BANK OF THE WEST

California Economic Outlook

Bank of the West Economics | September 2020

EXECUTIVE SUMMARY

- Economic growth has resumed and net job loss has ended in California after a sharp and unprecedented decline in March and April. But despite three consecutive months of solid increases in economic activity and jobs, the state has regained less than one-third (31.1%) of the over 2.6 million jobs lost in March and April.
- California employment is expected to drop 7.5% in 2020 compared to a 6.8% decline forecast for the United States. This is a noticeable improvement from our June forecast. The rapid economic reopening and substantial financial support by Federal, state, and local governments has kept more California consumers spending and more businesses out of default than previously thought. The Federal Reserve has been successful in easing financial conditions allowing many California households to pay down debts and refinance mortgages, while stock prices have moved up to new record highs. But this also highlights continued big downside risks to the California outlook for 2021 should those government supports erode or disappear, election unrest proliferates, financial markets buckle, or a COVID-19 vaccine doesn't materialize on schedule.
- High housing costs have always been a problem for low income households in California but the pandemic has exacerbated the situation as many of the initial job losses directly related to business closures from the pandemic employ low-wage workers, namely leisure & hospitality and other services. While many workers were furloughed and will be recalled once demand returns, 25% of the job losses could become permanent layoffs as more businesses close. The result could be a rise in loan defaults, evictions, food insecurity, and homelessness – particularly because lower income households typically have fewer assets to cushion a prolonged job loss. A recent extension of the moratorium on renter evictions through January 2021 suggests the potential increase in evictions won't occur until February of next year.
- Notwithstanding recent declines, heretofore unseen levels of unemployment point to a slow and uneven recovery through 2021. California's unemployment rate reached a record high of 16.4% in April and May and then declined modestly to 13.3% in July. The state's unemployment rate is expected to remain high and average 10.4% in 2020 and 8.8% next year, well above the U.S. unemployment rate in both years.
- Pent-up demand, low mortgage rates and inventories, and a return to positive job growth supported an early rebound in the California housing market in August with existing home sales rising 14.6% from a year ago to the highest level in more than a decade. Consequently, our housing starts forecast for this year has been revised up to a nearly flat -0.3%. Housing starts are projected to rise 17.5% in 2021 on firming demand.
- California home prices are projected to increase 5.4% this year and slow to just 2.2% in 2021 as homebuilders respond to stronger demand by building more homes, and more potential sellers are forced to sell. A lack of inventory prior to the pandemic and the unexpected rebound in home sales despite unprecedented unemployment rates are supporting an unexpected acceleration in home prices in California this year.

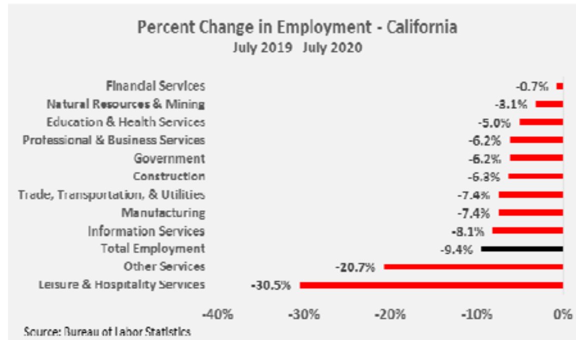
CALIFORNIA

Employment Outlook

California has been recreating net jobs since May, but the labor market dislocation in the state continues to be much more severe than the nations. California's total nonfarm jobs fell 9.4% from a year ago through July. This compares to a somewhat smaller decrease of 7.5% for the nation as a whole.

Job growth from a year ago was negative in all sectors in July – decidedly so in industries that continue to be hurt by fear of the coronavirus and or those that continue to face state-mandated closures and limited reopening's – including leisure & hospitality services (-30.5%) and other services (-20.7%). Other services includes dry cleaning and laundry services, equipment repair services, pet care services, and temporary parking services. Despite large job losses in these two underperforming sectors, total job losses were limited to under 10.0% as the two sectors combined were just 11.8% of total nonfarm California employment in July. Jobs in the previously white-hot information sector, that includes software and internet publishing, web search portals, telecommunications and data processing industries, declined 8.1% from a year ago and is 12.5% below the February 2020 peak.

