EDC | ECONOMIC DEVELOPMENT COLLABORATIVE

BUSINESS MIGRATION PATTERNS

IN VENTURA, SANTA BARBARA AND SAN LUIS OBISPO COUNTIES

BUSINESS MIGRATION REPORT, JUNE 2019

BUSINESS MIGRATION PATTERNS

VENTURA, SANTA BARBARA AND SAN LUIS OBISPO COUNTIES

For many in California, it has become accepted as truth, that the California business climate—defined by escalating costs and challenges owing to high taxation and regulation—is driving a mass exodus of business from the state. Given the recent lack of growth in our local economy, it's an easy story to believe.

But what if the data doesn't support the story on businesses migrating out of the state? What if it turns out that our local economy in fact *benefits from more businesses moving in than moving out?*

At EDC, we've done the research, and that's exactly what we found for our central coast region. The business exodus story is not supported by the data. For our central coast counties, we actually gain on net from business migration, that is, from the total movement of businesses into and out of the region. We further found that the net economic value of the businesses that arrive—as defined by sales and employment—*exceeds the value of the firms that leave.*

While the count of firms moving in and out of the region does not inform a complete picture of our regional economy, we believe this is critical information for shaping our regional economic development strategy and service.

For example, at EDC, our primary focus is on our existing business base and on the support of new firms and entrepreneurship. The data affirms that focus, as we find that the number of firms that move, both in and out, is actually quite small—together only about 2% of total firms in the three counties—an insignificant figure in the overall economy.

Business migration is the relocation of business from one geographic location to another. We have done the research and found that the "business exodus" story is not supported by the data.

At EDC we also focus on telling a positive story about opportunity in the local business environment, again, a strategy affirmed by the data, as businesses on net are moving into the region, not out, and they create more sales and employment than the firms that leave. Informed by that knowledge, we are ever more motivated to promote the strengths of our region.

But the data also suggest we've been under -attentive to business attraction as a strategy, as while the number of firms is small, the 1 percent share of movers into the region over time explains about 3 percent of total employment and 5 percent of total sales. By emphasizing more business attraction, we don't mean a shift to incentives and giveaways, rather we mean a strategic concentration informed by data, focusing on the key sectors and clusters for which the region has potential for expansion.

THE DATA SOURCES AND RESEARCH

To get the detail on actual business migration, EDC has purchased and analyzed two separate and independent data bases, to assure we're getting a complete picture:

- From Dun & Bradstreet, the National Establishment Time Series (NETS). The data is current to 2015, though is inclusive back to 1990.
- From Business Dynamics Research Consortium (BDRC), at the University of Wisconsin, Your-economy Time Series, or YTS. The YTS data starts in 1998 and is current to 2018.

Both provide enormous annual record sets, including establishment job creation and destruction, sales growth performance, survivability of business startups, mobility patterns, and changes in primary markets. Both data sources are routinely used by the research community, though for this purpose, YTS is more reliable and validated by other public and private sector users.

What this report indicates is that businesses fleeing Ventura County is neither the primary cause nor primary symptom of our economic condition or malaise.

What follows is based on BDRC's delivery of Your-economy Time Series data, as it presents a more tempered and up-to-date view. Suffice to say, however, that the NETS data tells the same story, with an even more positive message for regional economic competitiveness.

Our analysis on both data sets was led by an expert outside third party, Xopolis: Urban Analytics LLC. The research design, methodology and execution were peer reviewed and endorsed by independent academic professionals expert in business studies. And to assure we have some regional context—and not a one county bias—we ran the data for three counties, Ventura, Santa Barbara and San Luis Obispo.

