

2017 Santa Cruz County Economic Outlook



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This publication was prepared by
The California Economic Forecast

Mark Schniepp, *Director*
5385 Hollister Avenue, Box 207
Santa Barbara, California 93111
(805) 692-2498
mark@californiaforecast.com

Visit our website at: www.californiaforecast.com

Sample

2017 Santa Cruz County Economic Outlook



Northern California Economic Overview

- Job growth remains rapid across most of Northern California. The Central Valley and Sacramento Valley each grew by 3.5 percent, while the Bay Area expanded by 3.3 percent.
- Bay Area gains were driven by technology and professional services. Health care and leisure services expanded sharply in virtually every Northern California county. In some counties, the construction sector led employment growth.
- In 2016, the unemployment rate averaged 5.1 percent across Northern California, an improvement from 5.7 percent in 2015.
- Unemployment was highest in the Central Valley (9.1%), but is now at normal levels in the Bay Area (4.0%) and the Sacramento Valley (5.0%).
- Many counties have now reached a “full employment” scenario, meaning that almost everyone who wants a job already has a job. Under these conditions, little further improvement in the unemployment rate is expected.
- Home prices continued to rise, but at a slower pace than the last few years.
- Home prices are rising faster than incomes. Affordability is becoming stretched in the Bay Area, but homes in the Central Valley and Sacramento Valley remain within reach for many households.
- Homebuilding activity has accelerated over the last few years, but remains significantly below potential.
- Going forward, most new construction will occur in the Bay Area where housing demand is greatest. Housing production will also be prolific in the Sacramento Valley, where a number of very large development projects have been proposed.
- Inflation will remain elevated in 2017 and 2018, as tight labor markets lead to higher wage gains, forcing companies to charge more for their goods and services.

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Santa Cruz County Economic Overview

- 1,500 non-farm jobs will be created in Santa Cruz County during 2017. Over the following five years, an average of 490 new jobs are expected per year.
- Employment growth will be led by professional services, leisure services, education and health care, and retail trade. These sectors will account for 85 percent of net job creation through 2022.
- The unemployment rate, which averaged 6.9 percent in 2016, is expected to fall to 5.5 percent in 2017. At this point, the county will be near a “full employment” scenario, and little further improvement in the unemployment rate is expected.
- The population is expanding more slowly than the broader state, and will continue to do so.
- The 2016 median home price was \$648,000, an increase of 4 percent from 2015, but still 6 percent below the 2006 peak.
- Housing production has increased in recent years, but has not kept pace with population growth. Over the forecast period, new development will predominantly consist of multifamily units.
- Investment in non-residential structures picked up in 2016, and will remain healthy over the next few years.
- Smaller companies dominate the county. The number of employees in the smallest firm size category accounts for 49 percent of conventional wage and salary employment. Over the last ten years, 3,000 jobs have been created in firms with fewer than 50 workers, far more than in any other size category.

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Santa Cruz County Job Growth

- Growth was strong in 2016. It will decelerate in 2017 but will still be healthy for this point in the economic cycle.
- Large gains were observed in construction, manufacturing, and retail.
- Between 2010 and 2016, non-farm employment grew by 2.3 percent per year.
- Between 2016 and 2022, growth is forecast to average 0.6 percent per year, with the highest level of job creation occurring in 2017.
- Approximately 1,500 non-farm jobs will be created during 2016.
- Through 2022, an average of 490 new non-farm wage and salary jobs per year are forecast, with a rising number of informal or self-employed workers.



Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Construction

- In 2016, there was a significant acceleration in housing production and non-residential construction activity, leading to incredibly rapid job gains in the construction industry.
- Job growth has peaked in this industry. Construction firms are now slightly overstaffed, and will be able to meet future demand without adding new workers.



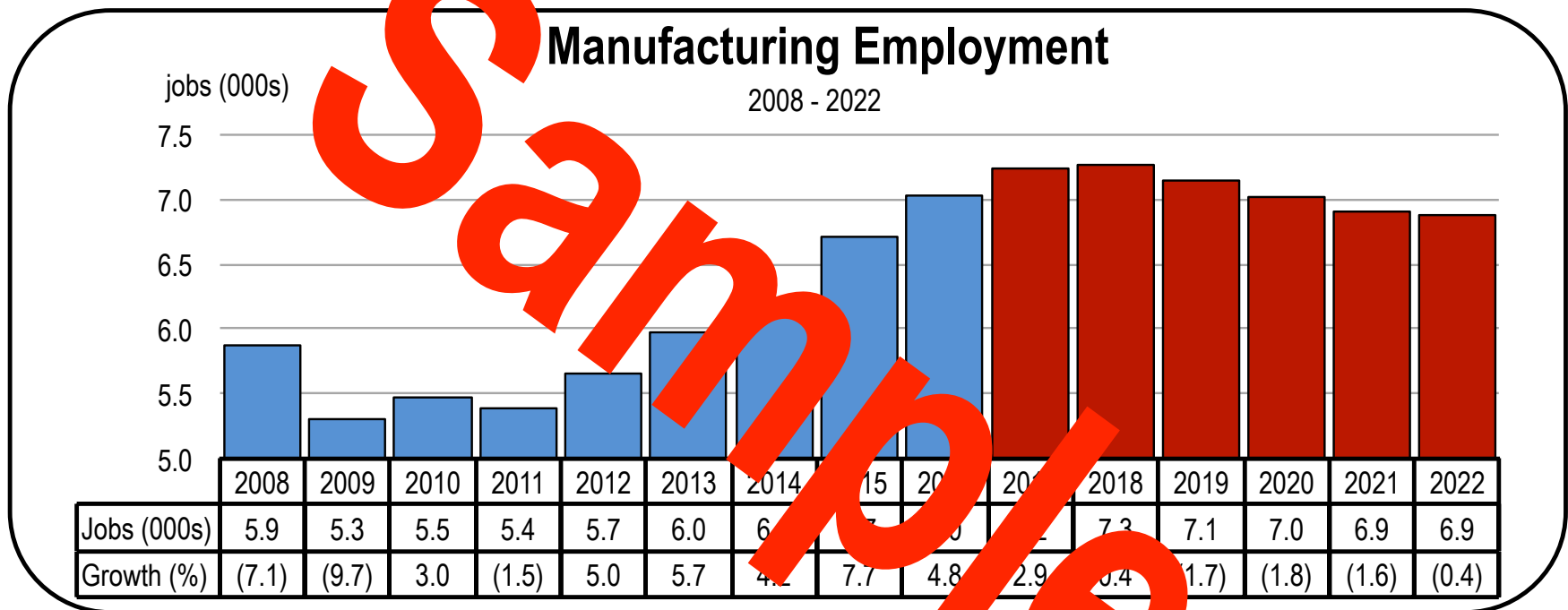
Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Manufacturing

