**Forecast Highlights**

The Sacramento region’s economic deceleration finally translated slowing job growth to job losses this past quarter. In September 2002, the region was adding jobs at a seasonally adjusted rate of nearly 2 percent. By September 2003, the region was losing jobs at a seasonally adjusted rate of 0.99 percent.

During the coming twelve months, our forecast calls for continuing job losses in the Sacramento region for the next several months, followed by a rebound in job growth starting next summer.

Over half of the region’s recent job losses are due to layoffs in the government sector, the largest employment sector in the Sacramento region.

**Sacramento Region Employment Outlook**

During the third quarter of this year, job losses in the manufacturing and government sectors outweighed job gains in other sectors, resulting in the first sustained period of net job losses for the region since the early 1990s. In the face of continuing state budget problems, we expect this trend to continue into next year.

By late next year, we anticipate that job gains in the private sector will outweigh job losses in the government sector, leading to a slowing of the net job losses by next spring and a resumption of job growth by next fall.

**State and National Outlook**

The last three months saw a slight improvement in the state economy, although California lost jobs at a seasonally adjusted year over year rate of 0.33 percent in September.

After briefly outperforming the nation during most of the past year, for the past two months California’s job growth results have steadied at rates nearly identical to the nation’s results. For September, the national economy lost non-farm jobs at a seasonally adjusted rate of 0.34 percent.

The continued stagnation in the labor market has many forecasters discouraged regarding the economic outlook for the state and the nation. The stock market, which had demonstrated some signs of having bottomed out this past spring, decreased slightly in September. (See the graph on the following page.) Consumer sentiment has been down the last two months, however it remains higher than the low levels reported in the winter and early spring, and preliminary figures for October indicate that sentiment is rising. This is a positive indicator, as consumer sentiment is often linked to the public’s perception of the labor market.

**Key Employment Sectors**

The performance of key local employment sectors tells the story of the Sacramento region’s economic performance over the coming months. As the graph (following page) illustrates, regional growth in construction jobs has nearly ended. Meanwhile, the government sector
has begun to lose significant numbers of jobs. Manufacturing continues to report job losses, a trend that has plagued the sector nationally for the past several years, although these losses have slowed recently. The job losses from these sectors are only partially offset by other employment gains, particularly in the financial and health services sectors.

New home sales experienced significant growth over the last few months, even as long-term interest rates rose. Permit activity continued at very high levels in August, although the slowdown in construction hiring suggests it may be leveling off.

**CONCLUSIONS**

The region’s economic decline has come closer to matching the poor performance of the state and national economies. While government employment was able to stabilize the regional economy over the past two years, recent job gains in the private sector have not outpaced government job losses stemming from the state budget deficit. There remains uncertainty as to how the present political transition will impact that employment sector, and how any changes in state taxes may impact the economy.

Housing demand has increased over the last few months to a new high of 1,600 new homes sales in August. However, the slowdown in construction employment suggests that the housing market may not be strong enough to support the regional economy going forward. Risks to the outlook also include the possibility of a fall-off in consumer spending or a future decrease in housing demand, fueling a reduction in construction employment. Conversely, strong job growth across the state or 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 Databasix (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 CICG, 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 2003.