HERE'S WHAT WE FOUND

MIGRATION PATTERNS

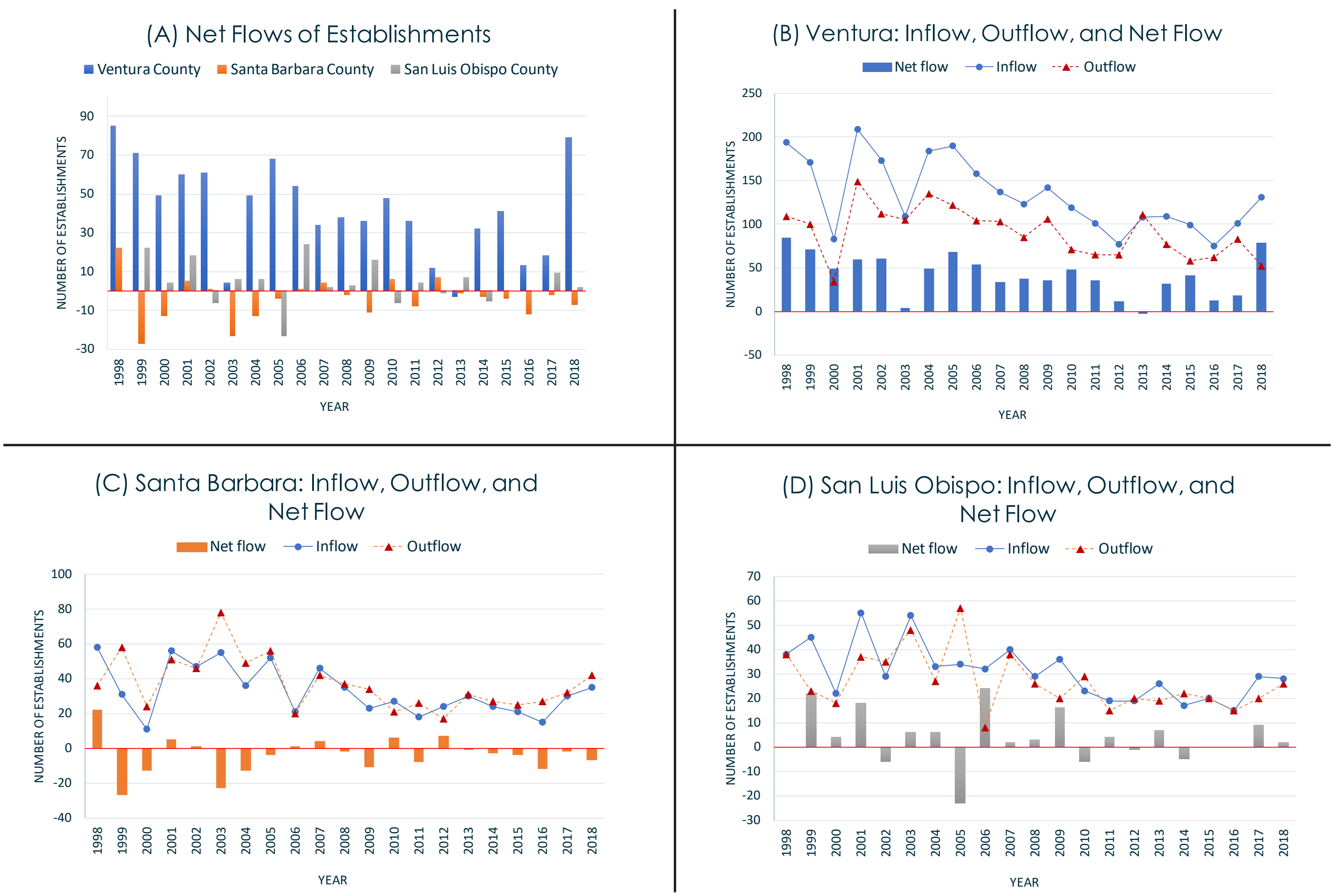
First, we looked at business migration patterns for Ventura, Santa Barbara and San Luis Obispo County.

- Ventura County gained establishments from net migration from 1998 to 2018, with the one exception of 2013. The County saw a significant decline in net migration from 2010 to 2013, and the latest data shows net migration in the County may be returning to the same more positive rates as the early 2000's.
- In Santa Barbara and San Luis Obispo counties, the number of establishments from net migration has fluctuated at around zero over this same period, with little signs of change in these net trends from previous years.

However, the net flow of business migration as displayed above does not show the changes in migration dynamics. To examine these dynamics, panels B though D in Figure 1 below break out the net flows into inflow and outflow of establishments.

- For Ventura County, in Panel B, the rate of decline was faster for inflows than outflows in the early to mid-2010's. *Since 2016, inflows into the County have increased suggesting the County is once again becoming more attractive for businesses to move in.*
- Panel C for Santa Barbara County and Panel D for San Luis Obispo County show an increase in both inflows and outflows since around 2016, with net gains remaining close to zero. This suggests greater business dynamism even while net gains remain nearly unchanged.

FIGURE 1
ESTABLISHMENT MIGRATION BY VENTURA, SANTA BARBARA, AND SAN LUIS OBISPO



Source: Numbers are computed by Xopolis LLC using data from BDRC/YTS database.

EMPLOYMENT AND SALES DATA

Next, we looked at employment and sales by business migration flows. What we're looking to determine here is how these business migration patterns are associated with each County's economic growth.

