Forecasts Highlights

Employment growth in the Sacramento Region has slowed over the past year, and has been underperforming both the statewide and national labor markets in recent months. In August 2003, the region added jobs at a seasonally adjusted rate of 1.17 percent. By August 2004, that job growth had deteriorated to a negative 0.11 percent rate, according to initial figures from the Employment Development Department.

Despite recent poor performance, our forecast indicates that the coming twelve months should be a period of improving performance for the labor market in the Sacramento Region, with job growth reaching 3 percent by next fall.

Sacramento Region Employment Outlook

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

The manufacturing sector has exhibited near zero job growth over most of the past year, an improvement over past performance, and an indication that a return to positive growth may be forthcoming. Government remains a major weak spot in an otherwise generally good outlook, as job losses continue to grow in that sector. We expect the government sector to remain weak in the face of ongoing budget deficits at the state and local levels, although the pace of government job losses should slow.

Over the next twelve months, we anticipate that job gains in the private sector will again outweigh job losses in the government sector, leading to overall job growth by next year.

State and National Outlook

Statewide, employment growth has remained in positive territory since January, the longest sustained positive job growth numbers for the state for the past few years. California gained jobs at a seasonally adjusted year over year rate of 0.76 percent in August.

Nationally, the labor market continued to gain jobs in August, at a seasonally adjusted rate of 1.35 percent. This marks the seventh straight month of increasing job growth, with many experts pointing to productivity growth, profits and commercial investments as signs that more improvements are likely in the coming months.

The stock market has been improving fairly 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, but at 95.9 this August is nearly seven points higher than last year at this time. Consumer sentiment is often linked to the public's perception of the labor market, which has been improving at the national level over the past few months.
**Key Employment Sectors**

The performance of key local employment sectors tells the story of the Sacramento region’s economic performance. As the graph (opposite) illustrates, the construction sector has continued to add jobs, although growth in most other sectors has slowed, with the financial sector finally showing job losses this past month, according to preliminary EDD reports. The government sector has also exhibited growing job losses, which reached nearly 3% this August. Manufacturing, while not showing job growth, appears to be at the end of the long stretch of job losses that have plagued the sector nationally.

**Conclusions**

Employment growth in the Sacramento region has been lower than job growth both statewide and nationally over the last several months, finally dropping below zero this August. Recent job gains in the private sector have been more than offset by losses in the government sector, however possible future government employment gains, and increased growth in the private sector will work to boost job growth in the region, and overall our outlook is positive. We expect employment growth through the coming twelve months.

Increases in permit activity and construction employment suggest that the housing market likely will remain strong, helping support growth in the Sacramento Region’s economy.

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 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 2004.