BANK OF THE WEST

California Economic Outlook

Bank of the West Economics | June 2020

EXECUTIVE SUMMARY

- California's job growth engine has come to a screeching halt like an automatic car transmission that suddenly gets thrown into reverse. We are forecasting the deepest U.S. and global recession since the Great Depression and California's economy will not be spared from the pandemic's economic and financial damage.
- California jobs are projected to plunge 14.5% year/year in 2020. The initial shock is primarily coming from the widespread business shutdowns and shelter-at-home orders issued to help contain the virus spread and deaths. California consumers have already pulled back rapidly in their spending, and California's initial jobless claims have soared by almost 4.7 million since March 21st – this is nearly equivalent to the 4.9 million jobs lost in California during the entire 18 month Great Recession.
- But like an earthquake, this is only the start. State tax revenues are collapsing on lower sales and income tax receipts and will lead to gaping budget deficits in short order. State and local spending is expected to fall sharply to help balance the state budget, further weighing on California's job creation and forcing unemployment rates even higher. The state had a rainy day fund of around $21 billion, just for such an economic emergencies, but it will be quickly exhausted given the size and scope of the current economic shock. Indeed, the California Finance Department announced in early May that it was forecasting a $54 billion budget deficit for the fiscal year beginning on July 1, 2020 as personal income taxes drop 25.5%, sales and use taxes decline 27.2% and corporate taxes fall 22.7%.
- Unprecedented levels of unemployment will itself be a barrier to California's ability to fully recover from this crisis, slowing the pace of economic recovery into 2021 and beyond. California's unemployment rate already jumped in April to 15.5%. California's unemployment rate is expected to remain elevated and average 10.6% in 2020 and 9.1% in 2021. California's unemployment rate will move even higher than April's level, if a second wave of widespread virus lockdowns return in the fall.
- The demand for housing in California is forecast to weaken significantly through 2021, primarily because of rising unemployment, recessionary U.S. and global economies, and continued strong out-migration. Builders will respond to weaker demand by pulling back on construction with housing starts forecast to plummet 36.0% this year and decline another 10.3% in 2021.
- California home prices are projected to increase a relatively modest 0.2% this year and decline 1.8% in 2021 on weaker housing demand and swelling unemployment. The lack of housing supply going into this crisis is expected to help moderate the home price declines seen across the state compared to the last recession when aggressive lending and leverage and speculative homebuilding caused widespread and severe home prices drops.

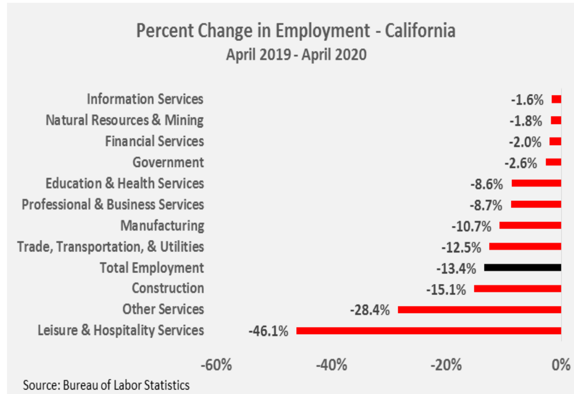
CALIFORNIA

Employment Outlook

California job growth held above the national average from February through October last year. But all that ended in November as the impact of the California wildfires and prolonged trade war with China weighed on the state's economy. California job growth plummeted an unprecedented 13.4% year-on-year in April as business closures and shelter-at-home orders to slow the spread of COVID-19 led to massive dislocation in the California labor market that has continued into May and June.

Job growth from a year earlier was negative in all sectors in April, particularly so in leisure & hospitality (-46.1%) as businesses in that sector were hit particularly hard by business closure orders. Job growth in the construction industry fell to -15.1% – the largest 12 month decline since February 2010. The previously high-flying tech sector was not untouched from the hard stop in the California economy with information services jobs falling 1.6% in April, the first decline since August 2017.