- As shown in Figure 2, Ventura County (Panels A and B) and San Luis Obispo County (Panels E and F) the net result from those inflows and outflows of firms is that we have higher sales and more employment for each County for most years.
- The same does not hold true for Santa Barbara County (Panels C and D) where business outflows result in lower total employment and sales in most years.

Our best understanding of the data in Figure 2 requires that we appreciate two key, related observations.

First, the increases and decreases in employment and sales, on a year-by-year basis, are very volatile. What we mean by that is the movement of just one large firm can have a significant impact on the measure of employment and sales. Second, we find that the movement of even just one or two large firms may have such significant impact on these measures precisely because the total number of firms moving, in and out, is so small.

What we conclude from this volatility is that it is important to look at multiple year trends and the full 20 year horizon to understand whether and how our local economies benefit or suffer from business migration.

FIGURE 2
TOTAL EMPLOYMENT AND SALES BY INFLOW, OUTFLOW AND NET FLOW OF ESTABLISHMENTS

Source: Numbers are computed by Xopolis LLC using data from BDRC/YTS database.

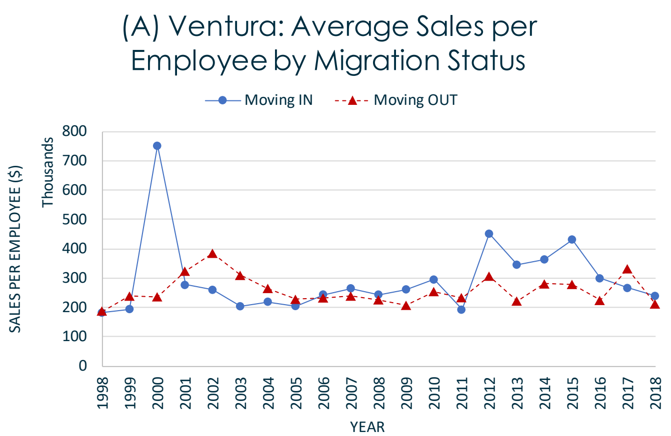
BUSINESS PERFORMANCE

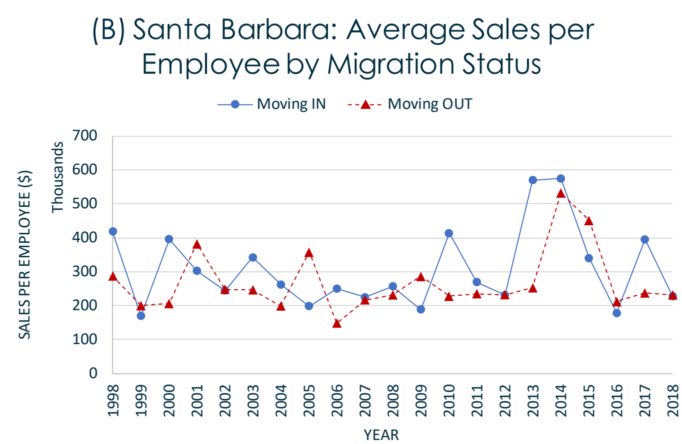
Finally on the data, we looked to see how the businesses that move in perform compare to businesses in general.

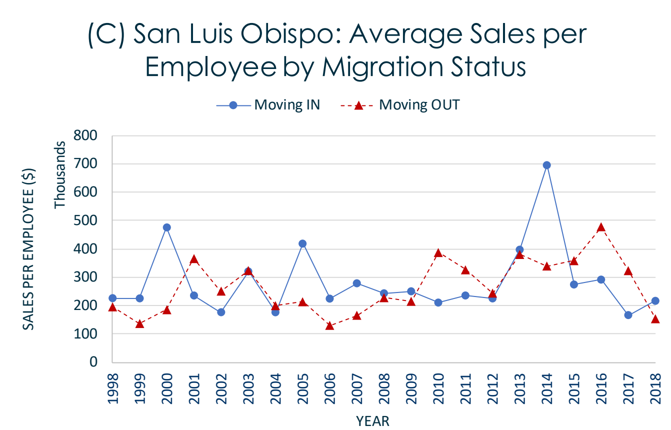
For this we looked at two data sets. The first was to see what is the average size of employment and sales for the firms moving in and out. Here we found that for all three counties the firms moving out are marginally larger in both employment and sales.

But for a second set of data, we concentrated our attention on business productivity or efficiency, as measured by the average level of sales per employee for both inflows and outflows. Interestingly, as shown in Figure 3A below, the firms moving in to Ventura County are for most years more productive. For Santa Barbara and San Luis Obispo (Figures 3B and 3C), it's about an even mix, with a high level of year-over-year volatility.

