

**SONOMA STATE
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North Bay Economic Outlook

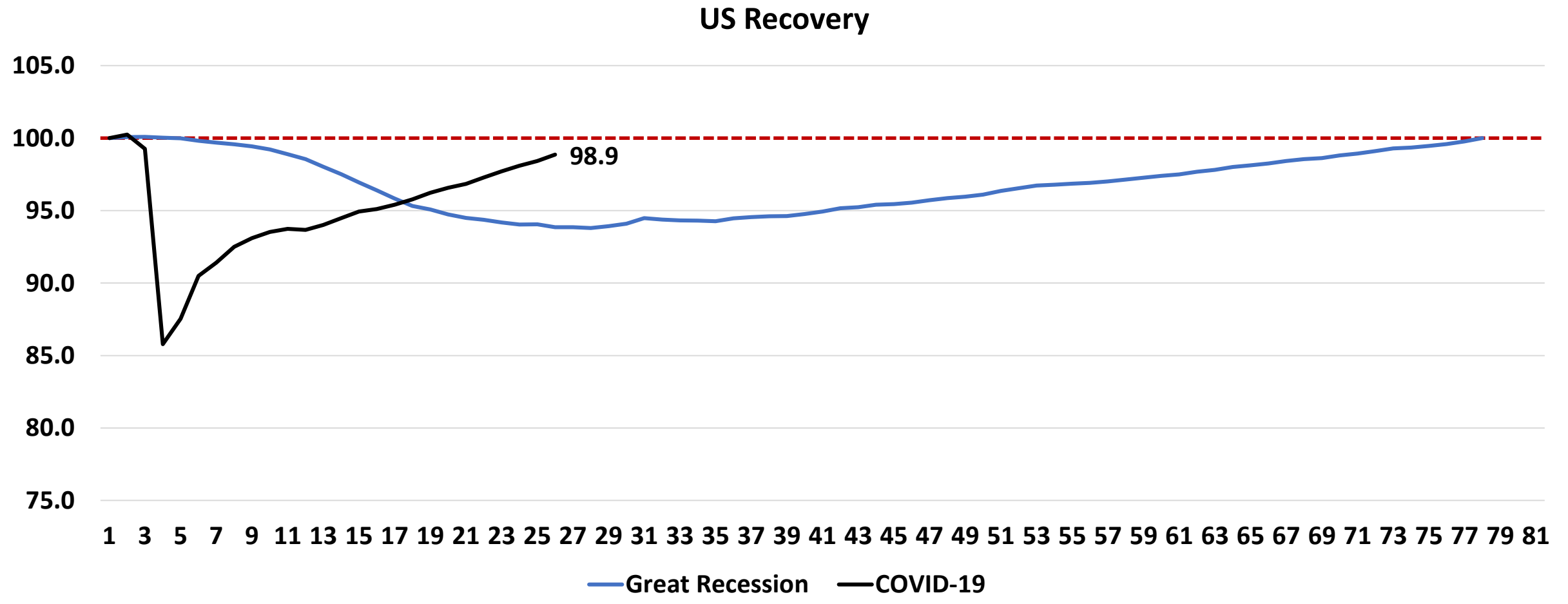
March 2022

Robert Eyler, PhD

Department of Economics

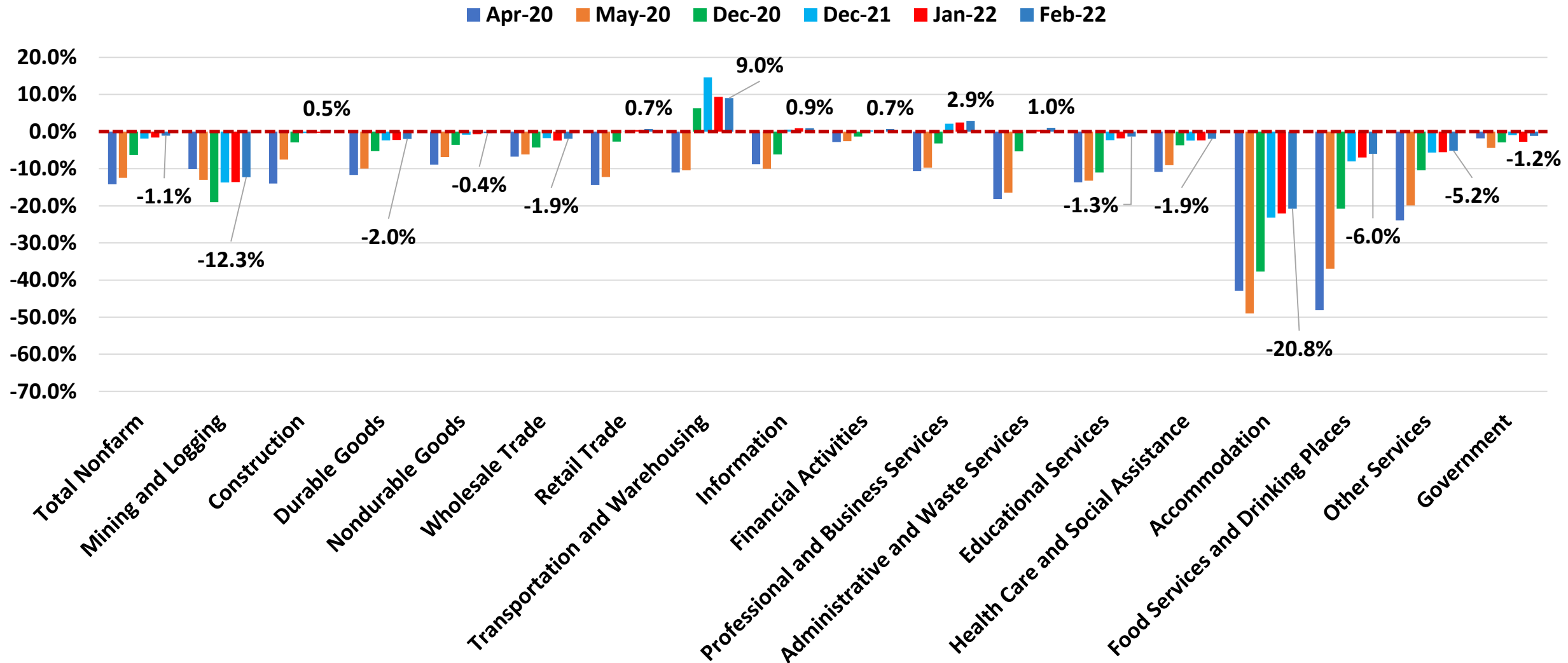
Sonoma State University

Employment Recovery Comparison, United States, Great Recession and COVID-19 Recession, Months from Peak Employment, Index Nov 2007 and Jan 2020 = 100, to Feb 2022