Broad Based Job Declines in CA in April



The record-long ten year labor market expansion in California ended in March with the loss of 99,500 jobs, the fifth-largest monthly decline on record. Unfortunately that was just the tip of the iceberg as job losses accelerated sharply to 2.35 million in April – over 1 million more than were lost over two and a half years from July 2007 to February 2010. California nonfarm payrolls are forecast to plunge 14.5% this year and decline 1.5% in 2021. Retail, restaurant, and other leisure and hospitality and service business

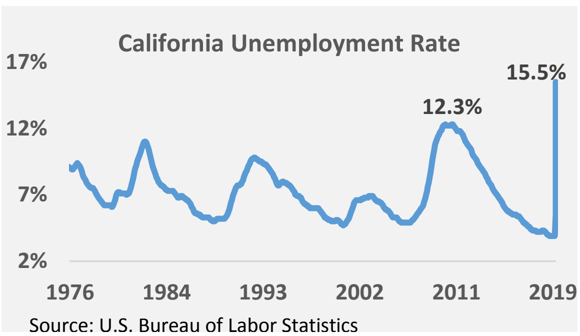
Recent Performance and Outlook

CALIFORNIA	2017	2018	2019e	2020f	2021f
LABOR MARKET					
Employment Growth	2.1%	2.1%	1.5%	-14.5%	-1.5%
Unemployment Rate	4.8%	4.3%	4.1%	10.6%	9.1%
INCOME AND SPENDING TRENDS					
Personal Income Growth	4.7%	6.1%	5.3%	-3.0%	2.5%
Median HH Income ($)	71,805	75,277	78,326	74,300	76,500
Retail Sales Growth	5.3%	4.9%	3.1%	-12.0%	-1.7%
HOUSING MARKET					
Total Housing Starts Growth	8.2%	6.6%	-10.6%	-36.0%	-10.3%
Med. Single Family Home Price	7.5%	6.7%	2.1%	0.2%	-1.8%
DEMOGRAPHICS					
Population Growth	0.5%	0.3%	0.1%	0.2%	0.3%
Net Migration (000's)	-24.7	-84.0	-129.4	-123.3	-98.9

closures will be the primary catalyst, but a sharply contracting global economy and continued out-migration will also contribute to declines in trade and transportation, housing, and construction sectors.

The number of unemployed Californians was 2.9 million in April, an increase of 1.8 million over the month. The sharp jump in the number of unemployed pushed the unemployment rate to 15.5%, eclipsing the previous record high of 12.3% in the aftermath of the Great Recession. Moreover, the 10% jump in the unemployment rate is the largest month-on-month increase on in the series dating back to 1976.

A Record CA Unemployment Rate

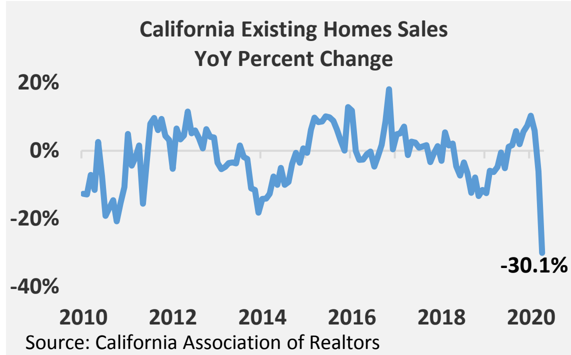


The widespread and sudden closure of nonessential businesses – will ensure the California unemployment rate will remain elevated even as growth returns. The California unemployment rate is forecast to average 10.6% in 2020 and 9.1% in 2021, above the U.S. average of 9.3% this year and 7.5% in 2021.

Housing Outlook

The California housing market felt the full force of the coronavirus pandemic in April as existing home sales totaled an annualized 277,440, down 25.6% from March and 30.1% lower than a year ago. It was the first time home sales dropped below 300,000 since March 2008 and the month-to-month drop was the largest since the series inception in 1979. The double-digit year-over-year decline was the first in 15 months and the largest decrease since December 2007.

CA Home Sales Dropped Sharply in April

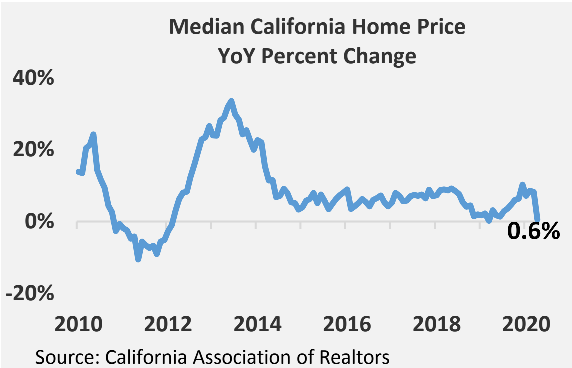


While the gradual reopening of economies across the state will begin to revive economic activity, housing market activity is expected to remain sluggish compared to recent years due to the uncertainty from the coronavirus pandemic and the demand destruction from massive job losses.