- Manufacturing employment has increased rapidly for several years.
- By contrast, growth has been slow or absent in most areas of California as manufacturing functions have moved to lower-cost regions or have been automated.
- The manufacturing industry has largely peaked for the current economic cycle, and no improvement is expected after 2018.
- The manufacturing industry is particularly sensitive to changes in the minimum wage. The potential effects of California's new minimum wage law are unknown, but could result in lower job growth than currently forecast.



Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Transportation & Warehousing

- Transportation and warehousing is growing quickly, largely due to the transition towards online shopping.
- Because more goods are being shipped directly to consumers, rather than to physical store locations, demand has increased for delivery drivers at companies like UPS and FedEx.
- Employment levels will plateau in the next few years, as the economic expansion matures and trade activity accelerates less quickly.

Transportation & Warehousing Employment

2008 - 2022



Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Retail

- The retail industry added 500 jobs in 2016.
- Growth was strong in grocery stores, clothing stores, and car dealerships.
- Strong gains will continue in 2017 as the overall labor market expansion generates demand for retail goods.
- However, the retail industry is particularly sensitive to changes in the minimum wage. The potential effects of California's new minimum wage law are unknown, but could result in lower job growth than currently forecast.



Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Wholesale Trade

- Wholesale trade employment has been stagnant over the past two years.
- Grocery wholesalers continue to add jobs, but these have been offset by losses in other parts of the sector.
- Growth will remain tepid over the forecast horizon.



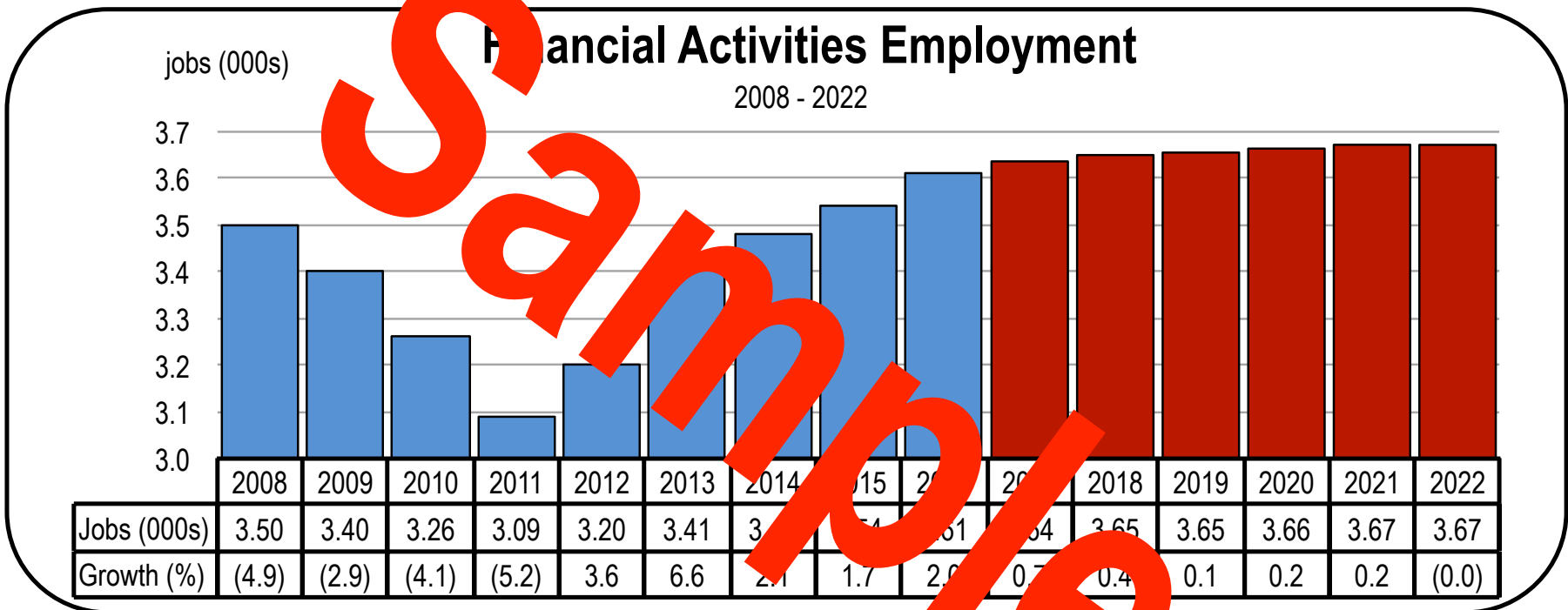
Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Financial Activities

- The Santa Cruz County financial sector is expanding quickly.
- A strengthening real state market has led to higher demand for real estate agents and property management professionals, and the industry has recovered most of the jobs lost after the last recession.
- Over the forecast period, employment growth will be slow as the real estate sector plateaus, and as local banks continue to consolidate and automate some of their routine functions.



Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Professional & Business Services

- This industry was stagnant in 2016, especially compared to the huge gains seen in other parts of the Bay Area.
- This industry is largely comprised of high-skill jobs in law, accounting, tech, consulting, and scientific research. Much of the Bay Area has seen increased demand for such jobs.
- Growth will be rapid over the forecast period, as demand expands for high-value business services.



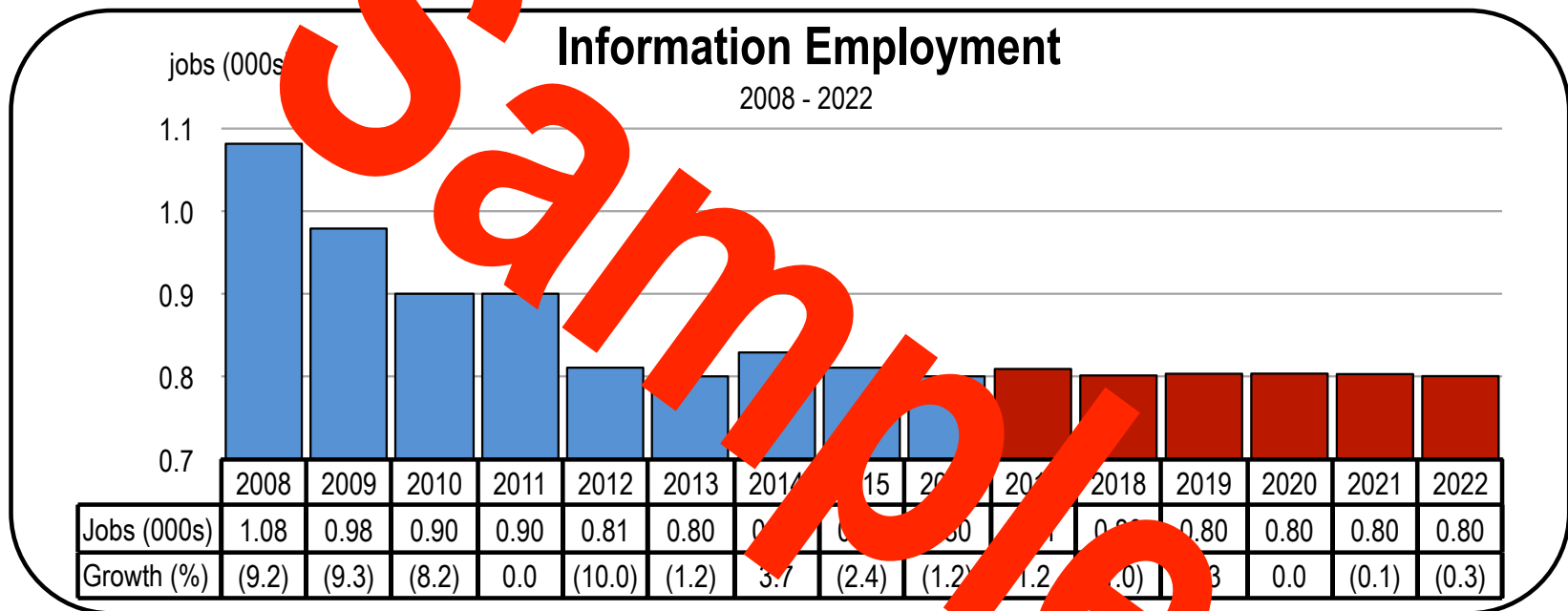
Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Information

- The Information sector has been flat for the past several years.
- In Santa Cruz County, this industry is primarily comprised of newspaper companies, software firms, and movie theaters.
- Losses continue to mount at newspapers. Before the last recession, there were 10 newspaper companies, and each employed an average of 28 people. Now there are only 7 newspapers, with an average headcount of just 12 workers.
- Losses at newspapers, as well as at telecommunications firms, have been offset by gains at software publishers and data services organizations.
- This industry will remain stagnant through the forecast period.