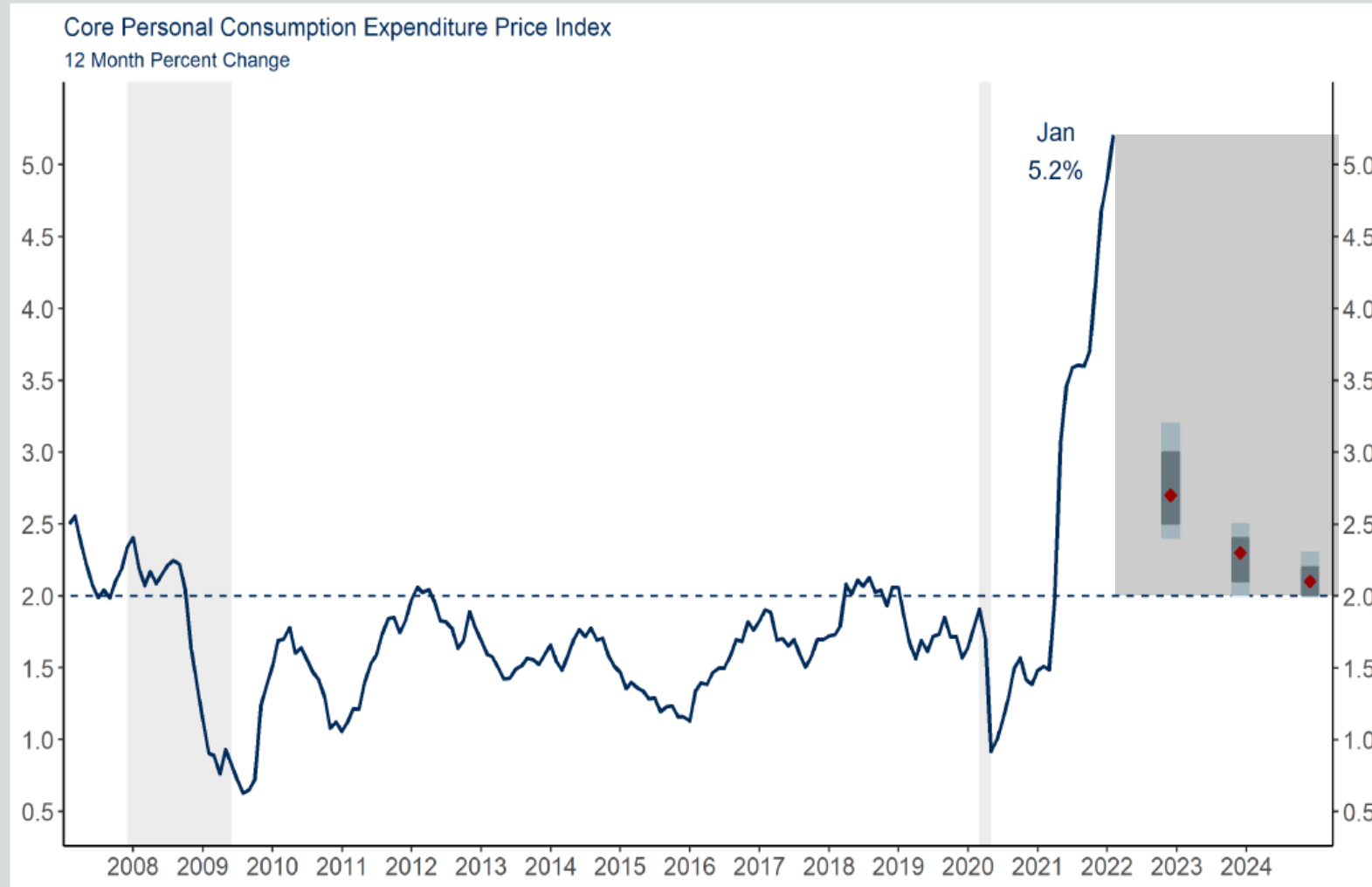
Source: BLS and EFA

Changes in Jobs, Selected Industries to February 2022, % Change since Jan 2020 for US Economy Overall



Inflation Watching: 2007 to 2025

Core Personal Consumption Expenditure Price Index

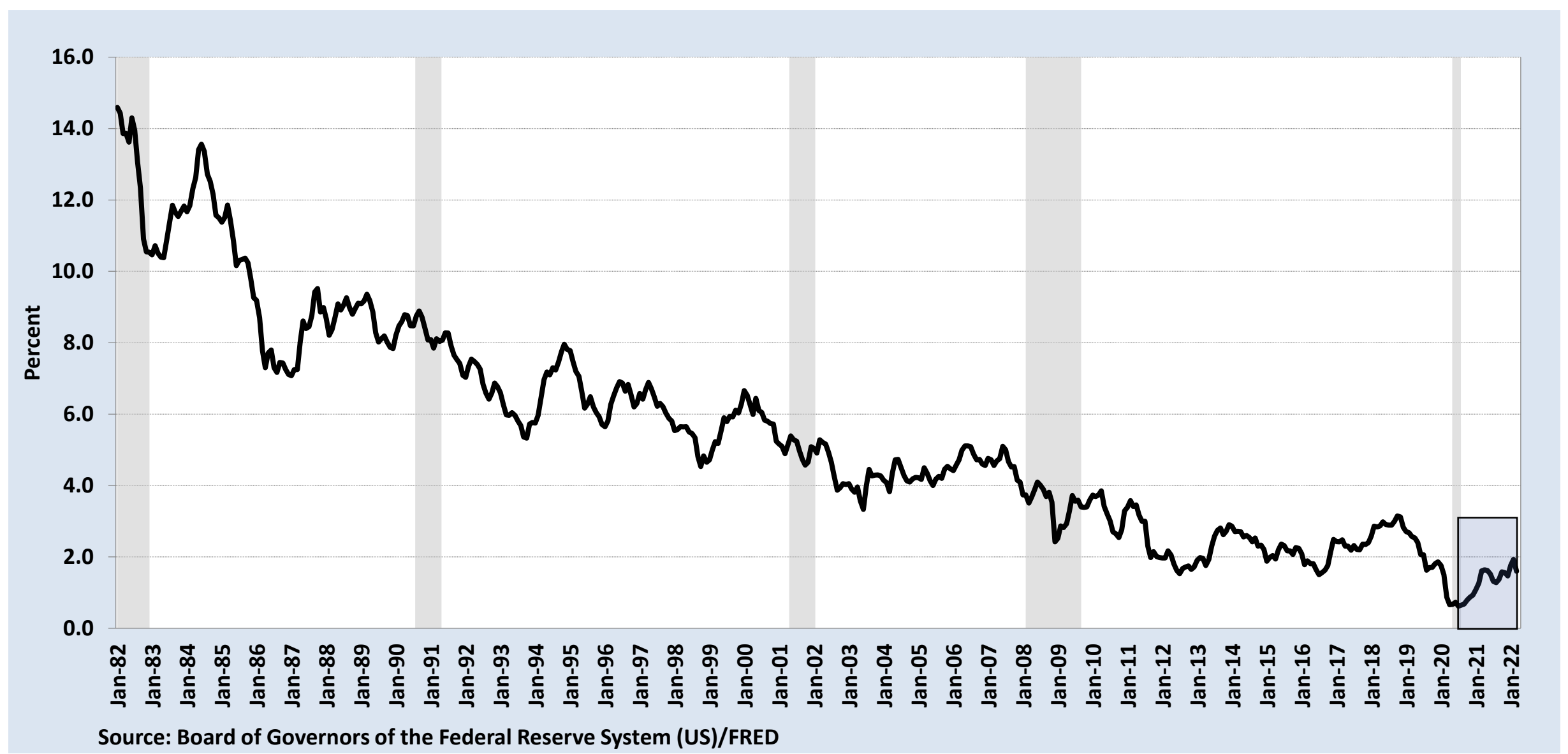


What to Watch

- Are prices falling or stabilizing?
- Will the Federal Reserve raise rates quickly?
- Are wages going to continue to rise?
- How much higher will housing prices go?

