



# THE CSUS FORECAST OF THE SACRAMENTO REGION

Developed by the California Institute for County Government

July 2002

## FORECAST HIGHLIGHTS

Continued poor employment growth nationally and throughout California has finally taken its toll on the Sacramento region's economy, up to this point an island of positive job growth. For the first time in nearly nine years the Sacramento region posted negative job growth results for June. Over the next several months, the continuing weakness in state and national job growth together with the growing state budget deficit, weakness in financial markets, and worsening consumer sentiment will all serve to create a worsening job growth outlook for the region.

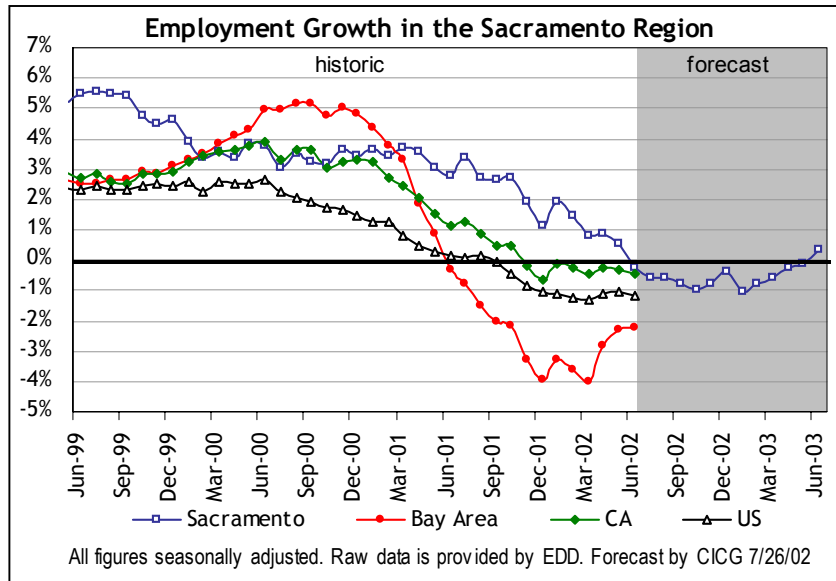
We expect the Sacramento region to post negative year-over-year job growth numbers of not more than about 1 percent during the next several months, with a return to positive job growth within 12 months.

## SACRAMENTO REGION EMPLOYMENT OUTLOOK

The Sacramento region recorded a seasonally adjusted year-over-year job growth rate of negative 0.26 percent in June, the first year-over-year negative employment growth numbers since July 1993.

Although government employers continued to post positive job growth results, virtually all other major sectors posted lower year-over-year job growth numbers. Retail trade, which has added an average of more than 1,700 jobs each June for the past dozen years, actually lost 500 jobs when compared to the previous month.

in May to a seasonally adjusted year-over-year rate of negative 1.17 percent in June. California's rate of employment growth has remained negative since November 2001. The state posted a seasonally adjusted year-over-year rate of employment growth in June of negative 0.46 percent, slightly worse than the negative 0.35 percent rate recorded in May.



The San Francisco Bay area continues to post poor employment growth numbers, with year-over-year employment figures contracting at a seasonally adjusted rate of negative 2.24 percent in June, a barely perceptible improvement from May's negative 2.28 percent rate.

With the stock market hitting lows not seen for years and consumer sentiment waning, the outlook for a return to robust job growth in the near term remains dim.

## STATE AND NATIONAL OUTLOOK

In spite of the increase in economic output nationally during the first two quarters of 2002, both the national and state economies continued to lose jobs in June when compared with the same period a year earlier. In fact, the rate of job losses increased slightly for both economies in June relative to May. U.S. employment growth was negative for the tenth straight month, falling from a rate of negative 1.02 percent

## KEY EMPLOYMENT SECTORS

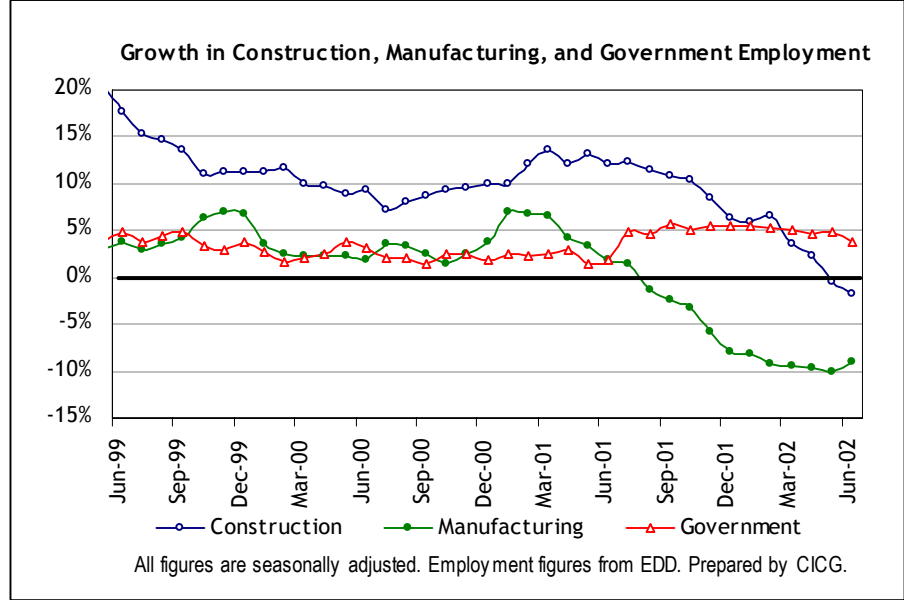
Several local factors contribute to our forecast. Although the rate of decline appears to be moderating somewhat, manufacturing employment continues to slide, falling at a seasonally adjusted year-over-year rate of negative 9 percent in June, down from the 2 percent positive growth rates observed in June 2001.

The government sector, which has consistently been a stabilizing influence on the region's economy, continued to add jobs in June, although the rate of increase has been slowing somewhat in recent months. The state budget deficit may act to further slow government employment growth in future months.

While the level of new home sales continues to set records, gains in residential construction employment have not been sufficient to offset losses in commercial construction activity. Although the overall level of construction employment in June exceeded the level recorded in May, the increase was lower than would normally be expected during the spring and summer season. As a result, the level of construction employment recorded in June 2002 was slightly lower than the level reported last June, indicating a year-over-year change in construction employment of negative 1.70 percent.

**CONCLUSIONS**

The region's economy has entered a period of moderate negative employment growth which will likely extend through early next year before returning to positive levels of job growth within 12 months.



Government employment will continue as a stabilizing influence on the region's economy, while new home sales and residential construction activity will help to offset job losses in other sectors.

Risks to the outlook include the potential for a national "double dip" recession in which growth again turns negative before resuming a positive growth trend. In addition, the effects of continuing turmoil in financial markets may also act to reduce job growth in future months.

**FORECAST NOTES**

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

Support was provided by the California State University, Sacramento. Assistance with model development and programming was provided by Shawn Blosser of Databasix ([www.dbasix.com](http://www.dbasix.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](mailto:mnewman@cicg.org)

Please note that this edition of the CSUS Forecast incorporates the results of the EDD annual data revisions published in February 2002.