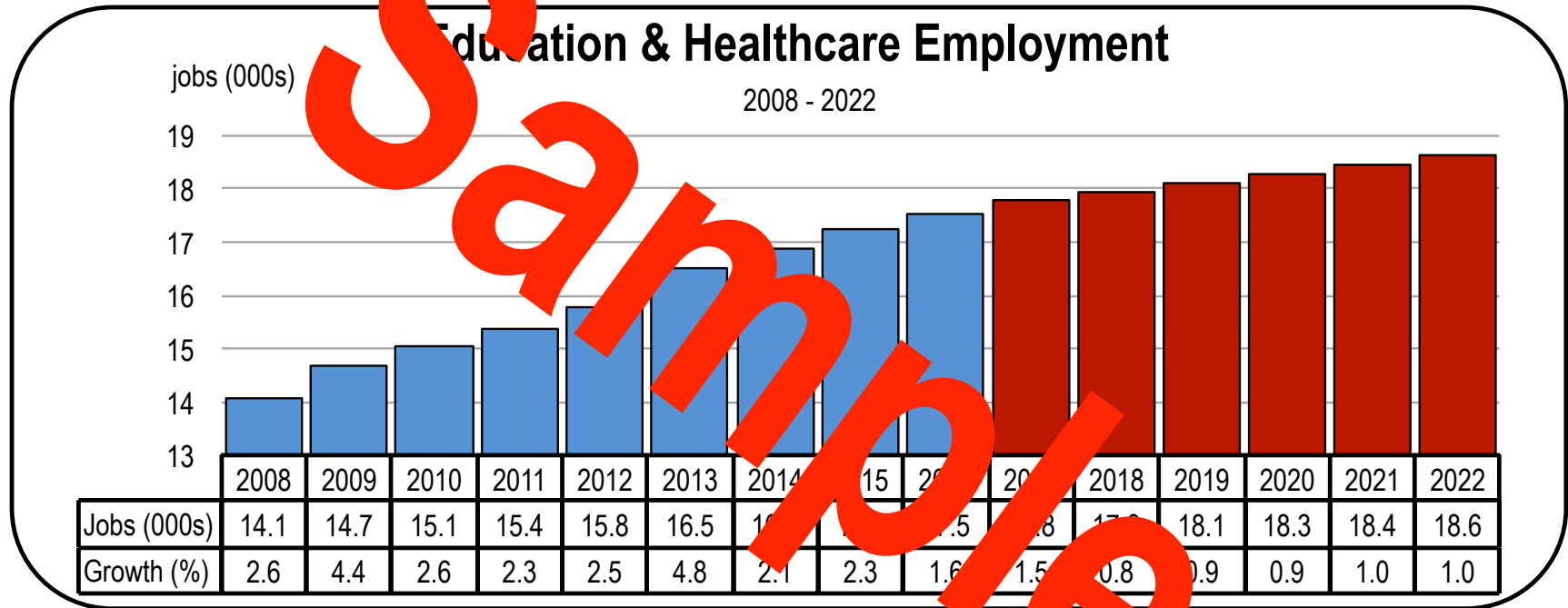
Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Education and Healthcare

- The healthcare industry continues to be a leader for Santa Cruz County.
- Gains have been concentrated in doctors' offices, outpatient and residential care facilities, and organizations that provide services to the elderly and people with disabilities.
- A small number of jobs were also gained at private schools (public schools are included in the government industry).
- Growth will continue to be strong in 2017 as an aging population leads to more demand for health services. However, the future of the Affordable Care Act is unknown, and legislative changes could influence employment growth in this sector.



Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Leisure & Hospitality

- Increased consumer demand has led to higher spending at restaurants, generating 200 new restaurant jobs last year.
- Several new restaurants opened during 2016, including the new Splash eatery on the Santa Cruz Wharf.
- Growth will slow over the forecast period, in tandem with slowdowns in overall job growth and population growth. The leisure industry is also particularly sensitive to changes in the minimum wage. The potential effects of California's new minimum wage law are unknown, but could result in lower job growth than currently forecast.



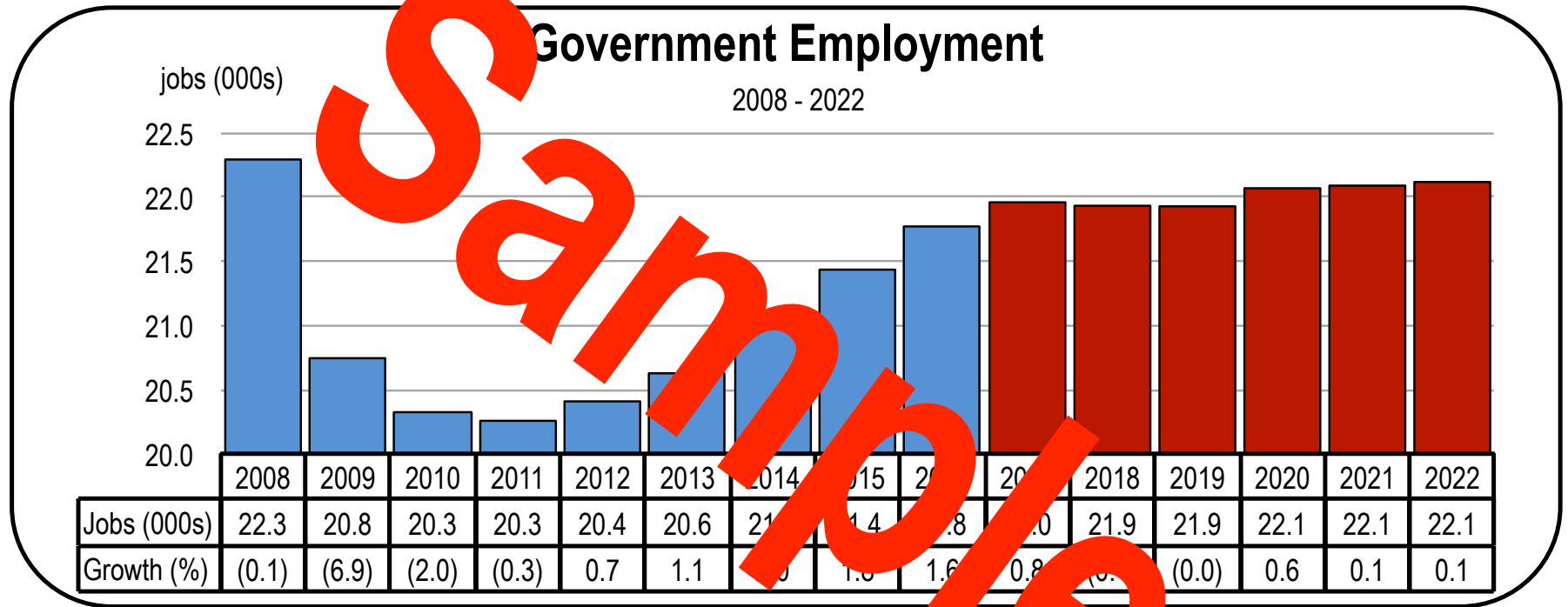
Source: California Economic Forecast

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Santa Cruz County Employment by Industry: Government

- The government has been adding jobs at a healthy rate, primarily due to increased staffing at local schools.
- Future job gains will depend on local population growth and changes to government budgetary conditions.