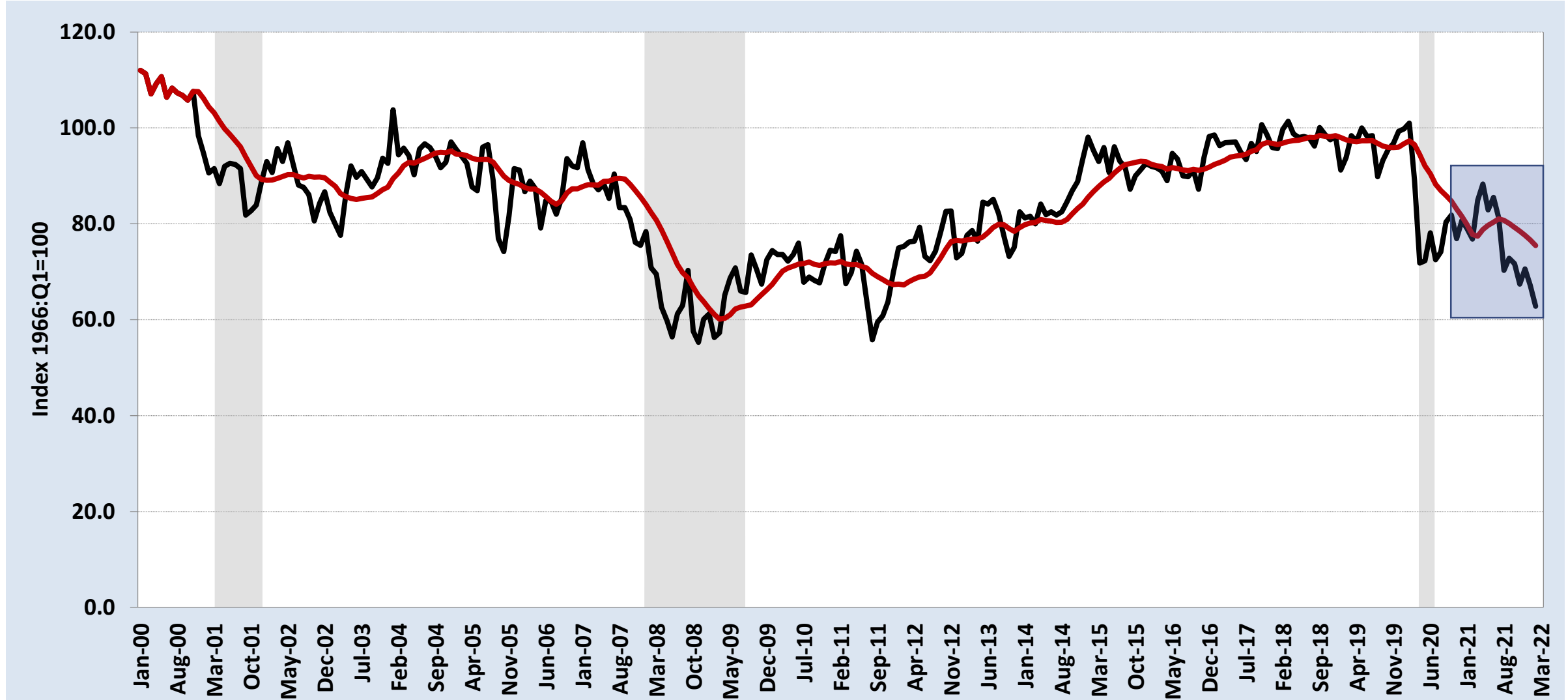
The key: can we “decompose” supply from demand effects?

The 10-Year Treasury Rate: 1982 to 2021



Source: Board of Governors of the Federal Reserve System (US)/FRED

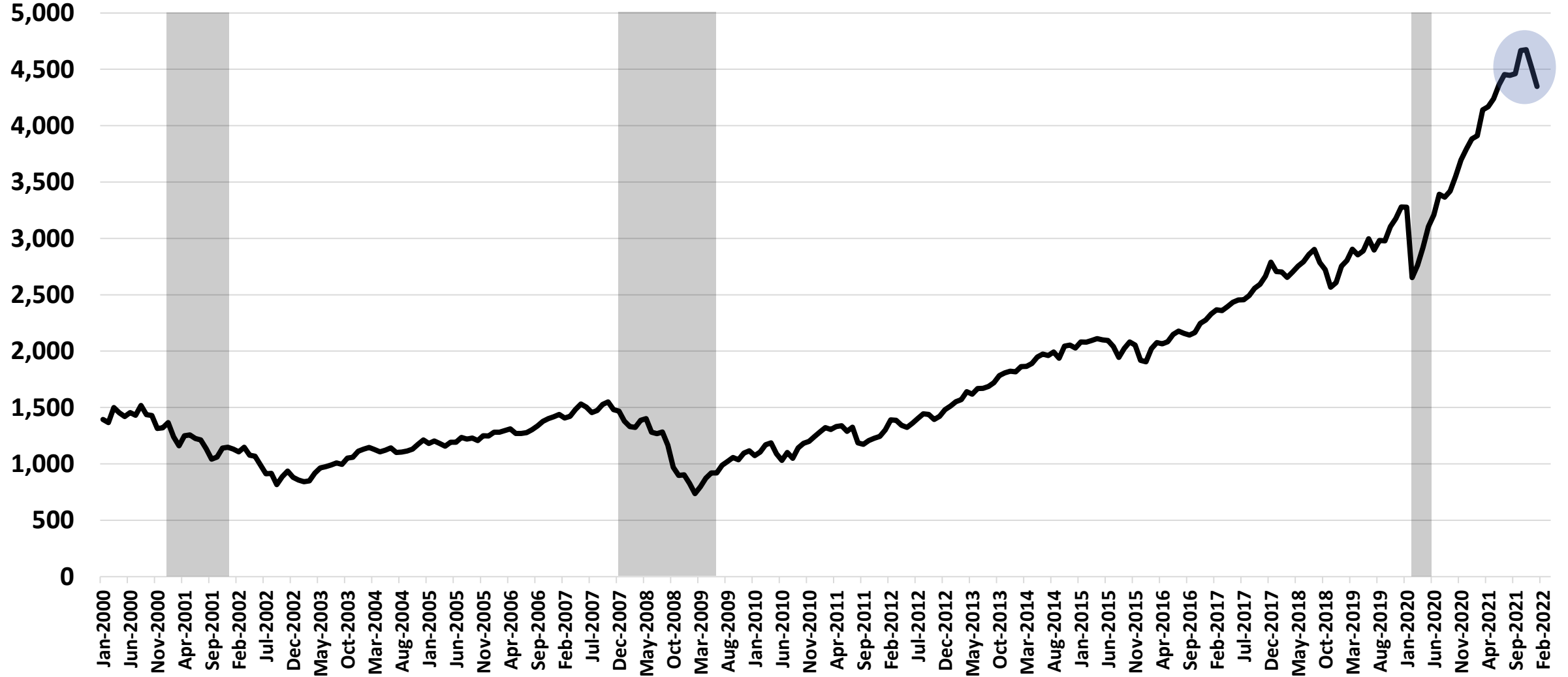
U of Michigan Consumer Sentiment to March 2022 & 6 month Moving Average



Source: University of Michigan/FRED

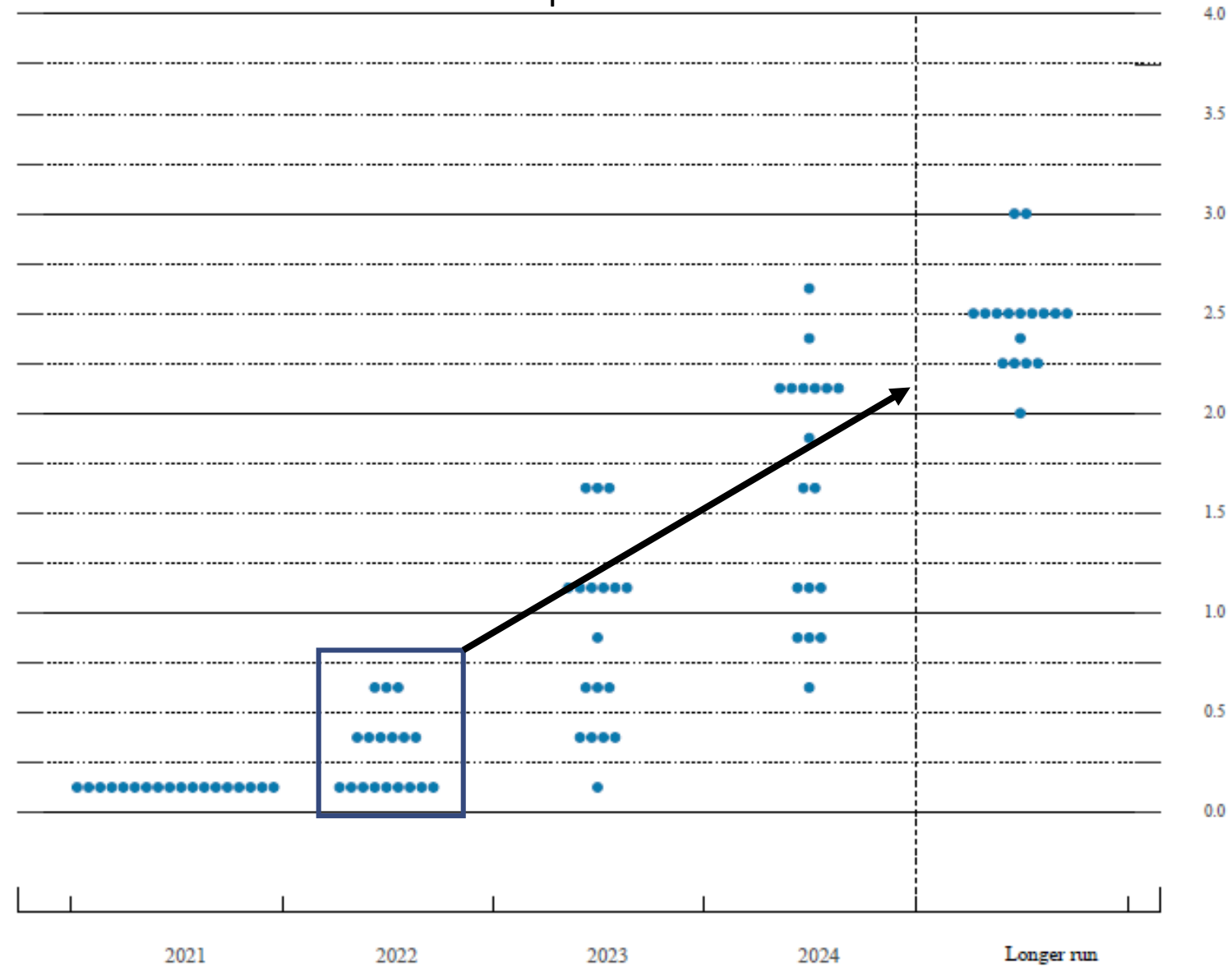
SP 500, Jan 2000 to Feb 2022, Index, Monthly Close