A lack of existing home inventory continues to weigh on the California housing market activity. The number of active listings fell 25.0% from a year ago in April, the eighth straight double-digit decline. The expectation is that more homeowners could pull their homes off the market as long as the uncertain market environment persists. Indeed, a poll by the California Association of Realtors from mid-May revealed that 47% of agents had a client remove their home from the market due to COVID-19.

Moreover, California home price gains have moderated substantially due to the pandemic and recession. The median home price was $606,410 in April, down 1.0% from March and just 0.6% higher than a year ago. This is the slowest pace of home price growth since March 2019 but marks the 98th consecutive month of California home price appreciation.

CA Annual Home Price Growth Weak in April



Poor housing affordability continues to afflict the state housing market and is forcing more Californian's out of the state. In 2019Q4, only 31% of California's households could afford to purchase the median-priced home, down from 32% in 2019Q3. This breaks a string of five consecutive quarters of improving affordability.

The demand for housing in California is forecast to remain weak through 2021, primarily because of fewer job prospects and continued strong out-migration to less expensive metro areas out of state. As a result, housing starts, which fell 10.6% last year, are projected to decline by a sharp 36.0% in 2020 and fall another 10.3% in 2021. The sharp drop in housing demand will cause home price growth to slow to just 0.2% this year and decline 1.8% in 2021.

COVID-19 Hits California's Budget Outlook

As the public health crisis escalated and the number of people infected in California rose, a shelter-at-home was instituted for the state that shut down all nonessential businesses to slow the spread of the virus. This brought economic growth in California to a grinding halt at a speed never before seen in living memory.

One direct consequence of the hard stop in economic activity in California is a looming state budget deficit. Around 4.7 million Californians have lost a job since mid-March and will have to rely on public assistance while unemployed. At the same time, state tax revenues are deteriorating with sharply lower sales and income tax receipts. The realization that the state's rainy day fund of about $21 billion will be quickly exhausted led the California Department of Finance in early May to announce that it was projecting a $54 billion budget deficit for the fiscal year beginning on July 1, 2020 as personal income taxes are projected to drop 25.5%, sales and use taxes decline 27.2% and corporate taxes fall 22.7%.

State and local budget deficits are a significant downside risk to California's economic outlook in 2021 and beyond. If Federal support isn't forthcoming, it will slow California's economic recovery and lead to even higher unemployment rates across the state. Government jobs declined by 101,000 month-on-month in April and are down by 68,700 from a year ago. Following the Great Recession, state and local governments' kept shedding net jobs for another three years after the recession ended, holding back the pace of the economic expansion. Total government jobs were 17.8% of all nonfarm jobs in California in April, so this risk to the state economy is not trivial.

BAY AREA

Employment Outlook

Bay Area nonfarm job growth plunged 13.4% from a year ago in April, the biggest decline on record that dates back to 1990. The Bay Area labor market had been an outperformer during most of the expansion, but this trend ended in March after six Bay Area counties were among the first in California to issue a shelter-at-home order that closed all nonessential businesses in mid-March.

Nine of the 11 major sectors shed jobs in April with massive drops in leisure & hospitality (-48.5%), other services (-30.8%), construction (-28.0%) and trade, transportation and utilities (-14.3%). These four sectors comprised over 27.0% of total nonfarm jobs in the Bay Area in April. Job growth was also flat in two sectors that until recently were outperforming: information services and financial services.

The city of San Francisco was the juggernaut in the Bay Area jobs creation machine during the expansion but the metro was not spared from the hard stop in economic activity with job growth tumbling 13.6% in April from a year ago, compared to over 3.0% job growth at the start of the year. San Francisco is home to nearly a third of total nonfarm jobs in the Bay Area region and contributed to the steep job losses in April.

On March 16 six Bay Area counties with a total population of 6.7 million issued a shelter-in-place order that shuttered all nonessential businesses. At the time it was the strictest measure of its kind in the country and resulted in the once robust economy experiencing a hard stop. The Bay Area shelter in place order was expanded to nine Bay Area counties with 7.8 million people and was extended until May 4. This led to unprecedented demand destruction.

