FORECAST HIGHLIGHTS

Employment in the Sacramento Region is expected to continue to grow slowly for the next twelve months, increasing at a seasonally adjusted year-over-year rate of about one percent. The region’s economy is expected to avoid entering a recession, defined as two consecutive quarters of negative growth.

SACRAMENTO REGION EMPLOYMENT OUTLOOK

Employment growth, both nationally and within California, has slowed to the slowest pace seen in years. The nation now is officially in a recession. In the Sacramento region, employment growth also has slowed sharply during the past several months to a seasonally adjusted rate of just 0.15 percent in December 2001. As recently as April 2001, employment in the region was increasing at a seasonally adjusted year-over-year rate of nearly 4.0 percent.

Our forecast for the Sacramento region shows continuing slow employment growth, with no prolonged period of negative growth. We expect the rate of employment growth to remain close to zero for the next several months, before rebounding mildly by summer. The region is expected to end the year with employment growth in the one percent range.

STATE AND NATIONAL OUTLOOK

The Sacramento region continues to enjoy higher employment growth rates than the U.S. and the rest of California. In October, the seasonally adjusted rate of U.S. employment growth entered negative territory for the first time since the recession of the early 1990s, falling to a rate of -0.22 percent. Employment declines continued through December, with growth falling to -1.4 percent.

California’s rate of employment growth remained positive in October, but crossed into negative territory in November, coming in at a seasonally adjusted -0.05 percent. The state continued to slide in December, finishing the year with a seasonally adjusted year-over-year employment growth rate of -0.32 percent.

The San Francisco Bay area posted the worst employment growth performance in the state, with year-over-year employment figures contracting at a seasonally adjusted rate of 1.8 percent in December 2001.

In spite of the worsening employment growth statistics nationally and in California, most observers of these economies expect a turnaround starting sometime later this year.

Nationally, reductions in interest rates and inflation should act to aid the U.S. economy. In the Sacramento region, employment also has been responsive to changes in interest rates and inflation, increasing when interest rates and inflation decrease, and decreasing when these economic factors increase. With real short-term interest rates and inflation decreasing significantly in recent months, we expect to see the rate of decline in employment growth in the Sacramento region begin to level off.

Other recent economic news, including a slowing in the rate of new unemployment applications, a stronger than expected increase in retail sales for October, and recent increases in the index of leading economic indicators, have lead many national forecasters to conclude that recovery is likely in the coming months. Should the national economy significantly worsen, how-
ever, we would expect Sacramento’s economy to suffer as well.

**Key Employment Sectors**

Several local factors contribute to our forecast of relatively slow employment growth in the Sacramento region, without any prolonged periods of negative employment growth.

Manufacturing employment is continuing a year-long slide, falling at a seasonally adjusted year-over-year rate of more than 9 percent in December, down from the 5 percent growth rates observed in 2000. Government employment in the region, however, continues to be a stabilizing influence, growing at a consistent rate of approximately 5 percent during the past several months.

A recent increase in the number of new home sales in December may indicate continued strength in the region’s economy, although construction employment growth has slowed in recent months, down significantly from the 20 percent year-over-year increases observed in 2000. Nevertheless, the region continues to add construction jobs, albeit at a slower rate. Similarly, the rate of increase in new residential building permit applications, though recently declining, remains positive. The rate of new permit applications briefly dipped into negative territory in September 2001 before recovering somewhat in October and November.

**Conclusions**

In contrast to the recession of the early 1990s, we do not expect the Sacramento region to follow the nation into recession. Nevertheless, the potential for future military action in response to the events of September 11th and the continuing potential for a global slowdown pose significant risks for the national economy as well as for the Sacramento region.