Broad Based State Job Declines in July



The abrupt decline in employment in California that unfolded in March proved to be short lived but painful, with over 2.6 million jobs lost over a two month period. For perspective, this is double the number of California jobs that vanished during the Great Recession from the peak in July 2007 to the trough in February 2010. While job

Recent Performance and Outlook

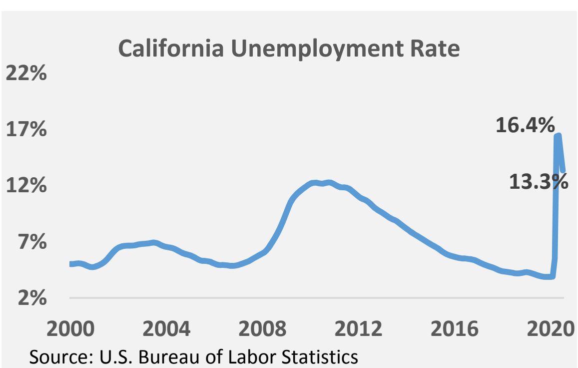
CALIFORNIA	2017	2018	2019	2020[f]	2021[f]
LABOR MARKET					
Employment Growth	2.1%	2.1%	1.5%	-7.5%	2.0%
Unemployment Rate	4.8%	4.3%	4.1%	10.4%	8.8%
INCOME AND SPENDING TRENDS					
Personal Income Growth	4.7%	6.1%	5.0%	2.7%	-1.8%
Median HH Income ($)	71,805	75,277	78,059	79,418	79,086
Retail Sales Growth	5.5%	4.7%	3.1%	-6.9%	2.7%
HOUSING MARKET					
Total Housing Starts Growth	9.1%	5.1%	-9.8%	-0.3%	17.5%
Med. Single Family Home Price	7.4%	6.6%	1.6%	5.4%	2.2%
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

growth resumed in May, only about 817,000 jobs have been added through July, leaving California employment over 1.8 million lower than the February 2020 peak.

California nonfarm payrolls are projected to decline 7.5% this year before rebounding 2.0% in 2021. The reversal and slowdown in reopening's across the state that have an outsized impact on leisure & hospitality services, eating and drinking establishments, and other services are still the primary drivers for the contraction in employment, but a sharply contracting global economy, weak consumer and business demand, and continued out-migration will also contribute to job declines in other sectors like construction, wholesale trade, transportation and government.

The number of unemployed Californians rose fourfold from January 2020 to the April 2020 peak, sending the unemployment rate to an all-time high of 16.4% in April and May. The number of unemployed declined in June and July as some previously furloughed workers were recalled as more businesses were allowed to reopen. The decline pushed the California unemployment rate down to 13.3%.

Unemployment Rate Declined Further In July

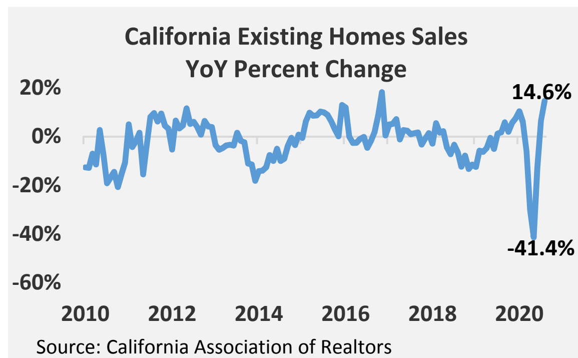


The reversal of reopening's in some industries and the growth slowdown in others in California implies the unemployment rate will remain elevated even as economic growth returns. The California unemployment rate is projected to average 10.4% in 2020 and 8.8% in 2021, well above the U.S. average of 8.4% in 2020 and 6.9% next year.

Housing Outlook

The California housing market has swiftly recovered from the pandemic as existing home sales in August totaled 465,400 annualized, up 6.3% from July and 14.6% higher than a year ago. Home sales have been above 400,000 for two straight months for the first time since the crisis unfolded and are at the highest level in more than a decade. Pent-up demand from the Covid lockdown and record-low mortgage rates drove home sales higher in August.

California Home Sales Rose Sharply in August



California housing market activity was held back this summer due to stay at home orders from the pandemic and the demand destruction from the loss of 1.8 million California jobs.

