FORECAST HIGHLIGHTS

In spite of improving economic performance nationally, the Sacramento region’s economic deceleration continued throughout the fall, with modest job losses continuing for the seventh straight month. In November 2002, the region was adding jobs at a seasonally adjusted rate of just over 1 percent. By November 2003, the region was losing jobs at a seasonally adjusted rate of 0.7 percent.

During the coming twelve months, our forecast calls for continuing job losses in the Sacramento region through the spring, followed by a return to positive job growth starting next summer.

SACRAMENTO REGION EMPLOYMENT OUTLOOK

This fall, job losses in the manufacturing, services and government sectors outweighed job gains in other sectors, continuing the trend of net job losses for the region. In fact, 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. In the face of continuing state budget problems, we expect this trend to continue into next year.

In 2004, 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 summer.

STATE AND NATIONAL OUTLOOK

After briefly outperforming the nation during most of the past year, California recently has experienced slightly higher job losses relative to the nation as a whole. And while the last three months saw a slight improvement in the state economy, California nevertheless lost jobs at a seasonally adjusted year over year rate of 0.33 percent in November.

Many forecasters predict continuing stagnation in the labor market across the state and the nation, although there is some optimism regarding productivity, profits and commercial investments.

The stock market has demonstrated signs of having bottomed out this past spring, and has improved steadily since (see the graph on the following page).

Consumer sentiment has been improving since September, reaching a high of 93.7 in November. Sentiment has not been this high since September 2002. 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 increased slightly over the past few months. Meanwhile, the government sector continues to lose significant numbers of jobs. Manufacturing also continues to report job losses, a trend that has plagued the sector na-
tionally for the past several years, although these losses have slowed recently. The job losses from these sectors have been only partially offset by other employment gains, particularly in the financial, trade and health services sectors.

New home sales experienced significant growth over the last few months in spite of a modest increase in long term interest rates. Permit activity also increased, although it remains lower than the highs reached last year.

CONCLUSIONS

The Sacramento region’s economy has been performing more poorly than the state and national economies for the past four months. 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 troubles. With continuing state budget deficits, prospects for a return to government job growth in the near term remain dim.

In spite of the overall negative job picture, new home sales remained strong over the last few months, reaching a new high of 1,633 new homes sales in October. The increase in permit activity and construction employment suggests that the housing market may remain strong, but it is unclear if it will 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.