

# Sacramento Region Business Forecast

FIRST QUARTER 2012 UPDATE

PRESENTED BY



## Positive Job Growth is Anticipated in the Sacramento Region Over Much of the Coming 12 Months

The six-county Sacramento Region will see positive annual job growth return by the third quarter of 2012, according to the first quarter 2012 update to the *Sacramento Region Business Forecast*. The forecast shows annual job growth ranging between -0.4 percent and 1.2 percent within the April 2012 to March 2013 period. To put the high end of this range in perspective, the state and nation have been posting annual job growth around or above the 1.0 percent level since early 2011. On average, over the 12-month forecast period, the Region will post 0.5 percent job growth (equating to 3,800 jobs), which reflects a notable improvement over the past 12 months when job growth averaged -0.9 percent. Recovery in the Sacramento Region has lagged the state and the nation, but regional job growth has shown an upward pattern since the summer of 2011 and is currently experiencing only modest annual job

losses. The positive momentum of sustained job growth at the statewide and national levels and encouraging trends in other key indicators such as consumer sentiment and business confidence (as reflected in the *Sacramento Region Business Confidence Index*) will likely have a beneficial impact on recovery in the Sacramento Region, particularly in the private sector. Following a brief period of continued negative job growth, the forecast shows that the Region will again see job gains on a consistent basis, nearly two full years after the state and the nation shifted back to positive territory and following 54 straight months in negative territory. It is important to note that, two wildcards that cannot be fully accounted for in the forecast could substantially affect the economic outlook including government revenue shortfalls at the state and local levels and economic performance within major global markets.

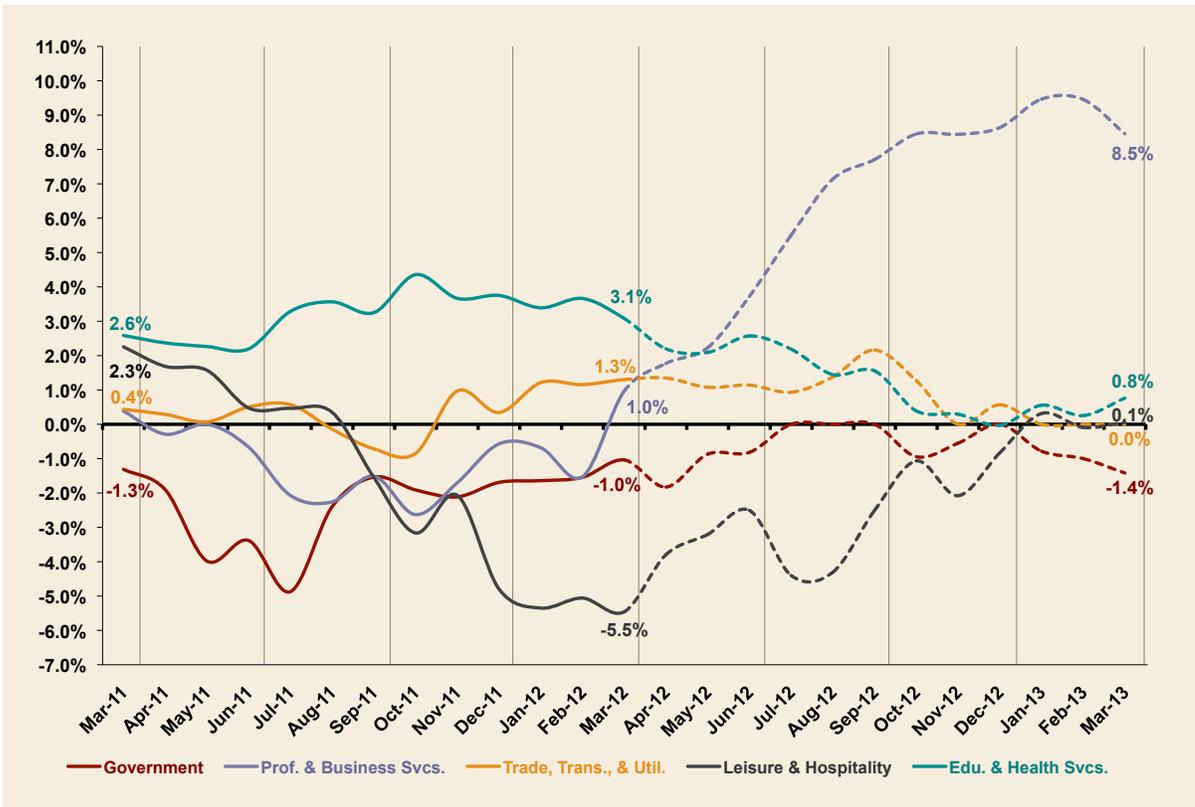


**Sacramento Region Annual Job Growth Outlook**  
 April 2012 to March 2013 Forecast

Data Sources: Historical from CA Employment Development Department; Forecast from CSER Business Forecast model