Shaded Area = Recession



Sept 2021

Percent



Rate Changes to Come?

- Why 3-4?
 - Beginning of movement back to Dec 2019 levels
- Why 5-7?
 - Inflation more obviously demand than supply issue
- Why 1-2?
 - Inflation more on the supply side, demand still needs fuel

Federal Reserve Philadelphia Forecast, Survey of Professional Forecasters

These data are from February 2022

	Real GDP (%)		Unemployment Rate (%)		Core PCE Inflation (%)	
	Previous	New	Previous	New	Previous	New
Quarterly						
2022:Q1	3.9	1.8	4.3	3.9	2.5	4.3
2022:Q2	3.0	4.2	4.1	3.7	2.4	3.1
2022:Q3	3.1	3.0	3.9	3.6	2.3	2.5
2022:Q4	3.1	2.9	3.9	3.5	2.1	2.3
2023:Q1	N/A	2.8	N/A	3.4	N/A	2.3
Annual data (projections based on annual-average levels):						
2022	3.9	3.7	4.1	3.7	2.3	3.1
2023	2.6	2.7	3.6	3.4	2.1	2.2
2024	2.3	2.3	3.7	3.6	N/A	2.2
2025	N/A	2.3	N/A	3.7	N/A	N.A.

The Intangibles Become Tangible: Eastern Europe



Short-Run: not a lot of change (assumes conflict ends by March 31)

- Less travel, rise in global risks

Medium-Run: Russian economy may or may not find “white knights” in China and other nations

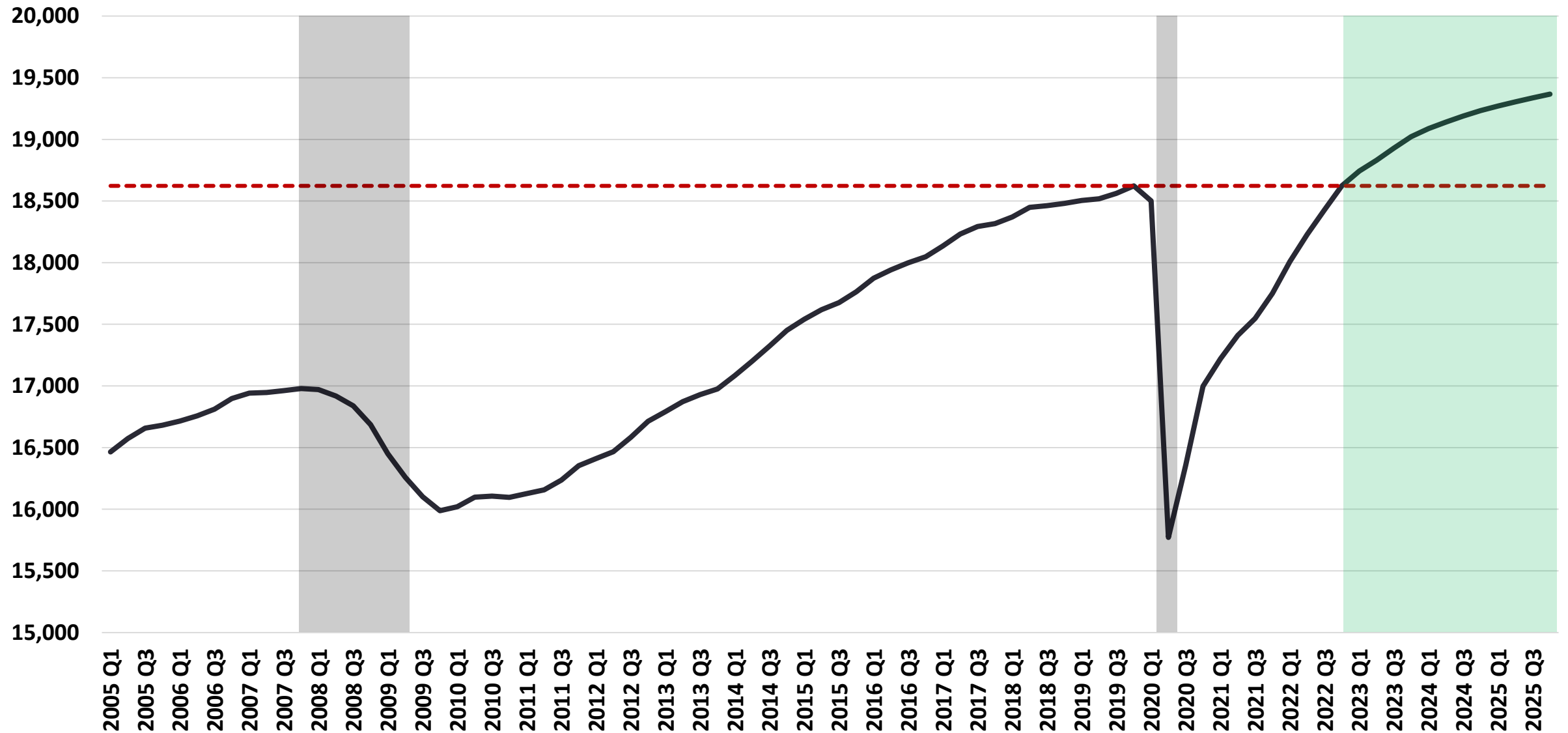
- Enhanced risk of financial concerns of global debt markets have problems
- Sharp travel downturn to Europe (may be good for North Bay)