Recent Performance and Outlook

BAY AREA	2017	2018	2019[e]	2020[f]	2021[f]
LABOR MARKET					
Employment Growth	2.3%	2.1%	1.8%	-12.5%	-0.5%
Unemployment Rate	3.4%	2.8%	2.7%	9.5%	8.0%
INCOME AND SPENDING TRENDS					
Personal Income Growth	6.7%	6.8%	5.0%	-2.8%	1.5%
Median HH Income ($)	$94,288	$99,516	$102,953	$99,345	$102,310
Retail Sales Growth	5.6%	5.5%	3.7%	-6.7%	1.5%
HOUSING MARKET					
Total Housing Starts Growth	13.1%	14.4%	-18.0%	-30.3%	13.5%
Med. Single Family Home Price	11.1%	9.8%	-1.4%	-1.6%	-3.0%
DEMOGRAPHICS					
Population Growth	0.4%	0.2%	0.3%	0.3%	0.3%
Net Migration (000's)	-3.7	-16.5	-6.4	-10.2	-12.6

[1]The Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma counties.

As a result, Bay Area employment is projected to plummet 12.5% and 0.5% respectively in 2020 and 2021 with the unemployment rate – which jumped from a record low of 2.5% in February to 12.7% in April – averaging 9.5% this year and 8.0% next year. The recovery in the Bay Area is expected to be held back by more firms deciding to relocate to lower cost areas due to high and rising costs of doing business.

Housing Outlook

The economic hard stop that occurred in the Bay Area in mid-March had an immediate impact on the housing market with existing home sales in April plunging 37.4% year-on-year after dropping 12.1% in March. This is the largest decline of any California region and home sales have now fallen annually for 17 of the past 21 months, partly due to an inventory shortfall and low affordability.

Existing home sales declined in all of the nine Bay Area counties from a year ago in April by at least 25.0%, led by Marin (-60.6%), San Francisco (-52.8%) and San Mateo (-48.8%). The smallest declines were in Solano (-25.2%), Napa (-30.9%) and Contra Costa (-32.1%).

Housing starts in the Bay Area are forecast to decline 30.3% this year due to the shutdown and weaker demand, before rebounding 13.5% in 2021 as the Bay Area economy starts to regain its footing.

Despite the sharp decline in home sales, Bay Area home prices fell just 0.8% from a year ago in April, down from a gain of 7.4% in March. This is the first decline after five months of positive year-on-year growth by an average of 4.7%. A lack of existing home inventory as sellers remove their homes from the market is limiting price declines – at least for now.

Still home price gains continued in April in many counties in the Bay Area from a year earlier. Home prices continued to increase in Solano (+10.9%), Alameda (+9.6%) and Napa (+6.4%), while growth was more modest in Marin (+1.1%) and Sonoma (+2.0%).

Bay Area home prices are projected to fall 1.6% this year and decline 3.0% in 2021 on weaker demand due to widespread job loss and poor affordability.

Bay Area Tech Firms Face Rising Business Risks

The COVID-19 pandemic has already negatively impacted many Bay Area tech firms as global recession ensues. But rising political tensions between the U.S. and China threaten to add to the headwinds facing the Bay Area's technology sector. Nearly every major U.S. tech manufacturer relies on the Chinese workforce to supply intermediate goods that are used to assemble final products for sale.

Since the outbreak, the supply chain, which includes everything from raw parts to finished products, has been deeply disrupted. And even though most Chinese factories up and running again, operations are still not back to normal.

Apple announced that worldwide iPhone supply will be temporarily constrained until factories are operating at full capacity and is moving more production to third countries like Vietnam. Facebook trimmed production for its Oculus Quest virtual reality headsets. A slowdown in sales at Bay Area tech companies will dent profitability and lead to increasing focus on cost cutting and hiring reductions. Indeed, Uber and Lyft announced workforce reductions of 14% and 17% of their staffs respectively in May. In light of the recent outsized reliance on the tech sector for Bay Area growth this is an important downside risk for the region near-term.

SOUTHERN CALIFORNIA

Employment Outlook

Southern California employment fell sharply in April with total nonfarm jobs decreasing 13.8% from a year earlier, down from -0.1% in March. For perspective, the largest year-on-year employment decline in the Great Recession was 6.9%. Shedding the highest percentage of jobs was leisure & hospitality (-42.6%) and other services (-31.4%), which includes machinery repair and pet care services. These two sectors were responsible for 46.0% of total job losses in Southern California in April. The smallest job declines were in government (-3.1%), financial services (-4.0%) and mining & logging (-4.2%).

Total nonfarm payrolls are projected to tumble 16.2% this year and 3.3% in 2021. The closure of nonessential businesses has hit Southern California harder than most regions of the state given its high concentration of employment in industries directly impacted by the pandemic. To a lesser extent, contracting U.S. and global economies, high housing and other costs, crowded freeways and continued outmigration will conspire to drive Southern California's job growth lower for the next two years.

