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## Labor Market & Regional Economy ....10

- » Sacramento employment has continued to increase, but at a slower pace than recent years.
- » Service sector employment remains strong while goods-producing employment declined.
- » Health care employment growth continues to lead the region while construction employment declined for the first time in seven years.

## SBR/SAFE Credit Union Consumer Sentiment Survey.....14

- » Consumer sentiment in the region remains positive overall.
- » The vast majority of respondents (almost 90%) believe their incomes will rise or stay the same over the next year. However, many respondents believe their incomes may not keep pace with inflation over this period.
- » Expectations for business conditions in the region over the next year remain generally positive, but some of this optimism has tapered off since our last survey.
- » Compared to national data, regional respondents are less optimistic about their financial outlook and the region's economic conditions.
- » Sentiment about business conditions in the national sample rose sharply during the first part of 2017, while regional sentiment has decreased over the same period.

## Small Business Economy.....18

- » Regional credit growth remains strong but the latest reading raises questions about future growth rates. Sacramento County's credit growth remains positive, while Placer County notched its second year of decline.
- » The mid-year SBCEI reading shows high degrees of confidence about the economic outlook, credit accessibility and future revenue opportunities. Local small businesses indicated they are very likely to hire, particularly in the manufacturing and services sectors.
- » Business listing and sales activity continued its modestly positive trend as subject companies are increasingly ones of higher quality and size.

## Real Estate..... 22

- » Commercial real estate remained strong in all sectors at midyear. As of Q2-2017:
  - Office vacancy down to 10.0%
  - Industrial vacancy in single digit territory, at 6.2%
  - Retail/shopping center vacancy down 110 BPS YoY, to 9.4%
  - Strong job growth and relatively few deliveries on the horizon, so expect to see vacancy rates continue to fall while rents steadily rise across all commercial categories.
- » Sacramento office skyline (top 17 Class A buildings) has seen asking rents at the highest quality properties reach \$3.50 psf/mo (Full Service Gross).
- » With limited supply of both existing and new SFR housing, Sacramento's average home values have increased dramatically over the last five years. Despite the higher sale prices, the average home is still only on the market for approximately nine days.

## Banking & Capital Markets..... 26

- » Overall, loan growth for area banks and credit unions should continue to slow relative to 2016 with tightened credit standards impacting the commercial real estate and auto loan categories in particular.
- » A flattening yield curve resulting from two quarter-point Fed fund hikes year-to-date and geopolitical uncertainty causing investors to park cash in safer, longer term Treasuries has already started to impact the bottom lines of area financial institutions.
- » Aided by the massive central bank stimulus programs that have only just begun to be scaled back, stock valuations continue to climb higher. The cyclically adjusted price-to-earnings ratio (aka the Schiller P/E) is approaching a level not seen since just before the Great Depression and the tech bubble of the early 2000s.
- » The overall trajectory of the SBR Financial Conditions Index has continued upward, although the most recent reading showed a downturn that is likely related to seasonal factors.

## Human Capital Index..... 32

- » Even though California is doing better than most of its peers, a 14-cent gap in wages between full-time employed men and women still exists.
- » Jobs in the software field have increased greatly although the overall number of jobs is small locally.
- » Local player increasing Intel spending on AI jobs, but still a fraction compared to other global players.
- » Sacramento has fourth fastest aging workforce in the nation, causing concerns for employers.

## 2018 Economic Forecast..... 39