Long-run: depends on regime change or not in Russia

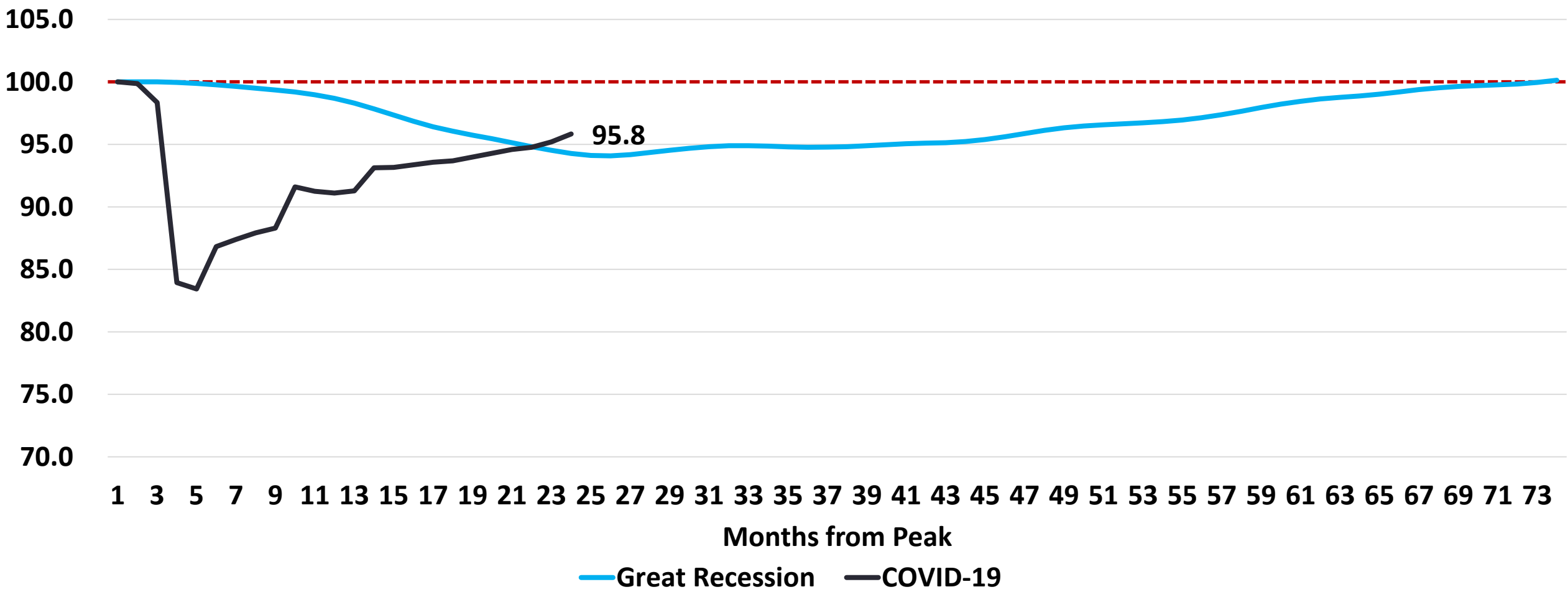
- More focus of US on foreign policy than any time since 1990, uncertainty increase
- Shifting spending priorities: Build Back Better very difficult now
- Autarky and Cold War 2

The North Bay 2022 to 2025: Gains and Challenges

Employment in California, Q1 2005 to Q4 2025 (Forecasts from 2021), Thousands of Workers

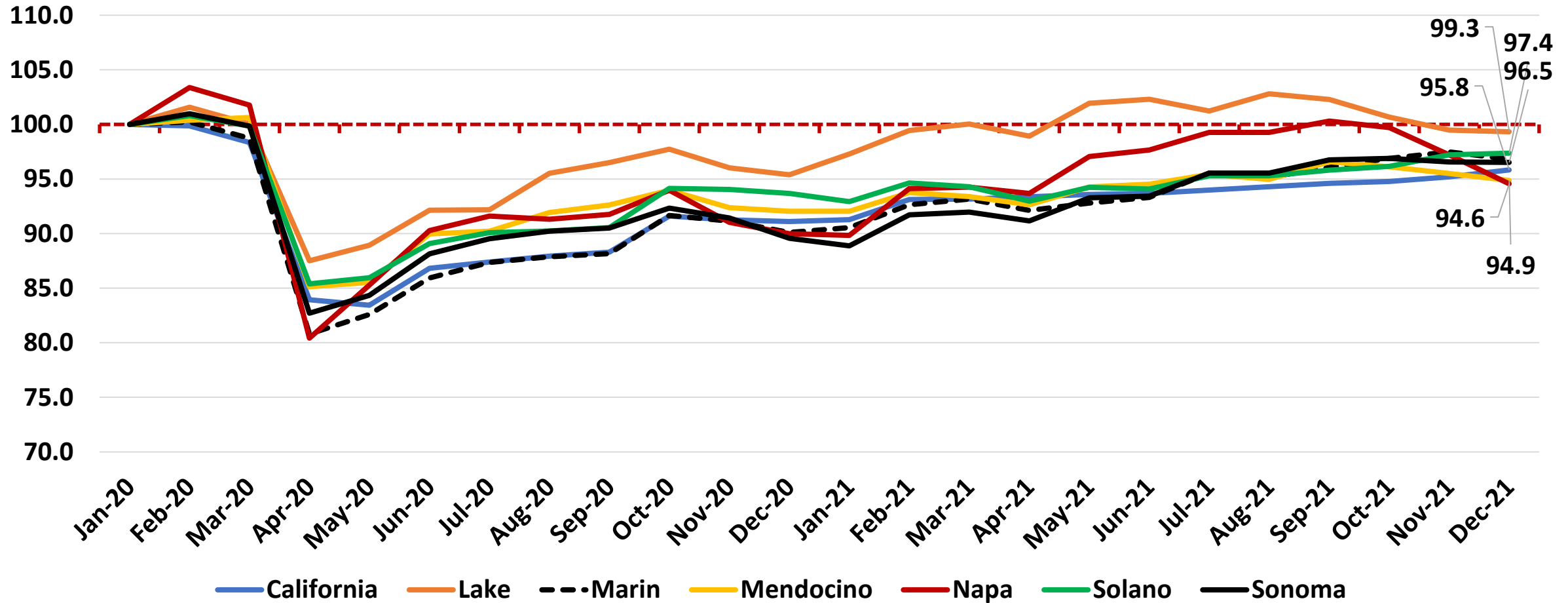


Employment Recovery Comparison, California, Great Recession and COVID-19 Recession, Months from Peak, Index Nov 2007 and Jan 2020 = 100, as of December 2021

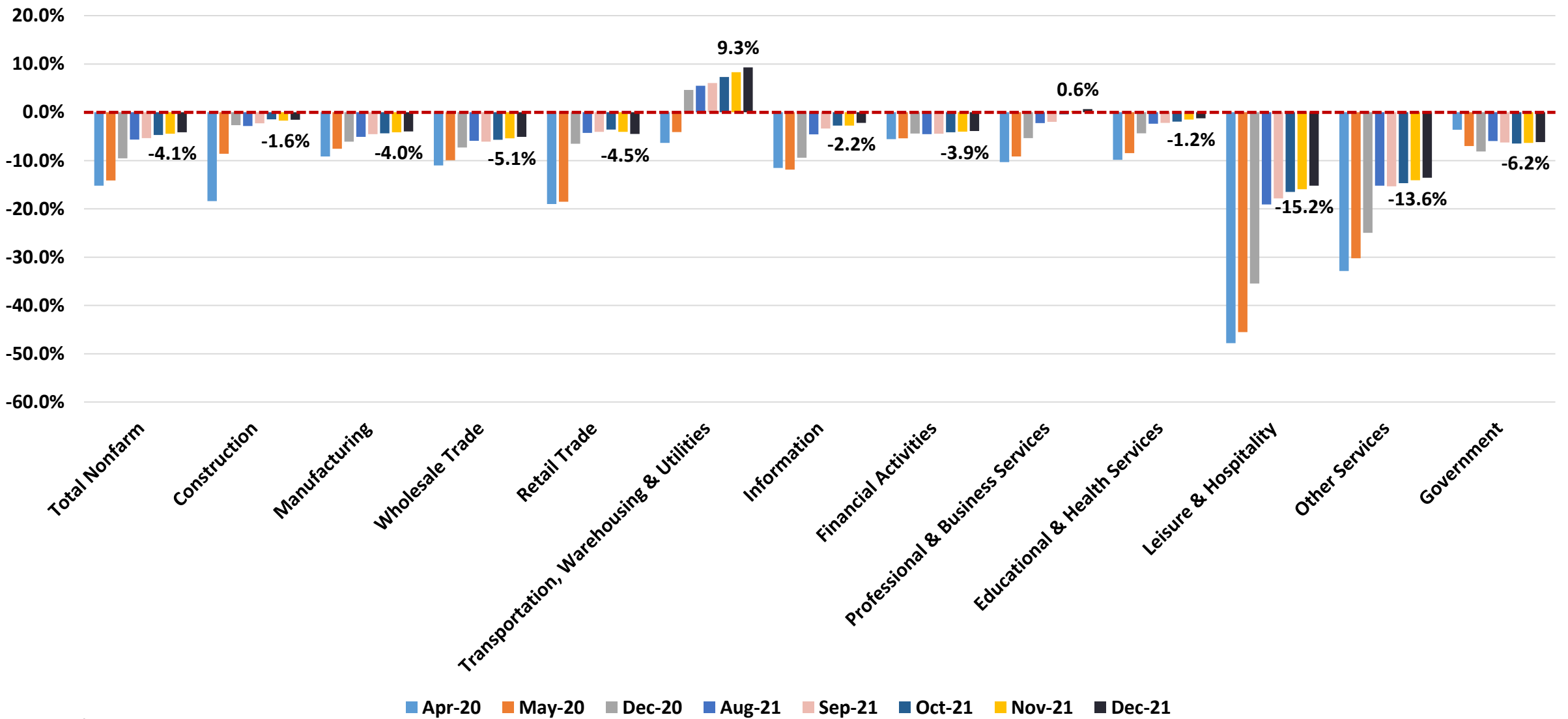


Sources: California EDD and MEF

Employment Recovery Comparison, California and North Bay Counties, COVID-19 Recession, Months from Peak, Index Nov 2007 and Jan 2020 = 100, as of December 2021



