone make up almost a third of the industry, contributing over $450 million to the county’s agricultural economy in 2014. The drought will continue to increase the cost of water throughout California, threatening the county’s $1.5 billion agriculture industry.
Santa Barbara County encompasses a population of about 445,000 people. The population of Santa Barbara County grew at a faster rate than the statewide average in 2015 due to an increase in net migration, which has remained positive for a few years due to the surge in housing development in the North County. This trend is expected to continue in the near term as more housing is developed to accommodate commuting workers. Overall, the county’s population will continue to increase at faster rates in North County due to the greater affordability in the region.

Median household income in Santa Barbara County is about $64,000. The median income has for the most part been on track with the statewide average; however, there is tremendous disparity in wages among the county’s workers. The median household income in the county’s highest income group is over four times that of the lowest income group. Workers in the South County are concentrated in knowledge-based jobs such as business, healthcare and education. As a result, these workers typically hold higher educational degrees and earn higher salaries. Income levels among South County workers are expected to remain high in the near term given the higher housing costs and type of work in the region.

Income levels among North County workers, on the other hand, are much more dispersed. Commuting workers typically have higher education levels and greater means available to commute. In contrast, North County’s farm workers typically hold less than a high school diploma and earn very low wages. The combination of low wages and stalling farm employment has resulted in rising poverty rates in the North County. In response, more emphasis has been placed on increasing educational attainment levels and attracting new businesses to retain the region’s skilled workforce. Although there is hope that these efforts will boost income levels in the North County, it will likely take many years to see significant improvement. As a result, there will continue to be great disparity in North County income levels in the near term.
Santa Barbara County’s real estate market is also giving mixed signals of recovery. Although the county’s median home price was around $600,000 in March, significantly above the statewide median of around $483,000, this is mostly due to the higher home prices in the South Coast which are raising the county’s overall median home price. In March, the median home price in the city of Santa Barbara was over a million dollars, more than three times that in the North County of around $325,000. Home prices in the South County are greater than those in the North County largely because a lot of South County homes are filled with wealthy retired residents and therefore South County homes are both scarce and expensive. South County home prices, particularly in the city of Santa Barbara, continue to rise at a strong rate. North County home prices, on the other hand, have remained flat as a result of the surge in new housing development resulting from the growing trend of commuting workers. As the new housing becomes saturated, we should see rising home prices in the North County.

Although the county’s home sales dipped slightly in February and March when compared to the same months a year ago, this appears to be an aberration from the general upward trend that has been experienced for over a year. Higher income and confidence levels, the anticipated rate hikes by the Fed, and the South County’s very low average apartment vacancy rate of around 0.6% that is raising the cost of renting, are boosting housing demand. This trend is expected to continue in the near term as families attempt to secure a low mortgage rate before further rate hikes by the Fed. Given the greater housing availability and affordability in North County, higher overall homes sales in the county will be led by further increases in demand for North County homes by South County workers who choose to commute to work.

Santa Barbara County’s commercial real estate market remains strong following the record-setting number of sales in 2014, with 2015 recording the second-highest number of sales. The vacancy rate in Santa Barbara’s office market, the county’s largest office submarket, continues to be very low at below 4% and is expected to decline further in the near term due to improving economic conditions and attractive interest rates. Meanwhile, despite dipping slightly at the beginning of the year, the average asking price remains near a record-high and is expected to rise further as inventory becomes tighter.
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