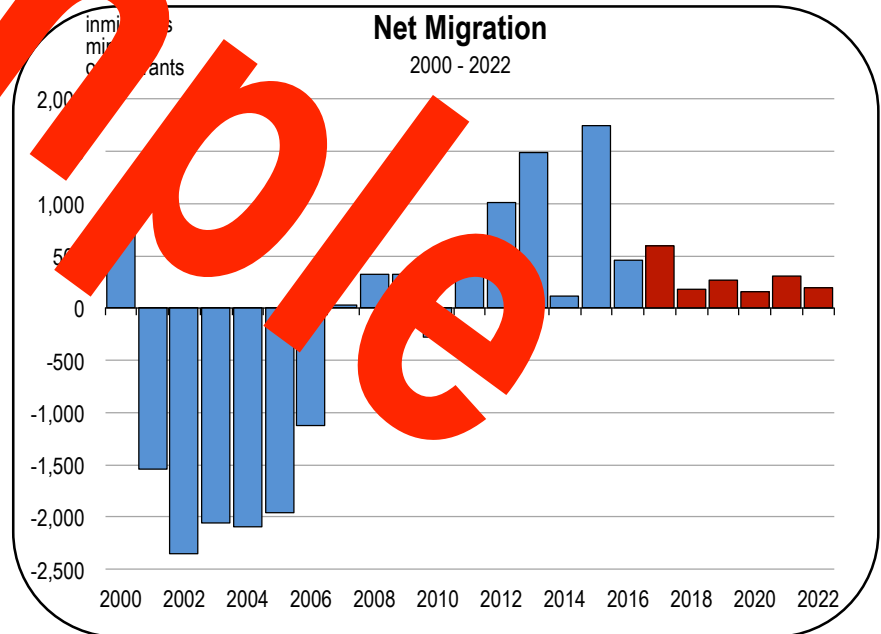
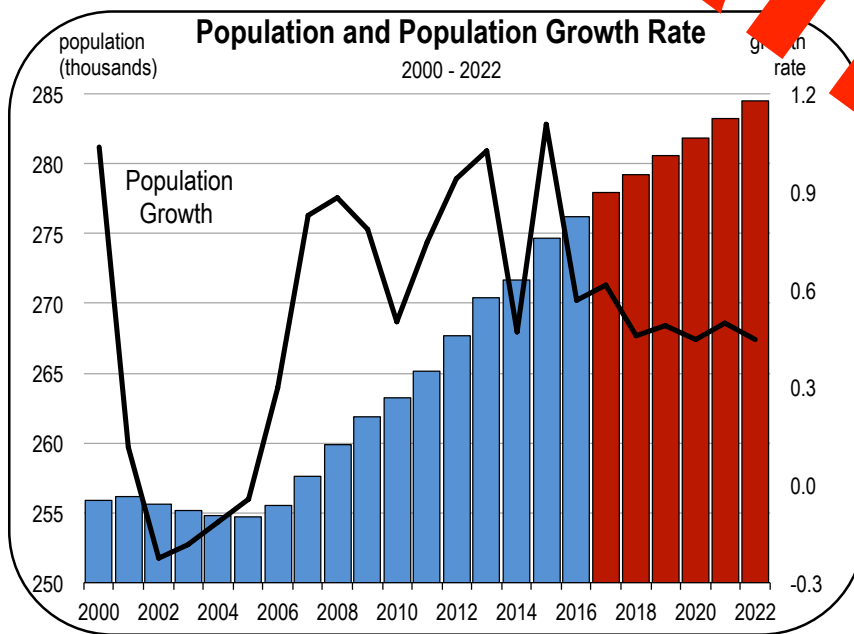


Source: California Economic Forecast

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Santa Cruz County Population and Net Migration

- Population growth decelerated slightly in 2016, and is now below the statewide average.
- Net migration was low, as high home prices deterred people from moving to the region.
- 870 net migrants entered the county each year from 2011 to 2016. Only 280 net migrants will enter each year from 2017 to 2022.
- The population will expand by 0.5 percent per year. By the end of 2022, the county will approach 285,000 residents.