# Three of the Sacramento Region's Five Largest Sectors are Expected to Add Jobs in the Next 12 Months

## Sacramento Region Largest Sector Annual Job Growth Outlook April 2012 to March 2013 Forecast



Data Sources: Historical from CA Employment Development Department; Forecast from CSER Business Forecast model

Job growth in the Sacramento Region is driven in large part by performance in its five largest sectors. On average, over the next 12 months, three of the five largest sectors are forecast to experience positive job growth, which will help pull the Region out of the ongoing recession. The combination of sustained job growth statewide and regional recovery creates the conditions for accelerated job growth in the Professional & Business Services sector, which depends upon spending from other sectors. The outlook for this sector shows a steep upward pattern (not atypical of other recoveries) and notably robust growth rates. The strong rates of growth in the Educational & Health Services sector (dominated by healthcare activities) are forecast to slow over the coming 12 months as the expanded workforce is fully absorbed by establishments in this sector.

Job growth in the Region's Trade, Transportation, & Utilities is primarily influenced by retail trade activities, which have been recovering recently. With rising consumer sentiment and business confidence and overall economic improvement, this sector is expected to sustain positive job growth over most of the forecast period. Gains in these three large sectors will be tempered by losses in Government and Leisure & Hospitality. The former is anticipated to see job losses as federal, state, and local entities address budget difficulties and the latter will take some time to bounce back from its current level of loss even with overall regional recovery.

## The Majority of Sacramento's Major Sectors Will See Positive Job Growth During the Next 12 Months

The forecast update shows that 6 of the Sacramento Region's 11 major sectors will see annual employment growth rates improve in the next 12 months. The most pronounced improvements are anticipated in the Professional & Business Services; Manufacturing; and Other Services sectors (excluding the small Mining & Logging sector). While only three of the Region's major sectors saw positive job growth in the past 12 months, six are projected to place in positive territory in the next 12 months. The most dramatic rates of loss are forecast within the Construction and Information sectors where regional economic conditions will not return to a place to support growth in these sectors over the forecast period. The strongest growth across the board is expected to occur in the third and fourth quarters of 2012 before slowing slightly in many sectors during the first quarter of 2013. Total Nonfarm employment in the Sacramento Region is forecast to move up to nearly 842,000 from the current level of about 839,000 as recovery takes hold. Although this reflects a notable gain, the employment level in March 2013 will remain around year 2000 and 2001 levels and well below the 2007 peak.

### Major Sector Annual Average Job Growth Outlook Q2-12 to Q1-13 Forecast, Sorted by Sector Size

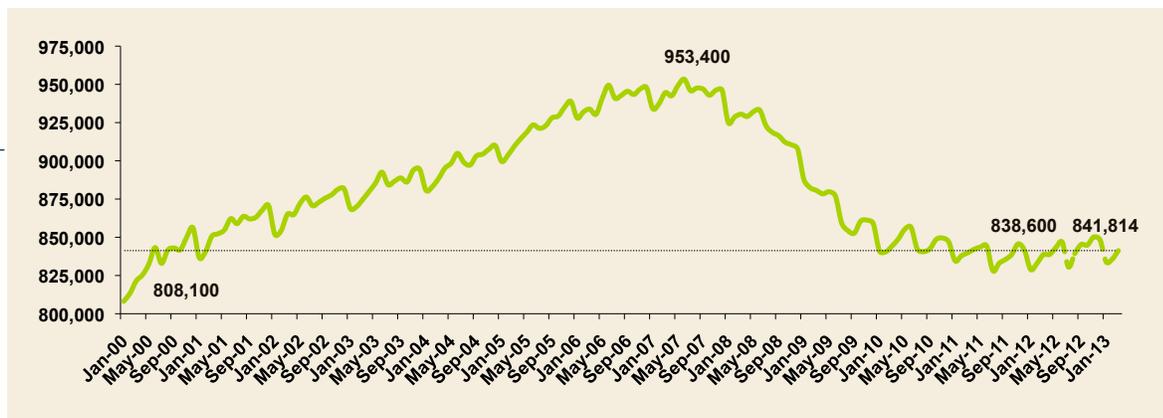
Sector	Past 12 Months	Next 12 Months	Q2-12	Q3-12	Q4-12	Q1-13
<b>Total Nonfarm</b>	<b>-0.9%</b>	<b>0.5%</b>	<b>-0.1%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.5%</b>
Government	-2.3%	-0.7%	-1.2%	0.0%	-0.5%	-1.1%
Trade, Trans., & Util.	0.4%	0.8%	1.2%	1.5%	0.6%	0.0%
Edu. & Health Svcs.	3.2%	1.2%	2.3%	1.7%	0.2%	0.5%
Prof. & Business Svcs.	-1.1%	6.7%	2.6%	6.8%	8.5%	9.1%
Leisure & Hospitality	-1.9%	-2.0%	-3.2%	-3.7%	-1.3%	0.1%
Financial Activities	-1.3%	-3.2%	0.3%	-1.8%	-5.0%	-6.3%
Construction	-5.3%	-5.3%	-7.3%	-4.8%	-3.3%	-5.8%
Manufacturing	0.2%	2.9%	0.8%	3.0%	4.5%	3.2%
Other Services	-0.3%	2.8%	2.6%	2.3%	3.4%	2.9%
Information	-1.6%	-4.1%	-2.1%	-4.7%	-5.5%	-4.3%
Mining & Logging	-6.3%	20.1%	23.5%	36.7%	23.7%	-3.7%

