



THE CSUS FORECAST OF THE SACRAMENTO REGION

Developed by the California Institute for County Government

July 2004

FORECAST HIGHLIGHTS

Employment growth in the Sacramento Region has slowed over the past year, but remains positive. After outperforming both the statewide and national labor markets during the past several years, the region's job growth performance has faltered in recent months as state and national labor markets have picked up. In May 2004, job growth slowed to a seasonally adjusted rate of 0.44 percent.

During the coming twelve months, our forecast calls for a generally improving jobs outlook, with job growth nearing 2 percent by next spring.

positive growth in the region. Government remains a major weak spot, with the government sector steadily losing jobs over the past few months. We expect government employment losses to continue in the face of ongoing budget difficulties at the state and local levels.

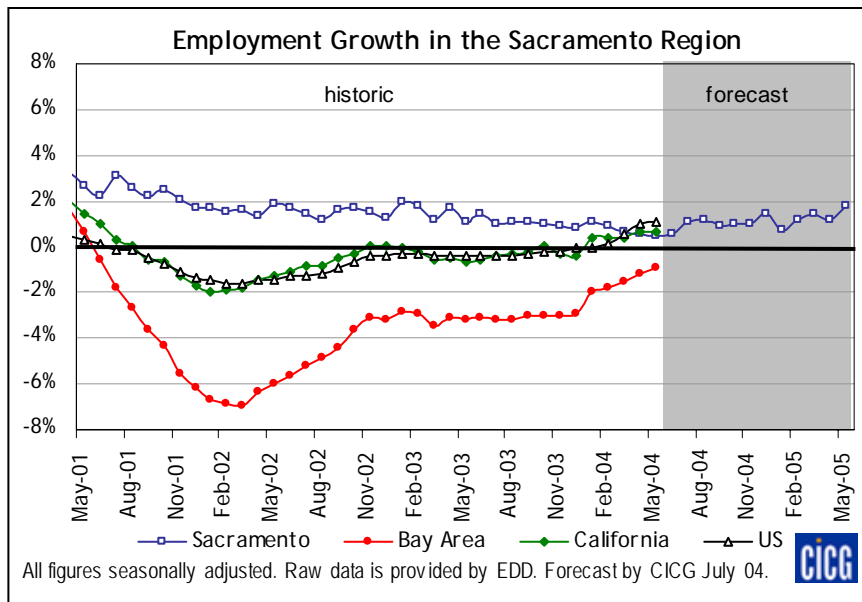
at a seasonally adjusted year over year rate of 0.69 percent in May.

Nationally, the labor market gained jobs in May at a seasonally adjusted rate of 1.12 percent. Job growth has been positive for the past four months and there is optimism regarding productivity growth, profits and commercial investments.

The stock market has been improving steadily since bottoming out last spring, although the last few months have shown some indication of a leveling off (see the graph on the following page).

Consumer sentiment has been volatile over the past year, and at 90.2 this May is nearly two points

less than the May 2003 level. Consumer sentiment is often linked to the public's perception of the labor market, which has been generally stagnant at the national level over the past year, but has recently improved.



SACRAMENTO REGION

EMPLOYMENT OUTLOOK

Over the past year, job growth in several key sectors, particularly construction, has outweighed job losses in the manufacturing and government sectors to produce positive net job growth in the Sacramento region.

The manufacturing sector appears poised for a return to positive job growth, contributing to a generally encouraging outlook for overall

Over the next twelve months, we anticipate that job gains in the private sector will continue to outweigh job losses in the government sector, leading to slow but increasing job growth throughout the period.

STATE AND NATIONAL OUTLOOK

Statewide, employment growth has remained in positive territory since January, following more than a year of job losses. California gained jobs

KEY EMPLOYMENT SECTORS

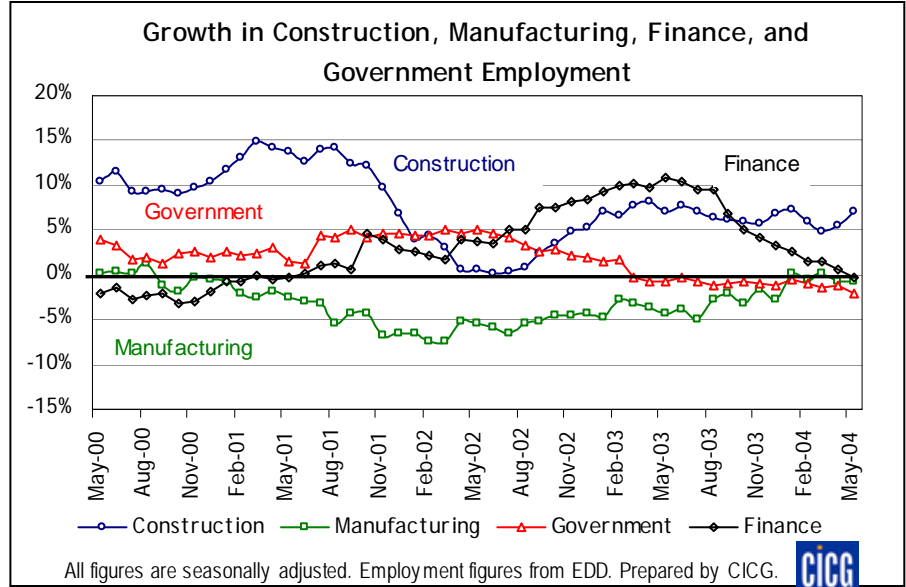
The performance of key local employment sectors tells the story of the Sacramento region's recent economic performance. As the graph (next page) illustrates, the construc-

tion and finance sectors have experienced significant job growth over the past year, although the finance sector has slowed considerably in recent months. Meanwhile, the government sector has continued to lose jobs over the past year. Manufacturing also continues to report job losses, a trend that has plagued the sector nationally for the past several years, although these losses have slowed recently and there are signs that the sector may start adding jobs again this year.

New home sales experienced significant growth over the past year, and low interest rates have kept home prices strong. Permit activity has dropped slightly over the past few months, but remains at historically high levels. See the CSUS Forecast of the Sacramento Region Housing Sector Outlook for more information.

CONCLUSIONS

Reversing a several years long trend, employment growth in the Sacramento region failed to outpace job growth statewide and nationally in May. Nevertheless, recent job gains in the private sector have been sufficient to keep the region's economy in positive territory, despite continu-



ing job losses in government.

We expect this trend to continue, with job growth accelerating over the coming year, reaching about two percent by next spring.

Risks to the outlook include the possibility of a fall-off in consumer spending or a future decrease in housing demand, fueling a reduction in construction employment. Conversely, indications of increasing strong job growth across the state and nation could act to fuel more rapid local job growth.

FORECAST NOTES

The CSUS Forecast of the Sacramento region was developed by the California Institute for County Government (www.cicg.org).

Support was provided by the California State University, Sacramento. Assistance with model development and programming was provided by Shawn Blosser of Databasis (www.databasis.com). CSUS professors Robert Fountain (emeritus) and Suzanne O'Keefe serve as forecast project advisors.

The forecast contains the results of an econometric model of the six county Sacramento region's economy (including the counties of El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba). For more information about the forecast methodology, please contact Matthew Newman, Director of CIGG, at 916.324.0796 or via email at mnewman@cicg.org

Please note that this edition of the CSUS Forecast incorporates the results of the EDD annual data revisions published in February 2004.