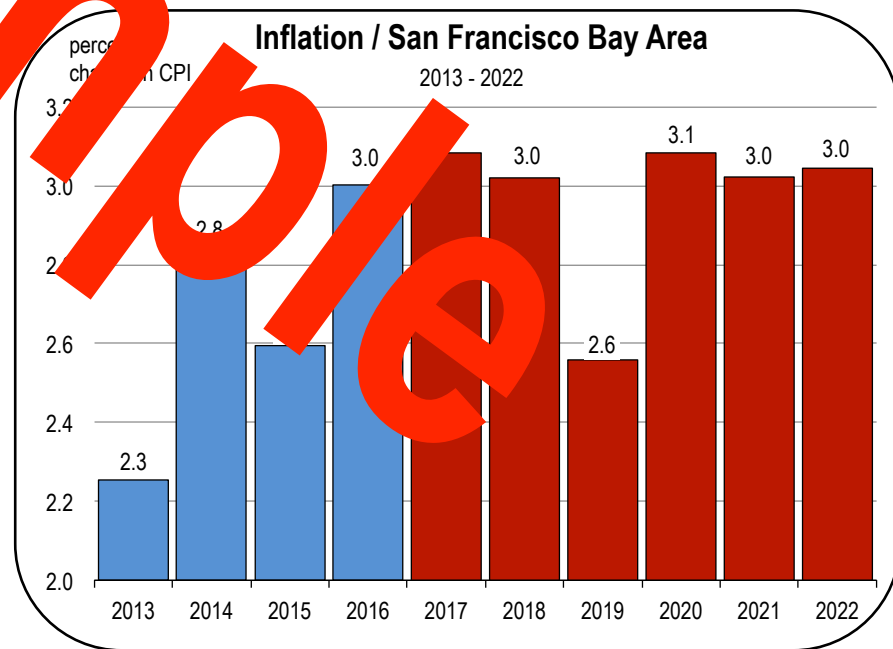
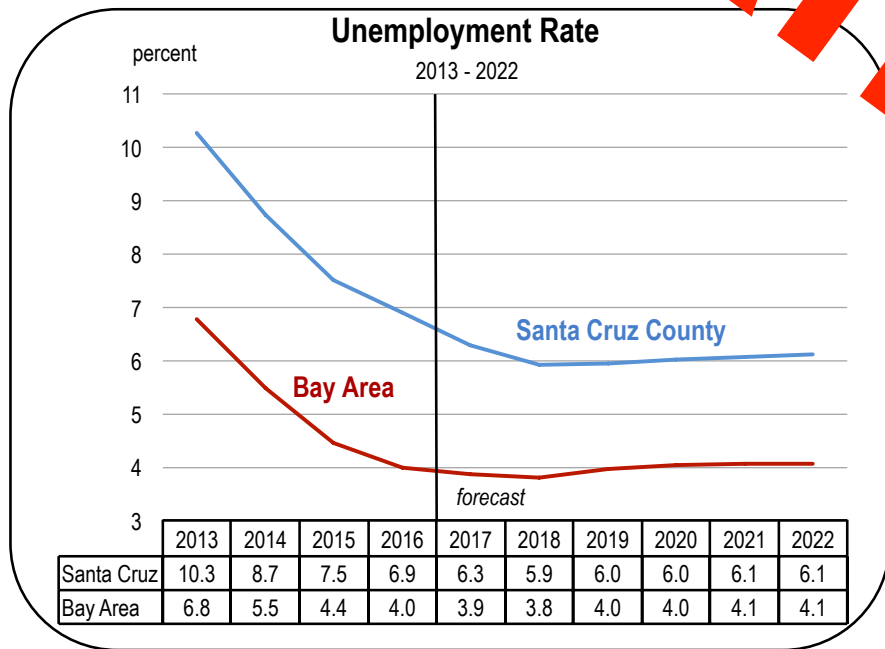
Source: California Economic Forecast

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Santa Cruz County Unemployment and Inflation Rates

- The unemployment rate in Santa Cruz County averaged 6.9 percent in 2016, which was substantially higher than the composite rate for the Bay Area. Unemployment is forecast to fall to 6.3 percent in 2017.
- After 2017, the county will have reached its “full employment” level, meaning that virtually everyone who wants a job will already have a job. Under these conditions, little additional improvement in the unemployment rate is expected.
- Inflation accelerated in 2016, as energy prices rose and wages began to increase more quickly. Inflation is forecast to remain elevated, as tight labor markets lead to higher wages, forcing companies to charge more for their goods and services.

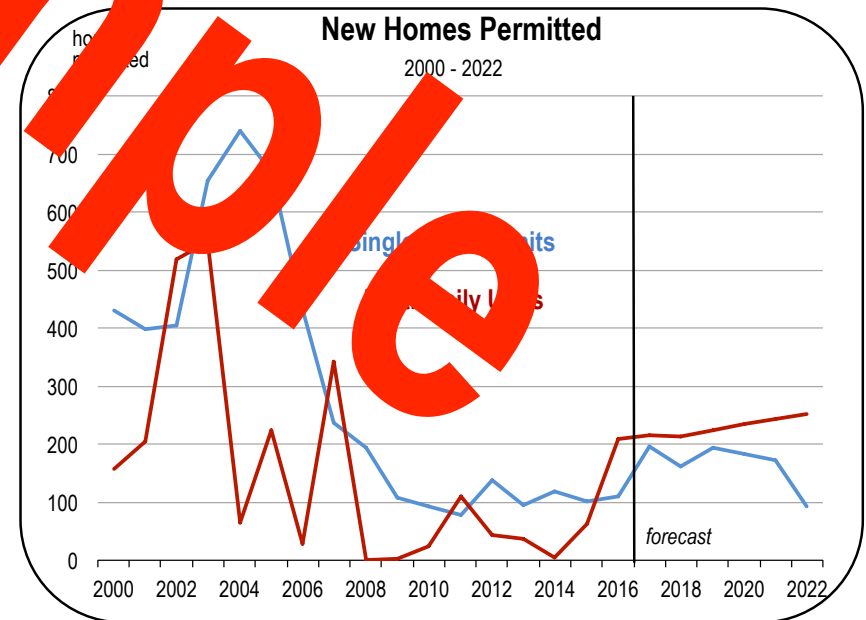
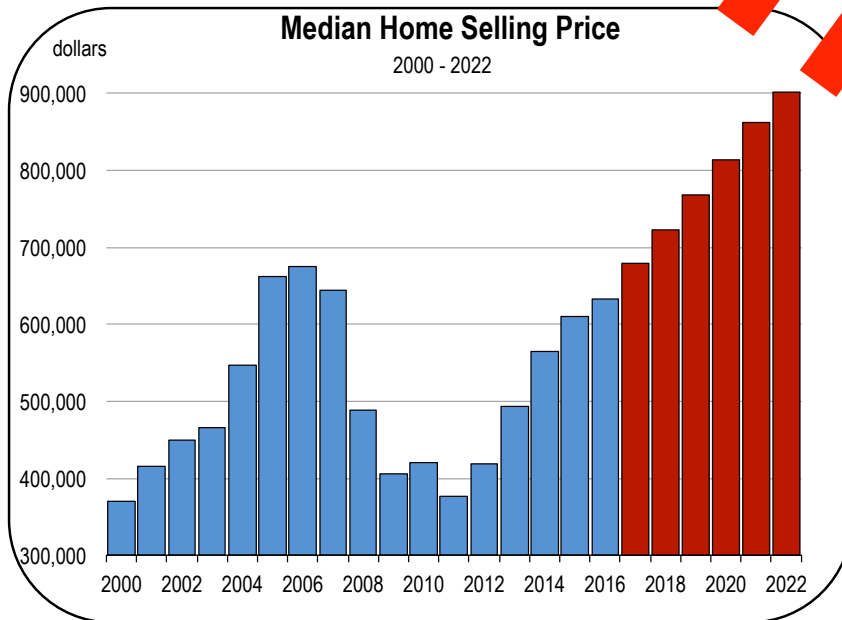