The spread of COVID-19 has already boosted the unemployment rate in the Southern California region to 16.6% in April from 3.8% in February. The unemployment rate is projected to average 11.8% in 2020 and decline to 10.7% in 2021 on plummeting employment growth. If realized, unemployment in Southern California for the full year in 2020 would average near the previous all-time high of 12.0% seen for only a short time in 2010. Southern California's unemployment rate this year is forecast to be the second highest of the four California economic regions, trailing only the Central Valley.

Recent Performance and Outlook

SOUTHERN CALIFORNIA	2017	2018	2019^{e}	2020^{f}	2021^{f}
LABOR MARKET					
Employment Growth	1.9%	2.0%	1.4%	-16.2%	-3.3%
Unemployment Rate	4.5%	4.1%	3.9%	11.8%	10.7%
INCOME AND SPENDING TRENDS					
Personal Income Growth	3.8%	5.7%	5.4%	-3.2%	1.0%
Median HH Income ($)	74,458	77,434	79,559	75,754	79,131
Retail Sales Growth	5.3%	4.7%	2.9%	-10.0%	0.8%
HOUSING MARKET					
Total Housing Starts Growth	2.2%	3.5%	-13.1%	-38.2%	-6.0%
Med. Single Family Home Price	6.5%	6.1%	3.0%	-1.2%	-3.3%
DEMOGRAPHICS					
Population Growth	0.4%	0.1%	0.1%	0.2%	0.4%
Net Migration (000's)	-48.9	-78.5	-84.3	-65.7	-38.7

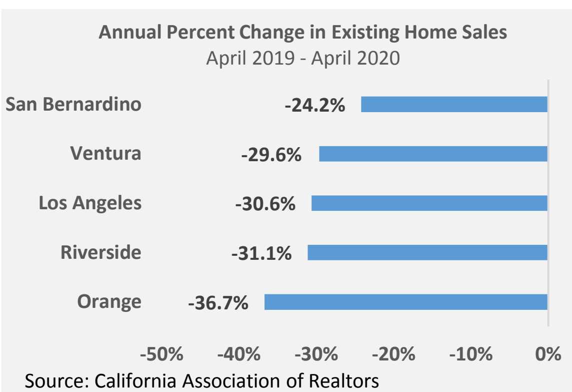
[2]The combined Southern California region includes Los Angeles, Orange, San Bernardino, San Diego, Riverside, and Ventura counties that is home to nearly two-thirds of Californians.

Housing Outlook

Existing home sales in the Southern California region plunged 30.2% in April after dipping 0.1% in March. These are the first back-to-back declines since May and June 2019. The rapid deterioration in the regional economy has further dampened home demand. Moreover, home sellers have taken their homes off the market waiting for more favorable selling conditions, pinching the already limited inventory.

Home sales fell from a year earlier in all Southern California counties with the largest declines in Orange (-36.7%), Riverside (-31.1%) and Los Angeles (-30.6%). The metro with the smallest home sales decline was San Bernardino (-24.2%).

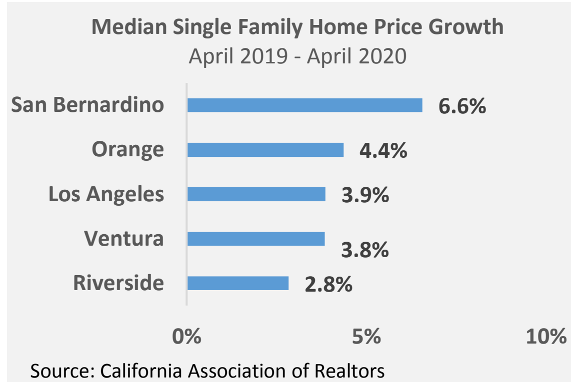
Home Sales Declines Pervasive in SoCal



Despite the sharp decline in home sales, home prices in the region advanced 2.5% in April, down from 7.6% in March. Moreover, annual home price growth has been positive for over eight years and regional gains over the four months of this year has averaged a solid 6.7%. Firm demand – at least until recently – and a shortage of inventory was pushing Southern California home prices higher.

Every county in the region experienced positive home price gains from a year earlier, led by San Bernardino (+6.6%), Orange (+4.4%) and Los Angeles (+3.9%). Prices rose at more modest paces in Ventura (+3.8%) and Riverside (+2.8%).

Home Price Growth Solid in Most Counties



Home prices in Southern California are projected to fall 1.2% in 2020 and decline 3.3% in 2021 as massive job losses and poor affordability dent demand. Continued out-migration will also contribute to falling home values in the region.