Data Sources: Historical from CA Employment Development Department; Forecast from CSER Business Forecast model

## Nonfarm Employment in the Sacramento Region Will Increase Modestly Through the Coming 12 Months

### Sacramento Region Total Nonfarm Employment Outlook April 2012 to March 2013 Forecast

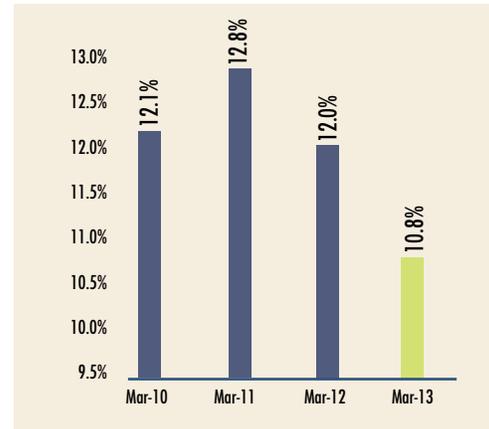
Data Sources: Historical from CA Employment Development Department; Forecast from CSER Business Forecast model



# Anticipated Positive Job Growth Will Push the Sacramento Region's Unemployment Rate Down

The Sacramento Region's unemployment rate has been moving down on a seasonally adjusted annual average basis reaching 12.0 percent in March 2012. Labor market conditions have also been shifting where employment opportunities are expanding at the same time the labor force is holding steady. With the recovery into positive job growth, these patterns should accelerate and the Region's unemployment rate will drop to 10.8 percent unemployment by March 2013. Sacramento's unemployment rate will likely remain above the statewide and national averages over the forecast period. During this period, it is also expected that discouraged workers will reenter the labor market and underemployed residents will look for opportunities for job movement, holding the unemployment rate higher than it otherwise would have been.

## Sacramento Region Unemployment Rate Outlook April 2012 to March 2013 Forecast (Seasonally Adjusted Annual Average)



Data Sources:  
Historical from  
CA Employment  
Development  
Department; Forecast  
from CSER Business  
Forecast model



CENTER for STRATEGIC  
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The Center for Strategic Economic Research (CSER), an economic research and consulting group affiliated with the Sacramento Area Commerce and Trade Organization (SACTO), provides a full range of objective economic and demographic research services to businesses, government entities, educational institutions, and non-profit organizations throughout the country. For more information about CSER or the *Sacramento Region Business Forecast*, visit [www.strategiceconomicresearch.org](http://www.strategiceconomicresearch.org) or contact CSER by mail at 400 Capitol Mall, Suite 2500, Sacramento, CA 95814; by telephone at (916) 491-0444; or by e-mail at [info@strategiceconomicresearch.org](mailto:info@strategiceconomicresearch.org).

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THE INSIDE TRACK

**FORECAST BACKGROUND** — The forecast highlights the results of econometric models that analyze the relationship between indicators of economic performance, job growth, and unemployment rates in the six-county Sacramento Region (El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba Counties). Job growth, or the year-over-year growth rate in Nonfarm employment, is one of the best and most closely monitored measures of regional economic performance. Total Nonfarm employment is made up of 11 major industry sectors that group the Region's establishments together based on similarity in business processes used to produce goods or services. The unemployment rate measures the extent to which residents are able to find employment opportunities, specifically capturing those individuals who are part of the labor force and are not working, but are able, available, and actively looking for work. A forecast of job growth, major sector performance, and unemployment rates provides the business and economic development communities an outlook for the Region's economy 12 months into the future.