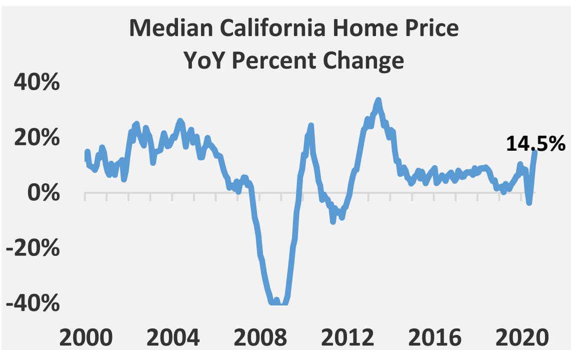
A persistent shortage of existing home inventory will also limit home sales growth in California. The number of active listings plummeted 50.3% from a year earlier in August, the biggest drop since at least January 2008. Moreover, active existing home listings have declined for 14 straight months.

The chronic inventory shortage, however, could become less acute in the near term. Indeed, a poll by the California Association of Realtors in September revealed that 58% of homeowners believed it is a good time to sell, up from 54% in August and up from 46% a year ago.

California home price growth slowed in March and April because of the pandemic and ensuing severe recession and prices declined year-on-year in May for the first time since February 2012, ending a streak of 98 successive months of annual home price gains.

Home prices, however, rebounded in June and the median home price reached a record high of $706,900 in August, up 6.1% from July and 14.5% higher than a year ago. This is the third month in a row the median home price reached an all-time high and the first time it breached $700,000.

CA Home Price Growth Accelerated in August



Source: California Association of Realtors

Housing demand in California has rebounded sooner than anticipated given the massive job losses in the state, primarily due to low interest rates and pent-up demand. Accordingly, housing starts, which fell 9.8% last year, are projected to decline by just 0.3% in 2020 and then rebound 17.5% in 2021. The still-elevated demand for housing is forecast to push home prices up 5.4% this year and 2.2% in 2021.

Increased Homelessness And Strained Budgets

Even prior to the pandemic, high housing costs were one of California's most pressing problems. Indeed, data from 2018 American Community Survey reveals that over one in two renters and one in three homeowners with a mortgage were cost-burdened in California in 2018, with shelter costs exceeding 30% of household income.

Moreover, the lowest income households are far more likely to have unaffordable housing costs. Eight in 10 households with incomes of less than 200% of the federal poverty line were cost-burdened in 2018, and nearly 60% of the same households devoted more than 50% of their income to housing.

The massive job losses in California triggered by the pandemic are having an outsized impact on low-wage households. Of the roughly 1.8 million jobs lost from the peak in February through July, nearly 766,000 or over 42% were in leisure & hospitality and other services, sectors that tend to employ low-wage workers.

While some of the workers in these sectors were furloughed and could be called back to work once demand returns, some 25% of these job losses are expected to become permanent with business closures. The result could be a big increase in California homelessness if additional government supports are not put in place. The recent extension of the moratorium on evictions of renters through the end of January 2021 means the jump in California homelessness will likely be held off until February at the earliest.

Regardless of when it occurs, the already-stretched state budget could be strained further as costs rise above the $550 million allocated in the 2020/2021 budget to combat the homeless crisis because of the pandemic. Rising costs could necessitate spending reductions in other areas, including the possible elimination of state and local government employees, thereby slowing the pace of the state's economic recovery.

BAY AREA

Employment Outlook

Bay Area nonfarm jobs were still 10.2% below year ago levels in July, though employment losses have moderated over last three months as the region's economy has begun to reopen. The Bay Area labor market consistently outperformed the other regions during the record-long expansion, but the average employment growth decline from a year ago has been quite severe - on par with Southern California and other regions of California.

Employment in all major sectors fell from a year ago through July, led by two that have consistently underperformed since the pandemic hit: leisure & hospitality (-34.2%) and other services (-20.5%). These two sectors are responsible for over 40% of total nonfarm job losses in the Bay Area since March.

Employment declines from a year ago have been pervasive across Bay Area metro areas since regional job growth turned negative in March. However, the job declines have moderated for the past three months for all metros, though Napa's year-on-year job growth deteriorated to -10.4% in July from -10.1% in June.

The comparatively slower reopening of the nine Bay Area county economies led to a loss of 430,000 jobs from the February peak through July. Reducing demand for goods and services, and pushing the unemployment rate to previously unthinkable levels.