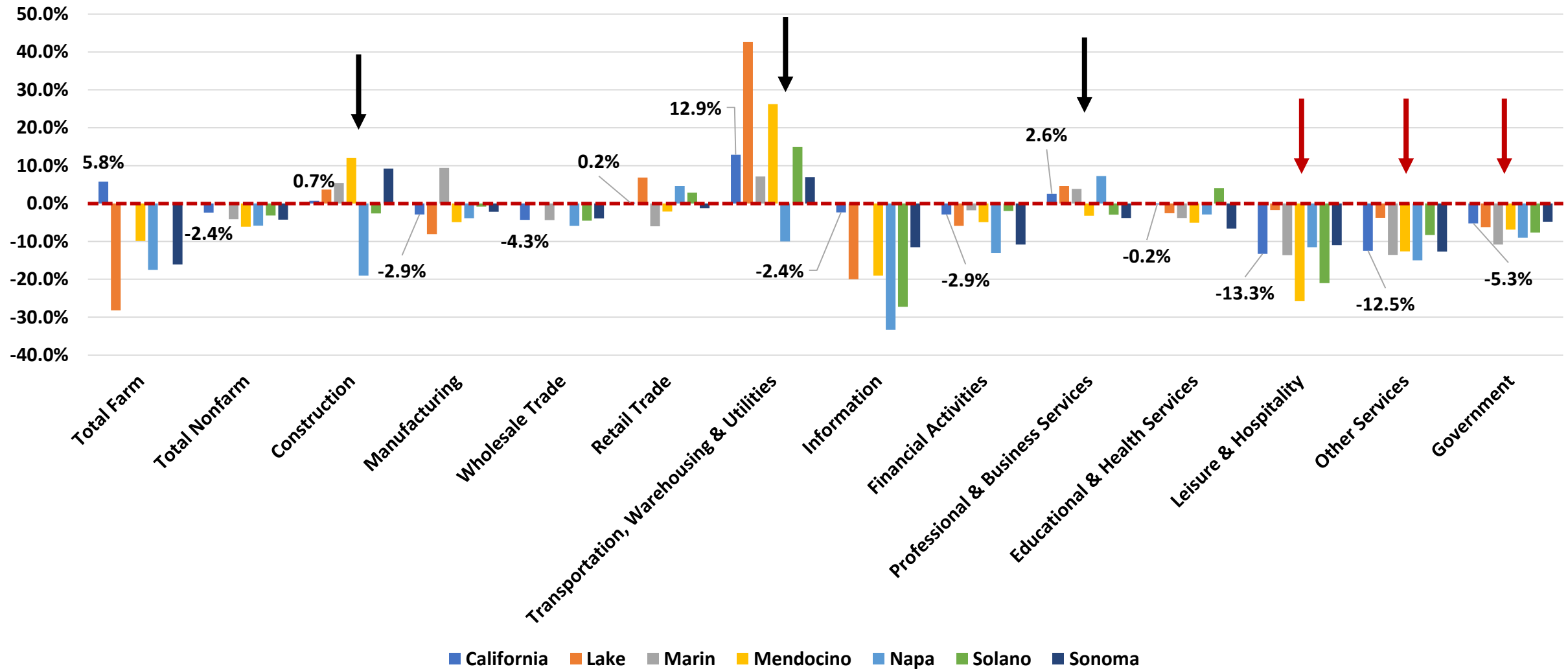
Industry Job Loss, as of Dec 2021, Seasonally Adjusted % Change from Jan 2020, Selected Industries, California