Reduced Port Traffic Weighs on So. California

Southern California ports are experiencing much higher-than-normal ship cancellations. While cargo shipments normally drop off in February due to the Lunar New Year, there have been 37 cancellations thus far in February and March at the Port of Los Angeles, up from 17 in the same period last year. The Port of Long Beach reports 50 inbound cancellations from China following the Lunar New Year, up from the usual 20 to 30.

Total two-way traffic at both ports is down 12.8% year-to-date through April from a year earlier, including a sharp 15.5% decline at the Port of Los Angeles. The inability to quickly contain the coronavirus in the U.S. and globally and the increase in political disputes between the U.S. and China will continue to weigh on global trade and Southern California port and transportation activity. China accounts for about half of the L.A. port's inbound and outbound cargo traffic. If this drop in port activity continues, it could lead to further job losses at the ports and transportation hubs of Southern California.

CENTRAL COAST

Employment Outlook

Total nonfarm jobs in the Central Coast region declined 14.6% from a year earlier in April, down sharply from 0.9% in March. The severe decrease places the Central Coast as the worst performing region, with Southern California a distant second at -13.8%.

The largest job losses were in Santa Cruz (-20.4%), San Luis Obispo (-14.4%) and Monterey (-14.1%). Employment in Santa Barbara declined a more modest 11.7% but it was still the biggest drop on record. Santa Barbara accounts for approximately one-third of total employment in the Central Coast region and limited overall job losses.

Job losses in the Central Coast were the most severe in leisure & hospitality (-46.1%), other services (-23.2%) and construction (-17.7%). The smallest job declines were in financial services (-3.8%), information services (-4.5%) and government (-5.0%).

The unemployment rate hovered just above the all-time low of 4.0% in December but has since spiked to 15.5% in April – an all-time high. Unemployment rates rose in all Central Coast metro areas with the largest increases in Monterey (18.8% from 8.9%) and Santa Cruz (16.3% from 6.4%). The labor market in the Central Coast quickly deteriorated in March and April as the coronavirus spread, due to the region's heavy reliance on tourism to support economic growth.

Central Coast employment is forecast to plunge 11.6% this year and slip 2.7% in 2021, largely because of the closure of the regional economy

Recent Performance and Outlook

CENTRAL COAST	2017	2018	2019[e]	2020[f]	2021[f]
LABOR MARKET					
Employment Growth	1.7%	1.4%	1.7%	-11.6%	-2.7%
Unemployment Rate	5.4%	4.6%	4.6%	10.0%	8.5%
INCOME AND SPENDING TRENDS					
Personal Income Growth	4.6%	5.7%	5.1%	-2.0%	3.5%
Median HH Income ($)	73,626	76,561	78,776	73,738	78,641
Retail Sales Growth	4.0%	4.3%	2.9%	-5.8%	2.8%
HOUSING MARKET					
Total Housing Starts Growth	21.3%	-1.1%	-7.7%	-35.3%	15.2%
Med. Single Family Home Price	6.3%	3.0%	3.5%	-1.1%	2.0%
DEMOGRAPHICS					
Population Growth	0.2%	0.0%	0.1%	0.2%	0.3%
Net Migration (000's)	-4.1	-6.6	-4.0	-3.9	-3.3

[3]The Central Coast region is comprised of Santa Barbara, Monterey, San Luis Obispo, and Santa Cruz counties.

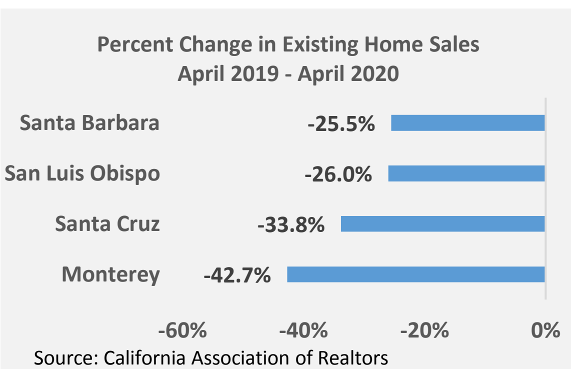
and hit to tourism in the battle to contain the COVID-19 pandemic.

The Central Coast unemployment rate – which was unchanged and tied at a post-recession low of 4.6% in 2019 – is forecast to soar to 10.0% this year and then decline to 8.5% in 2021 as the job losses pile up.