Bay Area employment is projected to plunge 7.0% this year before rebounding 2.9% in 2021. The unemployment rate, which skyrocketed from a record low of 2.5% in February to 13.4% in April is projected to average 8.8% this year and 7.1% next year. The recovery in the Bay Area is

Recent Performance and Outlook

BAY AREA	2017	2018	2019	2020[f]	2021[f]
LABOR MARKET					
Employment Growth	2.3%	2.1%	1.8%	-7.0%	2.9%
Unemployment Rate	3.4%	2.8%	2.7%	8.8%	7.1%
INCOME AND SPENDING TRENDS					
Personal Income Growth	7.4%	7.7%	4.4%	2.0%	-1.3%
Median HH Income ($)	$94,288	$99,516	$102,867	$104,847	$104,744
Retail Sales Growth	5.8%	5.2%	2.7%	-8.1%	3.1%
HOUSING MARKET					
Total Housing Starts Growth	15.5%	13.7%	-17.0%	-24.5%	20.7%
Med. Single Family Home Price	11.2%	9.9%	-1.9%	4.8%	2.8%
DEMOGRAPHICS					
Population Growth	0.4%	0.2%	0.0%	0.3%	0.3%
Net Migration (000's)	-3.7	-16.5	-6.4	-10.2	-12.6

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

expected to be relatively weak as more workers and firms relocate to lower cost regions due to the high cost of living and doing business in the Bay Area. Already, Pinterest has paid nearly $90 million to terminate an office lease in San Francisco although the company intends to keep its headquarters in the city.

Housing Outlook

Home sales began to decline in the Bay Area in mid-2018 – primarily due to low affordability. The pandemic exacerbated the declines, accelerating them to -51.1% year-on-year in May. The home sales rebound, however, has been nearly as sharp rising 10.8% year-on-year in August. Only the Central Coast region has seen a stronger rebound in the State of California. The reopening of the economy, pent-up demand, record low mortgage rates and more inventory have all helped lift Bay Area home sales.

Existing home sales advanced in nearly all Bay Area counties from a year earlier in August, led by some of the counties hardest hit initially by the pandemic, including: Napa (+52.5%), Marin (+37.8%), Sonoma (+31.6%) and San Francisco (+28.9). There were modest increases in Santa Clara (+8.2%) and Alameda (+4.2%), whiles sales declined a sharp 18.4% in Solano. The Bay Area wildfires in September will likely temporarily put a hold on the housing market recovery, but will eventually lead to another wave of housing construction and existing home sales as residents rebuild their lives.

Housing starts in the Bay Area are still projected to plummet 24.5% this year, primarily due to the shutdown and slow reopening of the regional economy and ensuing demand destruction, before rebounding 20.7% in 2021 as the Bay Area economy starts to emerge from its hibernation.

Consistent with the solid jump in home sales, Bay Area home prices soared 18.7% from a year ago in August, the sharpest increase of any region in California. This is the strongest growth since March 2014. Beyond pent-up demand, a lack of existing home inventory is supporting price gains in the Bay Area. The number of months it would take to deplete the remaining existing home inventory at the current sales pace was just 1.8 in August, down from 2.5 months a year earlier.

Bay Area home prices are projected to rise 4.8% this year as a shortage of listings supports price gains and moderate to 2.8% in 2021 as inventory increases and pent-up demand fades.

Exodus From San Francisco An Economic Threat

The COVID-19 pandemic has not spared San Francisco. As employees were forced to work from home starting in mid-March as a result of the stay-at-home orders, it became apparent over time that it was not necessary for employees to come to the office to productively do their jobs. As a result, many tech giants like Google, Facebook and Twitter have decided to let employees work remotely for the foreseeable future, and possibly forever.

The astronomical cost of owning a home in San Francisco is another factor contributing to the exodus from the city, but the pandemic and the ability to work remotely appears to be the final straw. Indeed, data from Zillow's "2020 Urban-Suburban Market Report" shows that existing home inventory surged 96% from a year earlier in July as more homeowners decided to flee the city for larger homes and more space in the suburbs. The loss of property, apocalyptical smoke, and poor air quality from the September Bay Area wildfires is another reason for people to look for greener pastures elsewhere.

Homeowner flight from San Francisco is a clear threat to the economic outlook. If companies allow employees to continue working remotely, service-providing businesses such as restaurants, bars and dry cleaners will require fewer employees.

SOUTHERN CALIFORNIA

Employment Outlook

Southern California employment was still 10.0% below year ago levels in July. The drop easily surpasses the largest year-on-year employment decline in the Great Recession of 6.9%.

The largest percentage job declines are occurring in leisure & hospitality (-30.5%) and other services (-22.1%), which includes dry cleaning and personal care services. These two sectors accounted for over 45% of total job losses in Southern California in July. The smallest percentage decline was in financial services (-2.3%) – a sector that has thus far been mostly unscathed during the recession – partly because the BLS estimates that nearly 78% of employees in the industry are able to work from home.

