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NEWS RELEASE

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May 30, 2017

CALIFORNIA AND METRO FORECAST: May 2017

(Stockton, Calif.) May 30, 2017 – The California economy continues to perform well despite an uncertain policy environment according to the latest projection from the Center for Business and Policy Research at the University of the Pacific. Our California forecast shows slower growth compared to recent years, a natural outcome this far into an economic expansion where labor availability and resource constraints are placing physical limits on the pace of growth in some regions of the state. Nonfarm payrolls are projected to grow 1.7% in 2017 and 1.4% in 2018, up from 1.6% and 1.0% in our January 2017 forecast. The unemployment rate is projected to decline to 4.5% by the end of this year and stabilize at that level for 2018 and 2019.

One notable change to the forecast is slower population growth in California due to continued housing shortages, lower birth rates, and reduced immigration. While most recent years have seen California adding 350,000 residents per year, just under a 1% growth rate, our revised forecast shows California population growing by about 250,000 people per year in 2018 through 2020, only a 0.6% rate.

The regional outlook also features changes to population and labor force. It notes the remarkable change in the San Francisco area where it has added more people to its labor force than its total population in recent years as high-wage workers have displaced non-labor force participants such as families and retirees. Some of these are relocating to the Central Valley, whose metro areas have added population with little gain to the local labor force. While Bay Area job growth is slowing, we expect this shift in the labor force and commuting to continue at a somewhat slower rate. Thus, San Francisco should maintain the fastest regional job growth, over 2% in 2017 and 2018, despite unemployment below 3% and slow growth to its housing stock.

The Center for Business and Policy Research at the University of the Pacific was founded in 2004 and was known as the Business Forecasting Center until March 2015. The Center is a joint program of the Eberhardt School of Business and the McGeorge School of Law programs in public policy and has offices at the Sacramento and Stockton campuses. The Center produces economic forecasts of California and eight metropolitan areas in Northern and Central California, in depth studies of regional economic and policy issues, and conducts custom studies for public and private sector clients. For more information, visit Go.Pacific.edu/CBPR.

California Annual Forecast Summary

	2015	2016	2017	2018	2019	2020
Real Gross State Product (% change)	3.8	2.4	2.2	2.6	2.3	2.1
Non-Farm Payroll Employment (% change)	3.1	2.7	1.7	1.4	1.1	0.9
Unemployment Rate (%)	6.2	5.4	4.8	4.5	4.5	4.7
Housing Starts (thousands)	92.6	94.4	101.8	117.0	126.0	131.5

Central Valley Metro Forecast Summary

Metro Area	**Nonfarm Payroll Employment** (% change)					**Unemployment Rate** (%)				
	2016	**2017**	**2018**	**2019**	**2020**	**2016**	**2017**	**2018**	**2019**	**2020**
Sacramento	3.5	1.1	1.5	1.6	1.2	5.2	4.7	4.5	4.5	4.6
Stockton	3.4	1.8	1.5	1.3	1.0	8.0	7.3	6.8	6.7	6.8
Modesto	3.3	2.1	1.2	1.3	0.9	8.5	7.7	7.6	7.5	7.7
Merced	2.6	0.4	1.9	1.9	1.6	10.4	9.8	9.3	8.8	8.6
Fresno	3.4	1.9	1.4	1.4	1.1	9.4	8.8	8.4	8.1	8.1
California	*2.7*	*1.7*	*1.4*	*1.1*	*0.9*	*5.4*	*4.8*	*4.5*	*4.5*	*4.7*

Sacramento MSA includes Sacramento, El Dorado, Placer, and Yolo counties. Stockton, Merced, Fresno and Modesto MSAs correspond to San Joaquin, Merced, Fresno and Stanislaus counties.

Bay Area Metro Forecast Summary

Metro Area	**Nonfarm Payroll Employment** (% change)					**Unemployment Rate** (%)				
	2016	**2017**	**2018**	**2019**	**2020**	**2016**	**2017**	**2018**	**2019**	**2020**
San Francisco	4.0	2.1	2.2	1.7	1.2	3.2	2.7	2.5	2.5	2.5
San Jose	3.1	1.4	1.7	1.3	1.0	3.8	3.3	3.0	3.0	3.1
Oakland	3.3	1.5	1.6	1.5	1.2	4.3	3.7	3.4	3.3	3.3
California	*2.7*	*1.7*	*1.4*	*1.1*	*0.9*	*5.4*	*4.8*	*4.5*	*4.5*	*4.7*

San Francisco MSA includes San Francisco and San Mateo counties. Oakland MSA includes Contra Costa and Alameda counties. San Jose MSA includes Santa Clara and San Benito counties.

Highlights of the May 2017 California Forecast

- Real gross state product is forecast to grow 2.7% over the next 12 months, followed by a gradual decline in growth rates to 2.1% in 2020 as the risk of recession increases.

- The California unemployment rate has dropped below 5% and is forecast to stabilize between 4.5% and 5% for the next three years as the labor force and employment will grow at about a 1% annual rate over the forecast horizon.

- Nonfarm payroll jobs will grow 1.5% over the next 12 months, about half the pace of the previous four years when job growth was between 2.5% and 3%. This slower growth is to be expected for an economy nearing full employment.

- Health Services has become the largest employment sector in the state, and is projected to add about 40,000 positions over the next 12 months, less than the 65,000 jobs added in recent years. With federal health funding expected to decline, growth in Health Services jobs will drop to 20,000 new jobs per year by 2020.

- Professional Scientific & Technical Services is a high-paying sector that has fueled the recovery. Growth in this sector will slow to about 25,000 jobs over the next year compared to over 50,000 in some recent years as Silicon Valley growth cools.

- Leisure and Hospitality has seen fast growth in recent years. However, this sector's growth is slowing to 30,000 new jobs over the next 12 months and will cool further to 20,000 new jobs by 2020 as higher minimum wages lead to slower hiring.

- State and local government employment will be one of the slowest growing sectors, projected at 1% or less job growth over the next several years as state and local governments grapple with slower revenue growth and rising pension costs.

- About 25,000 new Construction jobs are anticipated in each of the next three years, about a 3% annual growth rate. Despite this expected growth, there will still be fewer Construction jobs in 2020 than before the recession.

- Single-family housing starts are growing slowly, only reaching 50,000 units in 2016. We project an increase to 58,000 units in 2017 and 68,000 units in 2018. Multi-family production recovered to 45,000 units in 2015 and has stabilized at this level. We expect modest multi-family growth to 55,000 units by 2020. Despite some growth, housing production will be insufficient to relieve the state's growing housing shortage.

- California's population growth rate is gradually declining due to lower birth rates, housing costs and availability, and lower immigration. By 2020, we project California will add about 250,000 new residents per year, down from 350,000 annual population growth seen earlier in the decade.

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