Housing Outlook

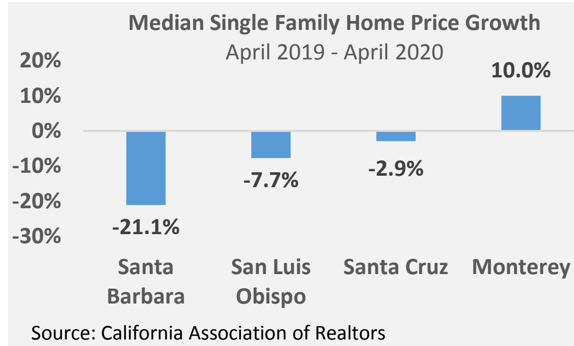
Central Coast existing home sales plunged 31.6% from a year earlier in April after falling 7.3% in March as housing market activity slowed sharply in response to the spreading coronavirus. All four counties experienced annual decreases of least 25.0% with particularly large declines of 42.7% in Monterey and 33.8% in Santa Cruz. Declines were somewhat more modest in San Luis Obispo (-26.0%) and Santa Barbara (-25.5%).

Home Sales Lower in the Central Coast



Annual home prices fell in three of the four counties in April with the largest decline by far in Santa Barbara (-21.1%) despite home sales in the county experiencing the smallest decline in the region. Home prices fell a more moderate 7.7% in San Luis Obispo and 2.9% Santa Cruz. The outlier was Monterey where home prices spiked 10.0% in April in spite of a severe 42.7% contraction in home sales.

Home Prices Spiked in Monterey in April



Home prices are expected to decline 1.1% in 2020 on sharp job losses, rising unemployment and declining incomes and rebound 2.0% in 2021.

Overreliance on Tourism Hurts the Region

The Central Coast outlook has deteriorated in lockstep with the decline in tourism. Tourism Economics – an Oxford Economics company – reports that weekly travel spending in the U.S. has fallen annually for 13 consecutive weeks as non-essential travel has plummeted. Declines had accelerated for the first eight weeks and bottomed out at -89.0% for the week ending April 25. Declines have moderated for the past five weeks but weekly travel spending was still down 84.0% year-on-year for the week ending May 28 The year-on-year decline for California was even worse at 86.0% for the same week.

The Central Coast is particularly dependent on tourism as an economic driver. In fact, consumer services employment – the sum of retail trade and leisure & hospitality – was 27.1% of total nonfarm employment in the region last year compared to 21.3% nationally and 21.2% in California. The region will need a sharp rebound in tourism to help it fully recover from the COVID-19 shock.

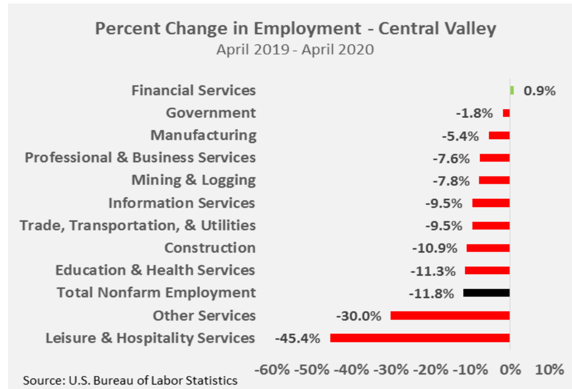
CENTRAL VALLEY

Employment Outlook

The persistent slowdown in job growth in the Central Valley that has been in place since September 2019 accelerated in April with total nonfarm jobs tumbling 11.8% from a year ago. The Phase One trade deal between the U.S. and China signed in December 2019 that boosted future Chinese purchases of U.S. agricultural products was easily eclipsed by the closure of all nonessential businesses amid the COVID-19 pandemic.

Jobs have been lost across most sectors with the sharpest declines in leisure & hospitality (-45.4%) and other services (-30.0%). The job declines in in education & health services, construction and trade, transportation & utilities were just below the 11.8% fall in total nonfarm jobs.

Job Growth Mostly Negative in Central Valley



Job growth is projected to dive 14.2% this year and then fall 3.0% in 2021. The shuttering of nonessential businesses from the coronavirus outbreak is the primary reason for the dramatic plunge in payrolls in the Central Valley, but stronger outmigration, lingering trade frictions, and volatile oil and agricultural prices will also be a contributing factor.

