FORECAST HIGHLIGHTS

In February 2003, the Employment Development Department revised its job growth figures for 2002, revealing that, earlier reports to the contrary notwithstanding, the Sacramento region had in fact continued to add jobs throughout the year.

In spite of the positive upward revision to the employment numbers, continued poor employment growth nationally will take its toll on the Sacramento region’s economy in the coming months. With the state budget deficit expected to result in layoffs of state workers, reduced state expenditures within the Sacramento region, and possible tax increases, the prospects for a return to robust job growth in the Sacramento region in the near term remain dim.

SACRAMENTO REGION EMPLOYMENT OUTLOOK

We expect the level of employment in the Sacramento region to remain relatively steady over the coming year. We do not expect to see substantial job losses, nor are we likely to experience robust growth. In March, the Sacramento region recorded a seasonally adjusted year-over-year job growth rate of 0.88 percent. Though still positive, the March numbers marked the second month in a row of decreasing rates of job growth, down from 1.38 percent in January and 1.90 percent in March 2002.

California’s job growth results significantly outperformed the nation, which reported continued mild job losses in March of –0.19 percent.

There appears to be a good deal of uncertainty among state and national forecasters, with most expecting continued poor employment growth for the coming year.

With the stock market still in the doldrums and consumer sentiment continuing to slide, the outlook for a return to robust job growth nationally in the near term remains dim.

California’s recent positive job growth performance is encouraging. However, it is unlikely that significant growth in the Sacramento region will resume in the near term. In fact, March marked the first month in more than two years in which the state economy outperformed the region’s.

STATE AND NATIONAL OUTLOOK

According to the latest EDD numbers, the state economy resumed positive job growth in the fall of 2002, following a short period of very mild job losses during the winter and summer. This March, the state added jobs at a seasonally adjusted year over year rate of 1.52 percent, up substantially from the negative 0.58 percent rate reported for March 2002.

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 (opposite) illustrates, the region continues to add construction jobs. And while the government sector also continued to add jobs in March, potential job losses in the government sector – comprising more than one fourth of total jobs in the region and traditionally a stabilizing influence on the economy – likely will serve to partially offset employment gains elsewhere in coming months. Manufacturing continues to report job losses, a trend that has plagued the sector since the summer of 2001.

New home sales and permit activity continued at very high levels in March, helping to drive construction employment growth. Nevertheless, the longer range trend in home sales appears to have peaked last fall. 2003 is expected to be an excellent year for home sales, though we are not likely to see increases above the record levels observed in 2002.

**Conclusions**

The region’s economy remains in a steady state period, which likely will extend until next spring. And while no additional job losses are anticipated for the summer and fall, a return to significant employment growth is not expected anytime during the next twelve months. The key for the region will be the extent to which job gains in the private sector can outpace job losses stemming from the state budget deficit. In addition, the success of the region in adding jobs in 2003 will depend in part on the demand for housing.

Risks to the outlook include the possibility of a fall-off in consumer spending or a decrease in housing demand. Conversely, continued 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 Databasis (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.