FIGURE 3
AVERAGE SALES PER EMPLOYEE OF BUSINESSES MOVING IN VS MOVING OUT







Source: Numbers are computed by Xopolis LLC using data from BDRC/YTS database.

IF BUSINESS MIGRATION IS POSITIVE, THEN WHY IS THE VENTURA COUNTY ECONOMY SO STAGNANT?

By focusing on business migration patterns, we recognize that this analysis illuminates only a small part of the region's economic profile. As we note throughout, businesses that move into or out of the region make up only a very small part of the larger economy. That larger economy is populated by a diverse mix of firms that are both growing and declining, expanding here and elsewhere, and by entrepreneurs launching new enterprises. Accordingly, our primary focus in local economic development services is on the retention and growth of existing firms and on business start-up resources.

We also certainly do not intend to suggest that all is well in the local economy. It clearly is not. Our job growth is slow and overly concentrated in low wage employment. Our labor force is growing even more slowly, and our four year growth in productivity is stagnant. Strong as we are in condition—ranked 60th in local GDP among the nation's 383 Metropolitan Statistical Areas and carrying a very low 3.2% unemployment rate—we are one of the *slowest growing* economies in California and the nation.

What this report does contribute to our regional understanding is that our weak economic performance is correlated more to slow or negative rates of expansion for existing firms, to an increasing concentration in low wage sectors and to slow growth in startups, *not to the exit of existing firms.*

This report contributes to our understanding that our weak economic performance is correlated more to slow or negative rates of expansion in a number of areas but not to the exit of existing firms.

CALIFORNIA'S ECONOMIC COMPETITIVENESS SETS THE STANDARD

In summary, what we find is that in spite of perceived high taxation and regulation, more firms move into the region than out, and while small in total number, they create more value in total sales and employment and contribute a disproportionate positive share of economic growth.

While our central coast region is only a small part of a larger more complicated set of regional economies across the whole of California, we shouldn't be entirely surprised by this data. "Business climate" is more than taxation and regulation. It is also the sum of market opportunities, talent and innovation. The evidence is clear that California offers an extraordinarily competitive environment:

- The world's 5th largest economy
- #1 among all states in business profits (Buinessweek, Bloomberg)
- #1 among states in venture capital & foreign direct investment (NVCA.org and SelectUSA.gov)
- #1 among states in federal research funding & business R&D (National Science Board)
- #3 among states for technology and science concentration (Milken Institute)

Further, we read with interest **Ernst and Young's** annual state by state business taxation comparative analysis, finding that while California is marginally higher than the median in overall business taxation, our deviation from the norm is minimal, and California's business taxation level is friendlier than that of Texas.

A RENEWED MESSAGE OF SERVICE DELIVERY AND ECONOMIC OPPORTUNITY

The data tells us that "business flight" is mischaracterized. It is neither a primary cause nor a primary symptom of our economic condition or malaise. Knowing this clears ground for a better focus on our real issues: slow growth of existing firms; decline in higher paying sectors, replaced by lower; shortages of housing, labor force, and new firm start-ups. The data, limited as it is, affirms our allocation of economic development resources on business retention, growth and entrepreneurship.

Moving forward, we will continue to mine this data to identify the sources for business migration into the region, and we will be working strategically to capture and nurture our share of business inflows. There is more to come for our reporting out on the richness and utility of the data.

Further, on messaging, we think that our business advocacy has too often and easily devolved to complaints about California's competitiveness, data to the contrary notwithstanding, to our detriment. We're too often our own worst enemy, doing the work for our competitor states, repeating their story that California is bad for business, telling our own firms they'd be better off leaving.

All this is not to say that we think business leaders should quit advocating for their interests, or that we don't think there is opportunity for improvement. Rather we opt for a more accurate message, one that includes a balancing emphasis tied to real data on California's and our regional strengths.

It is not too late to drop the popular but misinformed story of California business misery and massive out migration and replace it by one informed by data. It's this more real and positive story that we believe will be more effective at informing strategic action and contributing to a growing economy, that is, after all, in service of our shared interests.

Lokesh Dani, Xopolis: Urban Analytics LLC
Ray Bowman, EDC, Ventura and Santa Barbara County Small Business Development Center
Bruce Stenslie, Economic Development Collaborative

ECONOMIC
DEVELOPMENT
COLLABORATIVE

Economic Development Collaborative
4001 Mission Oaks Blvd, Suite A-1
Camarillo, CA 93012
805.384.1800 www.edcollaborative.com