Recent Performance and Outlook

CENTRAL VALLEY	2017	2018	2019e	2020f	2021f
LABOR MARKET					
Employment Growth	2.2%	2.9%	2.1%	-14.2%	-3.0%
Unemployment Rate	6.6%	5.6%	5.5%	12.1%	11.0%
INCOME AND SPENDING TRENDS					
Personal Income Growth	4.1%	6.1%	6.1%	-3.7%	1.3%
Median HH Income ($)	58,091	60,358	61,947	56,855	59,792
Retail Sales Growth	5.1%	5.2%	2.9%	-10.8%	1.8%
HOUSING MARKET					
Total Housing Starts Growth	20.9%	3.0%	-0.9%	-38.2%	8.3%
Med. Single Family Home Price	7.5%	6.7%	4.6%	-2.6%	-3.0%
DEMOGRAPHICS					
Population Growth	1.1%	0.9%	0.3%	0.4%	0.4%
Net Migration (000's)	25.8	17.4	-10.7	-11.3	-12.5

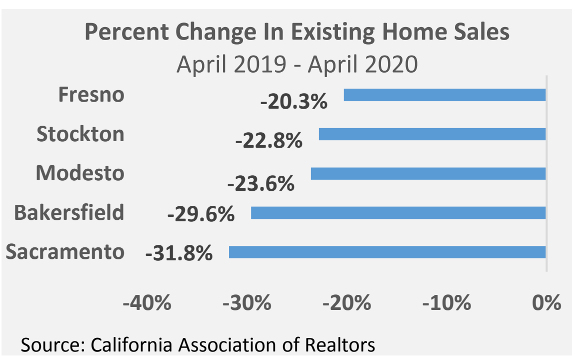
[4]The Central Valley region is comprised of San Joaquin, Fresno, Madera, Sacramento, Placer, El Dorado, Yolo, Stanislaus, and Kern counties

The unemployment rate in the Central Valley soared to 15.5% in April from 5.2% in February as the economy came to a standstill. This is the highest unemployment rate on record in the Central Valley. The unemployment rate is forecast to average a high 12.1% this year and remain highly elevated at 11.0% in 2021 on the extraordinary declines in Central Valley payrolls.

Housing Outlook

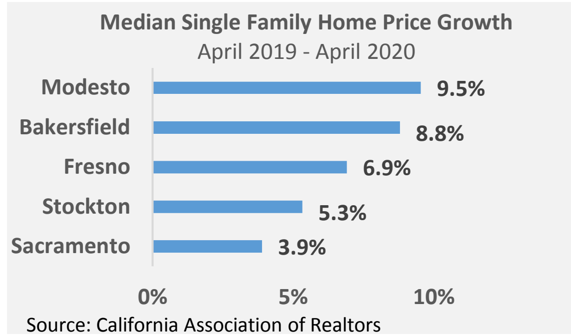
The Central Valley housing market collapsed in April with existing home sales falling 31.6% from a year ago, down sharply from the 6.4% drop in March. Home sales declines from a year ago were nearly universal but were particularly steep in Sacramento (-31.8%) and Bakersfield (-29.6%). All five metros in the Central Valley experienced home sales declines of over 20.0%.

Home Sales Fell in All Central Valley Metros



Plummeting homes sales, however, did not preclude a 4.8% increase in home prices in the Central Valley from a year ago. This was the fastest home price growth of any region and is in part due to homes being relatively more affordability in the region. All five metros experienced home price appreciation from a year ago through April, led by Modesto (+9.5%), Bakersfield (+8.8%) and Fresno (+6.9%). Home price growth was more moderate in Stockton (+5.3%) and Sacramento (+3.9%). Central Valley home prices are expected to fall 2.6% this year and decline 3.0% in 2021 as demand is expected to rapidly evaporate on labor market weakness.

Home Price Gains Pervasive in the Region



Plunging Oil Prices Worsen the Outlook

The sharp slide in oil prices earlier this year is another important reason for the Central Valley's deteriorating economic outlook. Prices for West Texas Intermediate crude oil were down around 40.0% year-to-date through May 31 on weaker global demand and excess supply.

According to a study by the Los Angeles County Economic Development Corporation (LAEDC), there were 38,940 jobs in San Joaquin Valley supported by the oil and gas industry in 2017. The region is home to more than 83% of all active wells and accounts for 75% of total crude oil production in California.

The Central Valley is also highly dependent on the oil and gas industry as a source of revenue. The same LAEDC study estimates that the industry contributed over $1.9 billion in state and local tax revenues in 2017, with around $1 billion going to local governments. The revenue is used to support critical community services such as fire, police and schools.

Lower oil prices, if sustained, will continue to hold back the Central Valley economy, given the region's reliance on the oil and gas industry. Local tax revenues will suffer and weigh on local government employment. Mining and logging and government collectively were about 25.0% of total employment in the Central Valley region in April.