Southern California total nonfarm payrolls are forecast to fall 8.1% this year and rebound 2.1% in 2021. The initial closure and subsequent slow reopening of most nonessential businesses has battered Southern California's economy harder than most regions of the state given its comparatively high concentration of employment in industries directly impacted by COVID-19, including leisure & hospitality and other services. To a lesser extent, shrinking global trade, high costs, and long commutes will drive strong outmigration and slower economic growth in Southern California near-term.

The pandemic sent the unemployment rate in the Southern California region soaring to an all-time high of 18.0% in May before retreating to 14.7% in July as employers recalled furloughed workers. The rate is projected to average 11.3% in 2020 and improve to 10.4% next year on modest job gains. Southern California's unemployment rate is projected to be the

Recent Performance and Outlook

SOUTHERN CALIFORNIA	2017	2018	2019	2020f	2021f
LABOR MARKET					
Employment Growth	1.9%	2.0%	1.4%	-8.1%	2.1%
Unemployment Rate	4.5%	4.1%	3.9%	11.3%	10.4%
INCOME AND SPENDING TRENDS					
Personal Income Growth	3.7%	5.5%	5.2%	3.3%	-1.5%
Median HH Income ($)	74,458	77,434	79,494	81,363	81,263
Retail Sales Growth	5.4%	4.5%	3.4%	-6.2%	3.0%
HOUSING MARKET					
Total Housing Starts Growth	2.4%	2.8%	-12.7%	-1.7%	19.5%
Med. Single Family Home Price	6.4%	6.1%	2.8%	6.8%	1.1%
DEMOGRAPHICS					
Population Growth	0.4%	0.1%	0.0%	0.2%	0.4%
Net Migration (000's)	-51.4	-79.8	-100.3	-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.

highest of the four economic regions in 2021, including the Central Valley which historically has the highest unemployment rate of all California regions.

Housing Outlook

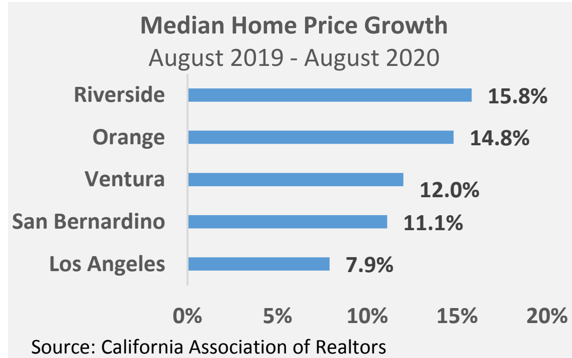
Existing home sales in the Southern California region climbed a modest 4.4% year-on-year in August – the second consecutive increase – after plunging by double-digit rates from April to June. This is the second slowest growth of the four major California economic regions with only home sales in the Central Valley growing at a slower pace last month. The rapid deterioration in the Southern California labor market has cooled the demand for homes. A shortage of inventory for would-be-buyers to choose from is also limiting home sales. Indeed, the Unsold Inventory Index was 2.3 months in August, unchanged from July but down from 3.4 months in August 2019, according to the California Association of Realtors.

Home sales increased from a year earlier in most Southern California counties with particularly impressive rebounds in Orange (+13.7%) and San Bernardino Counties (+10.4%). Sales advanced at more modest rates of 6.6% in Ventura, and fell 5.2% in Los Angeles County.

Southern California existing home prices rose a robust 12.8% from a year ago in August following a 7.3% advance in July. Moreover, despite three straight months of sharp declines in home sales from April to June, home prices in Southern California did not fall on a year ago basis. Indeed, the last time home prices declined from a year ago in Southern California was in February 2012.

Every county in the region experienced positive home price growth from a year ago, with robust double-digit gains in Riverside (+15.8%), Orange (+14.8%), Ventura (+12.0) and San Bernardino Counties (+11.1%). Prices rose at a more modest pace of 7.9% in Los Angeles.

Home Price Growth Solid in All Counties



Home prices in Southern California are expected to advance 6.8% in 2020 and moderate to just 1.1% in 2021 as the supply of homes increases to meet demand. Continued strong out-migration is also expected to limit home price gains in the region in 2021.