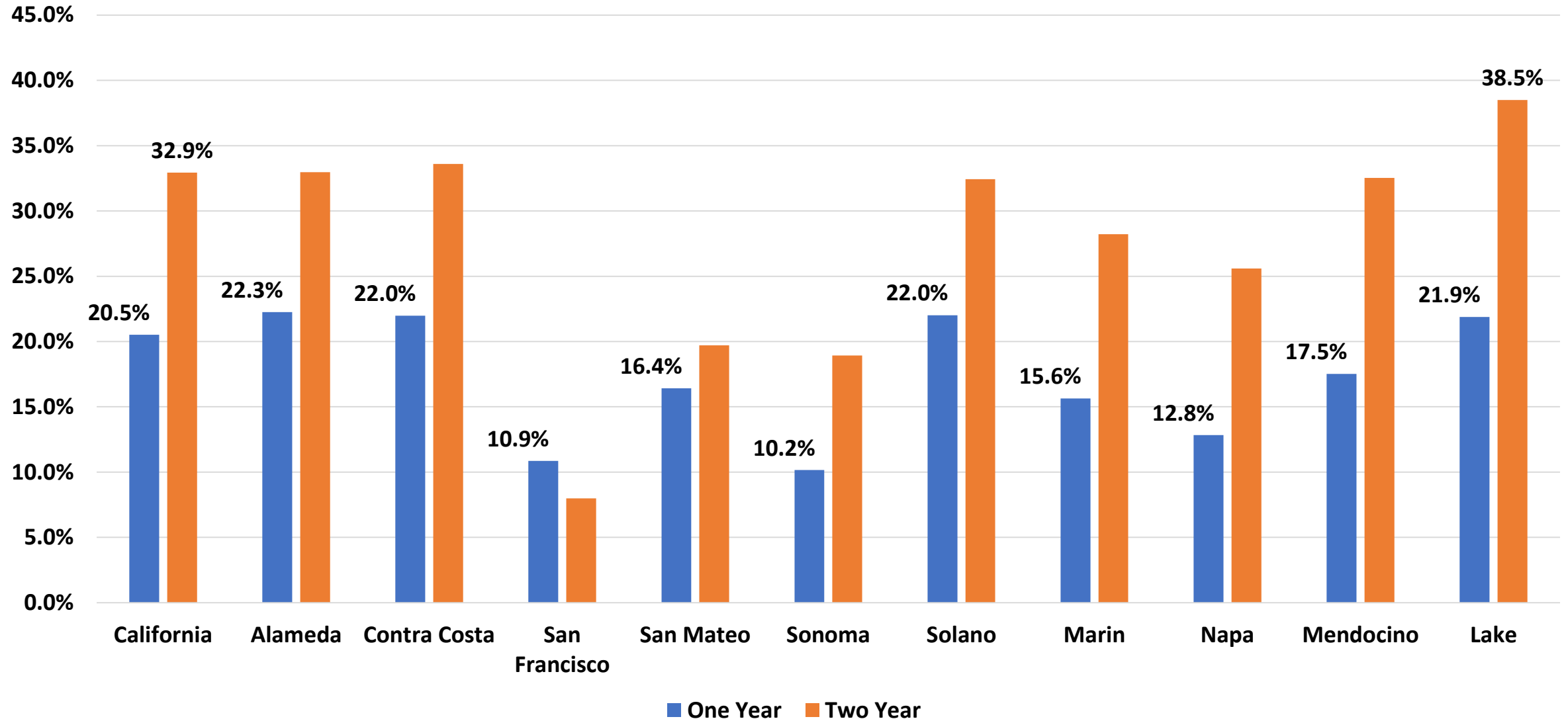
Sources: California EDD and EFA

Industry Job Loss, as of Dec 2021, Seasonally Adjusted

% Change from Jan 2020, Selected Industries, CA and North Bay Counties

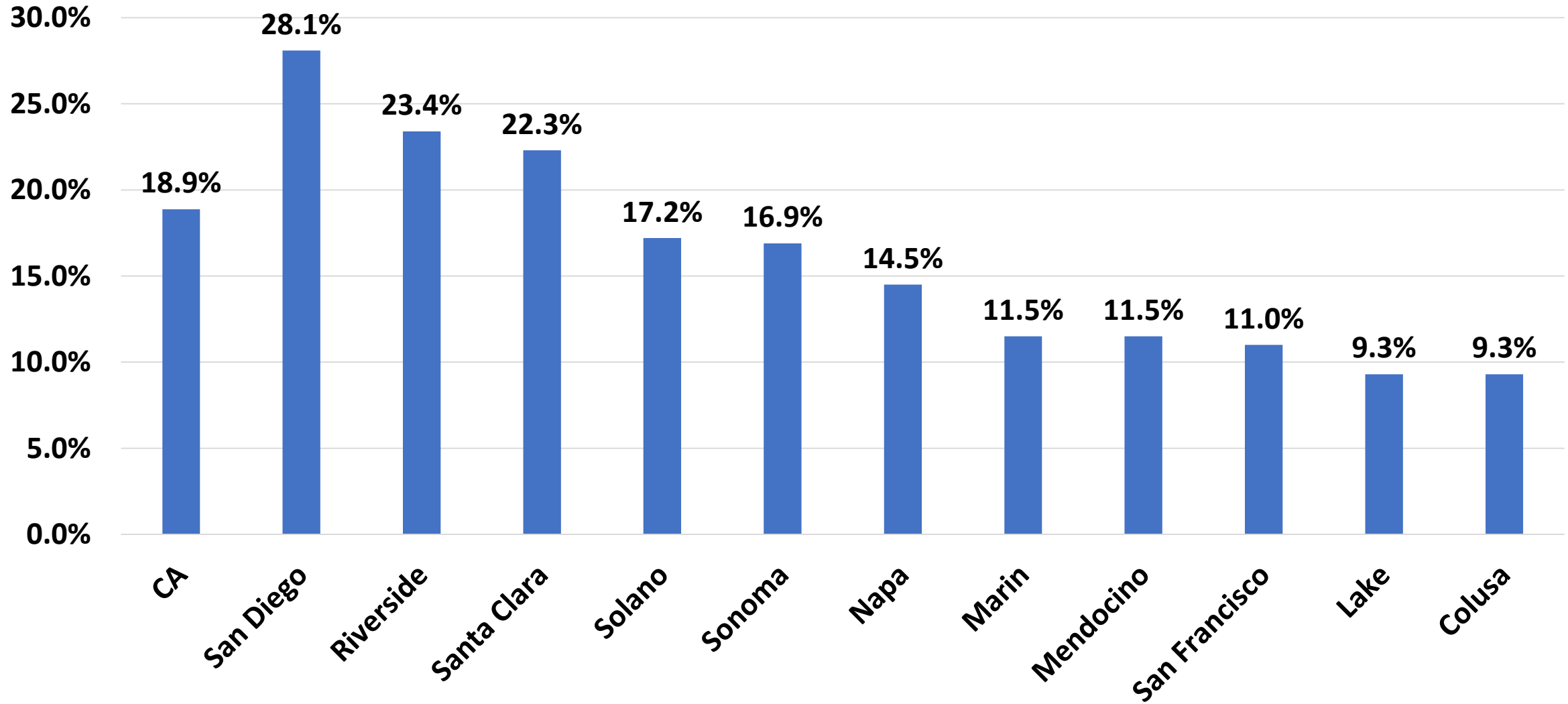


Growth of Median Housing Prices, Selected Areas, Dec 2021 compared to Dec 2019 and Dec 2020, % Change

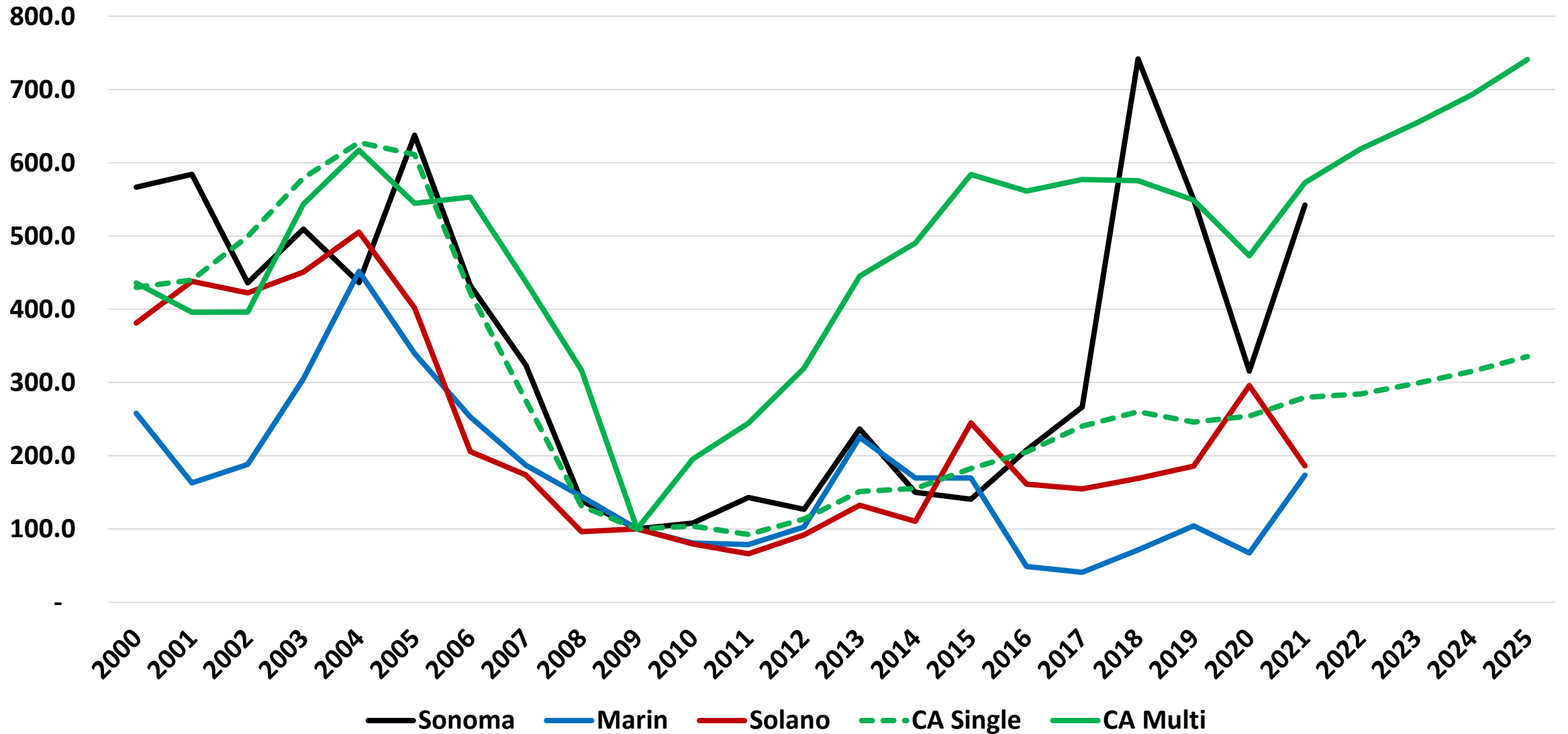


Housing Forecast to Dec 2022

% Change in Median Home Prices



New Residential Building Permits, Number of Units Selected Areas, 2000 – 2025, Index 2009 = 100



Commercial Real Estate: A Sign of Change to Come? Forecast to Q4 2022

	Sonoma	Marin	Napa/ Solano	SF
Office Space				
Inventory	Flat	Flat	Flat	+
Vacancy (- = good)	-	-	-	-
Asking Price	+	Flat	+	+
Construction	+	Flat	Flat	+