Source: California Economic Forecast

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Santa Cruz County Housing Prices and New Home Production

- In 2016, the median home price was \$648,000, an increase of 4 percent over 2015.
- Home prices will increase by 7 percent over the next two years.
- From 2011 to 2016, an average of 180 homes were permitted per year.
- Housing production is forecast to reach 400 homes per year from 2017 to 2022.
- Multifamily units will be more prevalent than single family homes.



Source: California Economic Forecast

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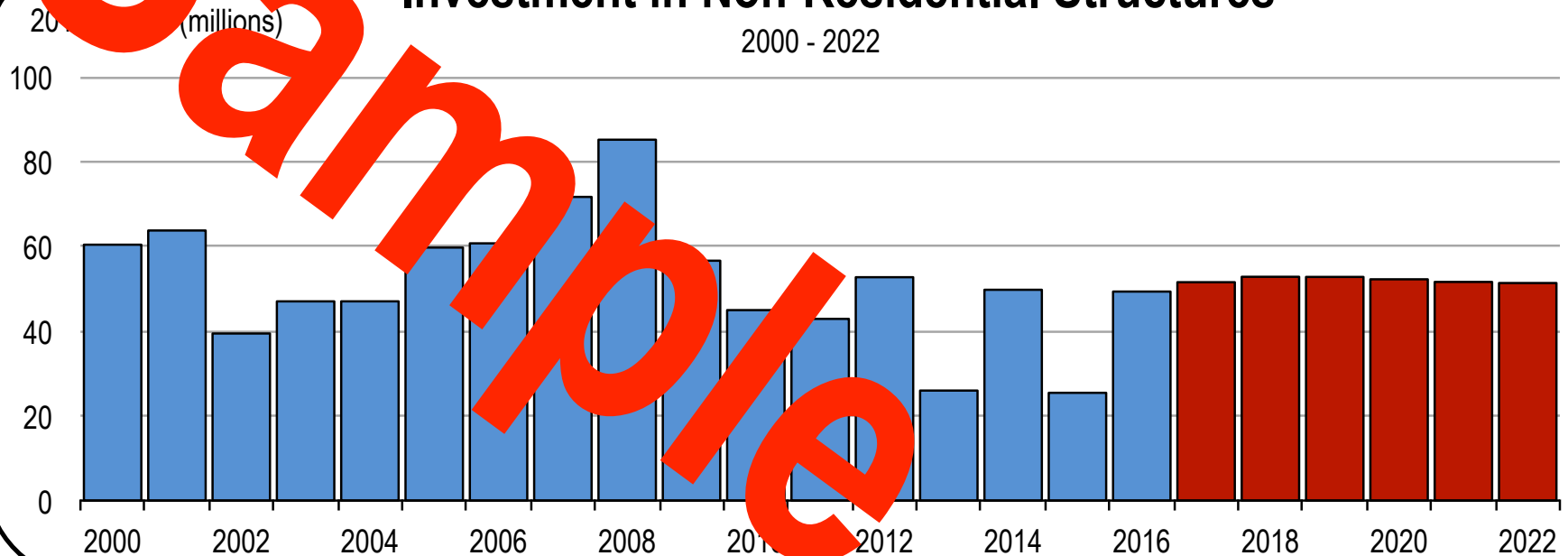


Santa Cruz County Non-Residential Construction

- New non-residential development was strong in 2016.
- Almost half of all investment went into a new Courtyard Marriott in the City of Santa Cruz.
- Investment will remain healthy over the forecast period, but will not increase much from current levels.