Los Angeles Budget Woes Could Limit Growth

The City of Los Angeles – which is home to 3.9 million residents or about 40% of the population of Los Angeles County and 50,000 city workers – recently released a budget for the current fiscal year that proposes sharp cuts to offset revenue losses. The budget includes cuts of $230 million to department budgets, which represents a 3.5% decrease in the general fund.

Furthermore, it was announced on September 3 that 15,000 city workers would be furloughed and 1,280 employees would be offered early retirement packages. The furloughs, which begin on October 11, require civilian employees to take up to 18 days off during the fiscal year that started on July 1. It's estimated the furloughs will amount to $104.2 million in savings.

L.A.'s furloughs and job cuts are likely to be copied in cities across the region and state holding back employment growth and consumer spending into 2021. Moreover, due to Congressional gridlock much needed Federal aid to state and local governments may never arrive, or arrive too late, to forestall another round of job loss.

CENTRAL COAST

Employment Outlook

Total nonfarm jobs in the Central Coast region plunged 11.7% from a year ago in July. Although annual declines have moderated for three months in a row, the Central Coast has the distinct honor of consistently having the worst performing labor market of any region since the pandemic unfolded in March.

There were double-digit employment declines in Santa Cruz (-14.7%), San Luis Obispo (-13.3%) and Monterey (-12.4%). Employment in Santa Barbara declined a comparatively more modest 8.5%. Santa Barbara accounts for over one-third of total employment in the Central Coast region and limited overall job losses.

The largest job losses in the Central Coast were in leisure & hospitality (-25.9%), other services (-18.3%) and information (-11.8%). Collectively, these three sectors were responsible for nearly 43% of overall annual job losses in July.

The unemployment rate in the Central Coast region, which was just above the all-time low of 4.0% in February, spiked to a record-high of 16.3% in April as the pandemic battered the region. While the unemployment rate has fallen a sharp 500 basis points since April it is still-elevated at 11.3% in July. Nonetheless, the labor market in the Central Coast, which quickly unraveled in the early stages of the pandemic, is recovering more quickly than most regions despite its overreliance on tourism.

Central Coast employment is projected to fall 8.0% this year – mainly because of hard-hit service sector industries, including tourism – and

Recent Performance and Outlook

CENTRAL COAST	2017	2018	2019	2020f	2021f
LABOR MARKET					
Employment Growth	1.7%	1.4%	1.7%	-8.0%	1.3%
Unemployment Rate	5.4%	4.8%	4.5%	9.9%	9.2%
INCOME AND SPENDING TRENDS					
Personal Income Growth	4.3%	5.3%	5.1%	5.6%	-2.1%
Median HH Income ($)	73,626	76,561	78,711	82,620	81,948
Retail Sales Growth	4.1 %	3.9%	3.2%	-2.1%	2.4%
HOUSING MARKET					
Total Housing Starts Growth	20.1%	0.3%	-10.6%	-0.5%	20.2%
Med. Single Family Home Price	6.2%	2.5%	2.0%	8.0%	3.7%
DEMOGRAPHICS					
Population Growth	0.2%	0.0%	0.0%	0.2%	0.3%
Net Migration (000's)	-4.1	-6.4	-4.8	-3.9	-3.3

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

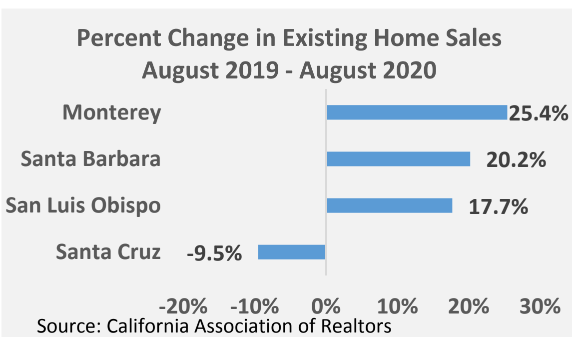
rebound 1.3% in 2021 as the region's tourism industry gradually picks up.

The Central Coast unemployment rate – which hit an expansion low of 4.5% in 2019 – is forecast to soar to 9.9% this year and then dip marginally to 9.2% in 2021 on moderate job gains.