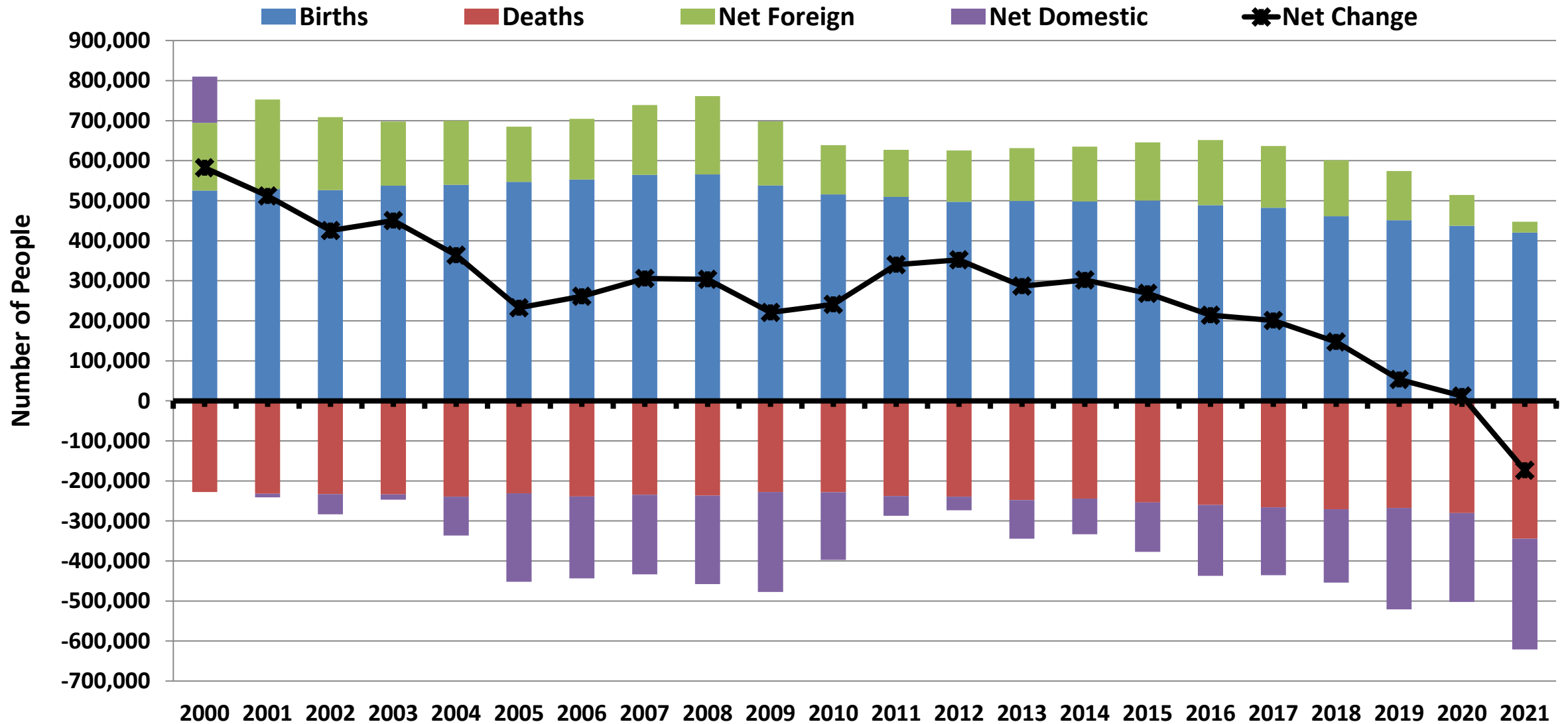
Headwinds:

- Workers not wanting to go back to the office
- Starting and stopping
- Worker locations
- Cost of bring workers back and maintaining them

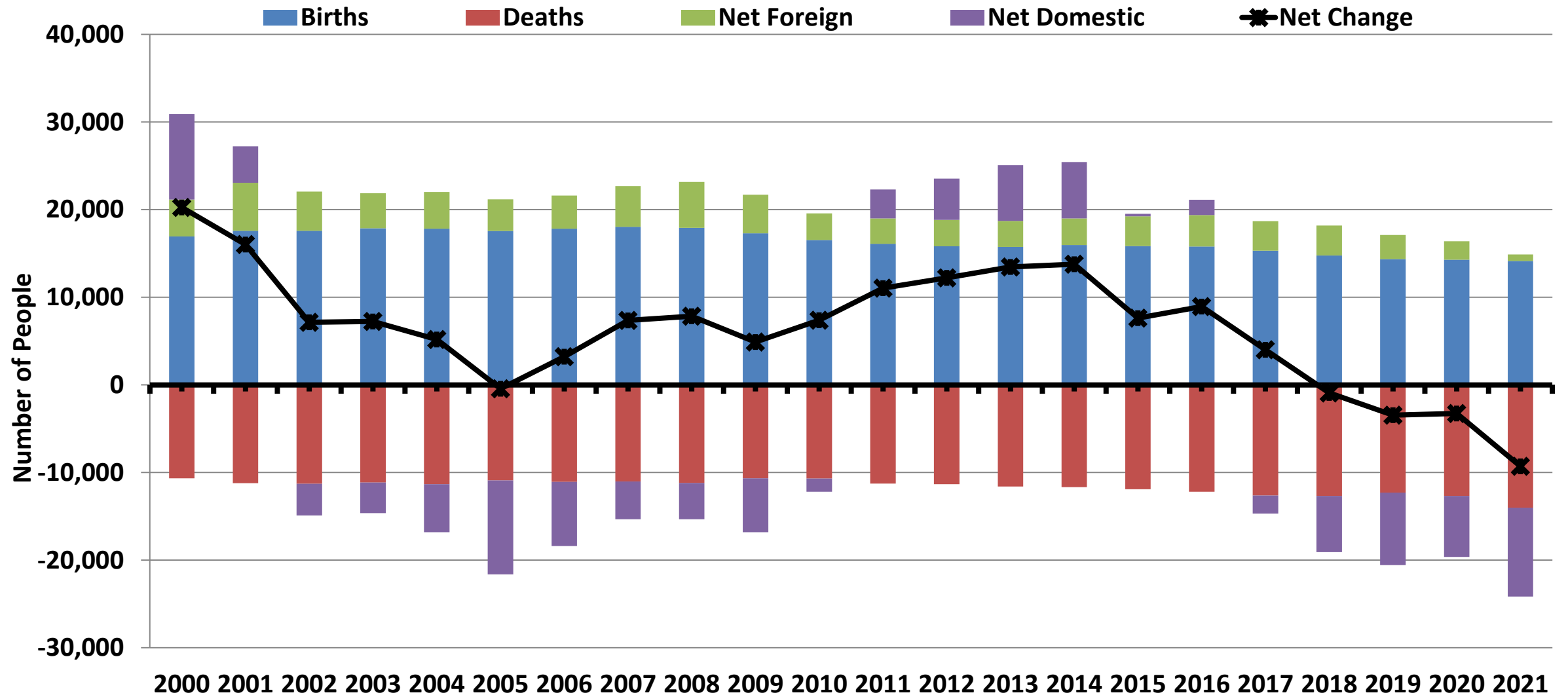
Tailwinds:

- Workers wanting to go back to the office
- Municipal incentives based on economic impacts
- Investments in place, incentive to use them
- Productivity gains

Components of Change, 2000-2021, FY End, California, Number of People



Population Components, North Bay Counties, FY End, 2000-2021, Number of People



Source: CA Dept of Finance

County Level: Things to Watch

Lake: Cannabis, tree and lake health, defining the future

Marin: Aging population and the search for workers

Mendocino: Shadow effects of 1990s and 2000s remain, ag and food/bev manufacturing hub for future?

Napa: Wine and tourism, the search for diversity

Solano: Life sciences, Mare Island, and logistics

Sonoma: Science, tourism, healthcare, wine, construction (good at a lot, need to find global niche)



Bottom Line

For the North Bay:

- **Macro context good, geopolitics bad**
- **Continued volatility will slow business investment and hiring: equity watch**
- **Some businesses are going to fail: do we fail those owners and workers on the other side?**
- **Economic and workforce development need to work hand in hand: SSU plays a key role here**
- **Housing to be the key topic of the decade against climate change**

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Business Journal**

Thanks!

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