The econometric models primarily rely on a vector autoregression (VAR) technique, which allows a single model to forecast all variables simultaneously and keep outcomes mutually consistent. Specifically, all 11 major industry sectors are forecast at the same time and aggregated to describe overall Nonfarm employment. Forecast changes in Nonfarm employment are then run through another least squares regression model that analyzes corresponding changes in the unemployment rate over time. The forecast models are recalibrated bi-annually, to address fundamental shifts that occur in the economy. Close to four dozen leading, coincident, and lagging indicators for the Sacramento Region, Bay Area, California, and the United States were analyzed and considered as potential predictors of major industry sector and total Nonfarm employment levels. In this recalibration process, the models were adjusted in three key areas. First, potential growth in the Government sector was capped over the next 12 months in consideration of the current fiscal and political environment that the federal, state, and local governments are operating within. Second, the levels of continued losses in the Construction sector were restricted to emphasize trends in recent years and account for the significant losses already incurred during the ongoing recession. Third, a growth floor was integrated for retail trade activities based on macro trends in the sector as well as increasing consumer sentiment and business confidence levels. The VAR and least squares models have demonstrated strong predictive ability for calculating job growth and unemployment rates by month from 1992 to the most current data. Since Nonfarm employment reflects the average behavior across all major industries, the related forecast could contain greater predictive ability than the forecasts for any single component. It is important to note that this forecast takes historical data through March 2012 into account, a timeframe which captures the recession and beginning of recovery nationally, statewide, and regionally. Historical employment data also integrates the California Employment Development Department's annual benchmark adjustment process, which led to a significant downward revision in the Sacramento Region that was not reflected the previous forecast update.

The Center for Strategic Economic Research (CSER) developed the forecast to serve as a forward-looking resource for the Sacramento Region's business and economic development communities. It is currently the only locally-produced regional economic forecast for the six-county Sacramento Region. The job growth and unemployment rate forecasts follow data that are presented by CSER monthly in *Economy Watch* and quarterly in SACTO's *Quarterly Economic Report*. The forecast is updated bi-annually, after the conclusions of the first and third quarters, with the results presented as a supplement to SACTO's *Quarterly Economic Report*. CSER will also be incrementally growing the forecast beyond overall and industry-specific job growth and unemployment rates—as models are developed and tested, additional indicators will be presented in the bi-annual updates.

It is important to note that this forecast was created using historical data and econometric modeling techniques, reflecting performance and assumptions demonstrated through the latest historical data. Actual economic performance could differ significantly from this forecast and CSER and its affiliates shall not be held responsible for consequences resulting from any such differences.

# ACKNOWLEDGEMENTS

The Center for Strategic Economic Research (CSER) is grateful for the support of the Underwriters of this project:

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As a major regional employer, economic driver, health provider and innovation center, UC Davis Health System advances economic development and quality of life in the Sacramento area.

The region's only academic health center is home to a nationally ranked 645-bed acute-care hospital, one of the country's best medical schools, the new Betty Irene Moore School of Nursing, an 800-member physicians group and renowned specialty centers such as a National Cancer Institute-designated comprehensive cancer center. Together, they offer area workers and their families highly advanced care and promising new therapies for the most complex and acute health conditions.

With a workforce of roughly 10,000, UC Davis Health System is among Sacramento's largest employers. For every employee or dollar of output directly supported by health system operations, the north state's economy gains an additional 1.1 jobs or \$1.1 of output, according to a Center for Strategic Economic Research analysis. The health system's combined economic impact throughout Northern California is more than \$3.4 billion and more than 20,000 jobs.

UC Davis works actively through collaboration to expand the area's promising life sciences business sector. Examples include two National Science Foundation-supported UC Davis programs that help multidisciplinary teams bring research discoveries and technologies to the market. Since 2004, 34 startup companies have spun off from UC Davis in various sectors.

To learn more about how UC Davis Health System is improving lives and transforming health care, visit [healthsystem.ucdavis.edu](http://healthsystem.ucdavis.edu).

# Sacramento Region Business Forecast



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SACTO is the Sacramento Region's leading facilitator of economic development bringing together the organizations, information, and resources in the pursuit of jobs, talent, and investment needed to ensure regional prosperity and global competitiveness.

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