Housing Outlook

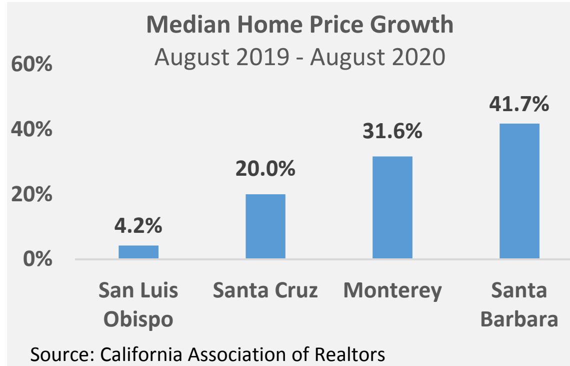
Central Coast existing home sales soared 15.4% from a year ago in August, down from a sizzling 21.9% increase in July. The continued vigorous growth was supported by pent-up demand and record-low mortgage rates. Sales in three of the four counties in the Central Coast rose at double-digit rates: Monterey (+25.4%), Santa Barbara (+20.2%) and San Luis Obispo (+17.7%). Home sales fell 9.5% in Santa Cruz but that followed a sharp 43.6% increase in July.

Home Sales Rose in Most Central Coast Metros



Home prices in the region surged 16.4% from a year ago in August, second only to the Bay Area's 18.7% gain but well ahead of Southern California (+12.8%). Prices rose in all four Central Coast counties in August with the largest advances in Santa Barbara (+41.7%) and Monterey (+31.6%) amid solid sales growth. Home price gains were strong in Santa Cruz (+20.0%) despite a near double-digit drop in home sales from a year ago, while home price growth was a more modest 4.2% in San Luis Obispo.

Home Prices Spiked in Santa Barbara in August



Home prices in the Central Coast are expected to jump 8.0% this year as low interest rates and pent-up demand drive prices upward. Price gains will slow to 3.7% next year as pent-up demand fades.

Central Coast Highly Exposed To COVID

A metric developed by Moody's Analytics that measure's a metro area's economic exposure to the fallout from COVID reveals the Central Coast region is highly exposed. Indeed, Monterey and Santa Barbara – which collectively represent over 60% of total employment in the region – are the third and seventh most exposed California MSAs based on the index that takes into account six indicators: current infection rate, population density, share of employees who work from home, tourism exports as a share of GDP, poverty rate and share of GDP in private, office-using industries.

The Central Coast economy could be particularly hard hit by business closures initiated at the beginning of July after an uptick in new virus infections. Bars are now closed, while restaurants, wineries and other attractions have been forced to limit service to outdoor areas. Retail sales remain weak as foot traffic is down.

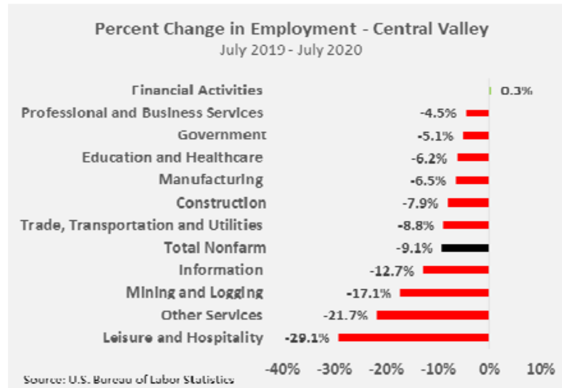
CENTRAL VALLEY

Employment Outlook

The Central Valley labor market has held up relatively well so far throughout this pandemic. Total nonfarm jobs fell 9.1% year-on-year in July, Employment declines in the Central Valley have been more modest in part due to the region's limited exposure to industries that were more directly impacted by business closures related to the coronavirus.

Jobs have disappeared across most sectors over the past twelve months through July with the largest declines in leisure & hospitality (-29.1%) and other services (-21.7%). Mining & logging (petroleum sector) (-17.1%) and information (-12.7%) were the only other sectors to decline by double-digit rates. Financial services managed a small gain of 0.3%.

Job Growth Mostly Negative in Central Valley



Job growth is projected to drop 7.5% this year and then rebound less than 1.0% in 2021. The shuttering of nonessential businesses from the coronavirus outbreak are the primary reasons for the dramatic dive in payrolls in the Central Valley this year, although outmigration and lingering trade tensions with China will also contribute to the sharp decline.

Recent Performance and Outlook

CENTRAL VALLEY	2017	2018	2019	2020[f]	2021[f]
LABOR MARKET					
Employment Growth	2.2%	2.9%	2.1%	-7.5%	0.8%
Unemployment Rate	6.6%	5.7%	5.4%	10.9%	10.1%
INCOME AND SPENDING TRENDS					
Personal Income Growth	3.7%	5.5%	6.0%	4.0%	-1.6%
Median HH Income ($)	58,091	60,358	61,897	63,835	63,552
Retail Sales Growth	5.2%	4.7%	2.6%	-5.4%	2.9%
HOUSING MARKET					
Total Housing Starts Growth	22.5%	2.4%	-1.3%	5.5%	21.6%
Med. Single Family Home Price	7.3%	68%	4.0%	6.2%	3.1%
DEMOGRAPHICS					
Population Growth	1.1%	0.9%	0.9%	0.4%	0.4%
Net Migration (000's)	26.7	19.3	18.9	-11.3	-12.5

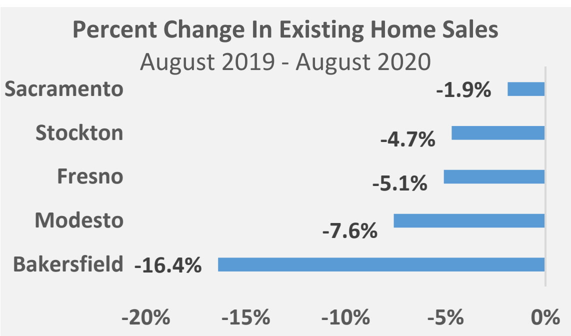
[4]The Central Valley region is comprised of San Joaquin, Fresno, Madera, Sacramento, Placer, El Dorado, Yolo, Stanislaus, and Kern counties

The unemployment rate in the Central Valley climbed to 16.1% in April but has fallen for three consecutive months and stands at 13.1% in July. Despite the steady improvements, the 13.1% rate is nearly double the pre-pandemic rate of 6.9%. The unemployment rate is projected to average a high 10.9% this year and remain elevated at 10.1% in 2021 on the sharp decrease in Central Valley payrolls this year.

Housing Outlook

The Central Valley housing market suffered a setback in August with existing home sales falling 5.8% from a year ago, nearly offsetting the 6.6% gain in July. Home sales declines in the Central Valley from a year earlier were broad-based and were led by Bakersfield (-16.4%), Modesto (-7.6%) and Fresno (-5.1%). Sales fell at more modest rates of 4.7% in Stockton and just 1.9% in Sacramento.

Home Sales Fell In All Central Valley Metros



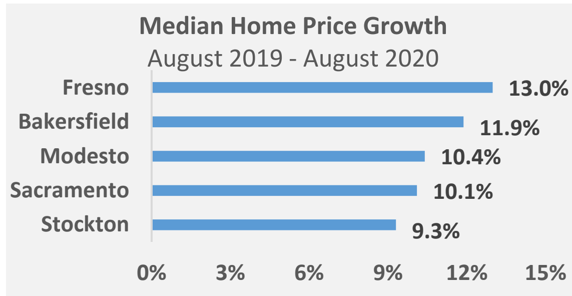
Source: California Association of Realtors

Despite declining sales, home prices were up 12.2% from a year ago in August in the Central Valley on lean inventory. Indeed, the number of months it would take to exhaust the remaining existing home inventory at the current sales pace was just 1.9 in August, down from 2.8 months a year earlier. Despite the double-digit increase in home prices, the other three California economic regions managed to outperform the Central Valley.

All five Central Valley metros experienced solid home price growth from a year earlier through August, led by Fresno (+13.0%) and Bakersfield (+11.9%).

Central Valley home prices are forecast to rise 6.2% this year – second slowest region trailing only the Bay Area – and moderate to 3.1% in 2021 as pent-up demand wanes and housing starts increase a robust 21.6%.

Home Price Gains Pervasive in the Region



Source: California Association of Realtors

Impact of COVID on Agriculture Clouds Outlook

Agriculture is the linchpin of the Central Valley's economy and a source of pride to its residents. According to the California Department of Food and Agriculture, growers in the region were responsible for about one-third of the state's $50 billion agricultural production in 2018. Moreover, the region is among the leaders nationwide in the production of almonds, grapes and dairy products.

Despite its importance to the regional economy, the agricultural industry seems to have been caught off guard by the pandemic. Indeed, the Central Valley's surging infection rate prompted Governor Newsom to declare the region his "biggest area of concern" in mid-August.

Moreover, it is putting pressure on California agriculture in ways that could hurt the region's farmworkers longer-term. For example, the pandemic is expected to accelerate the mechanization of farming as growers attempt to reduce their dependence on labor.

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