Investment in Non-Residential Structures

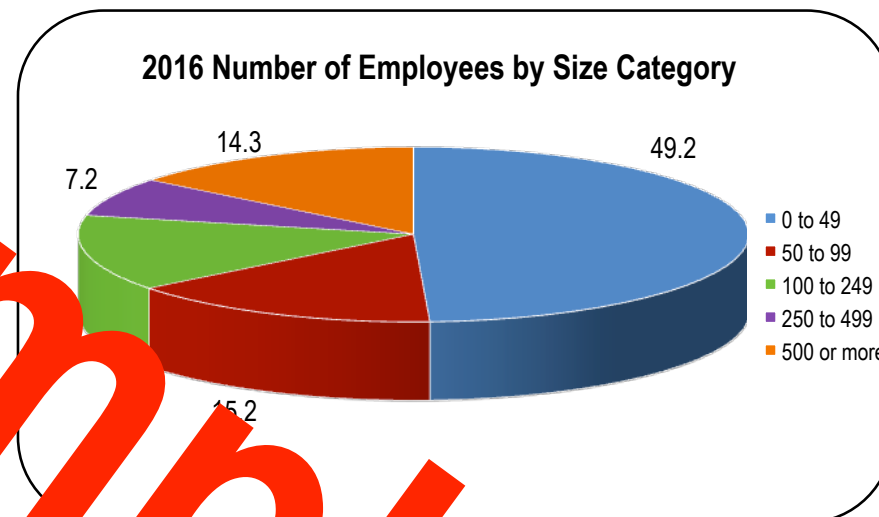
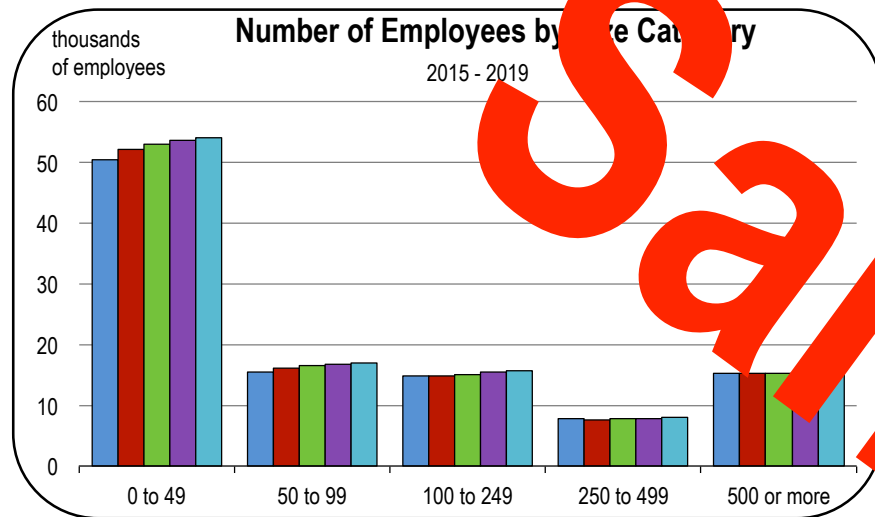
2000 - 2022



Source: California Economic Forecast

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Santa Cruz County Employment by Size Category



Employment by Firm Size					
Year	0 to 49	50 to 99	100 to 249	250 to 499	500 & up
2015	50.4	15.4	14.8	7.7	15.2
2016	52.1	16.1	14.9	7.6	15.2
2017	53.1	16.5	15.1	7.7	15.2
2018	53.6	16.7	15.4	7.8	15.2
2019	54.0	16.9	15.6	7.9	15.2

- The number of employees in the smallest sized firms accounts for 49 percent of total wage and salary employment.
- Employment in firms with 50 to 99 and 100 to 249 employees account for 15 percent and 14 percent of total employment.
- Over the forecast period, about half of all new jobs will be created in firms with fewer than 50 workers.

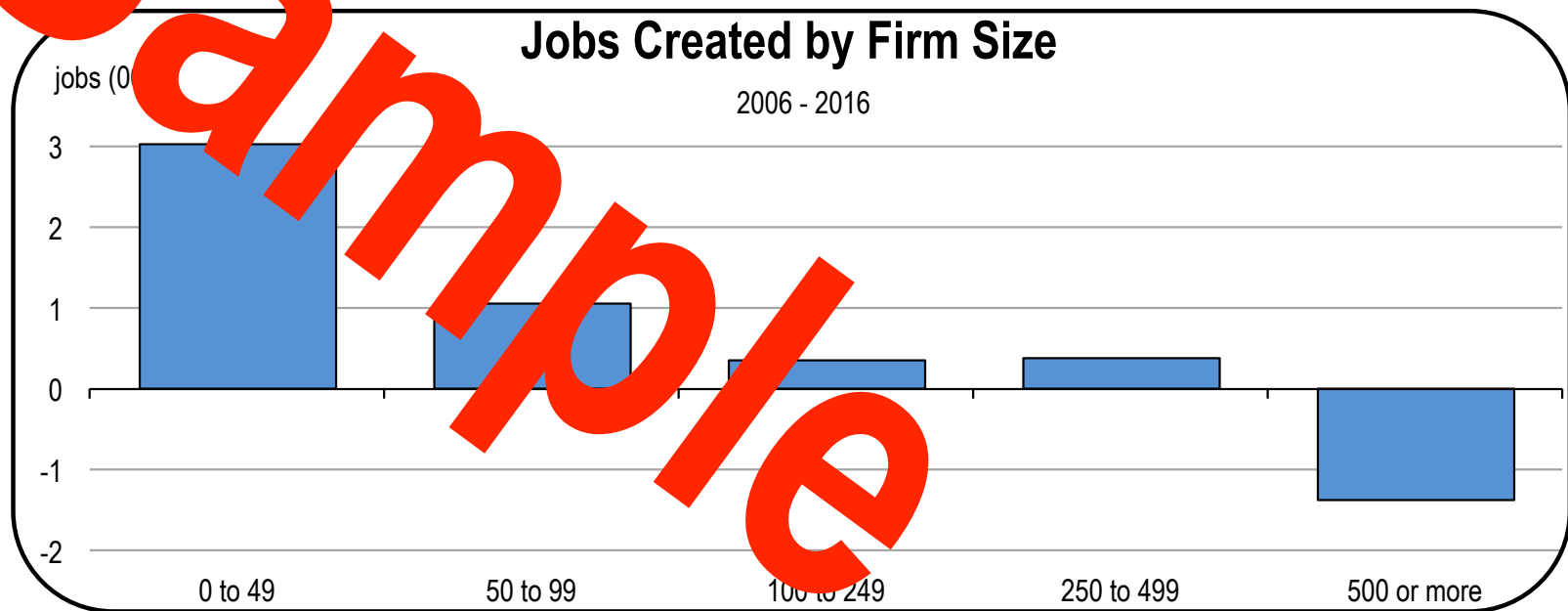
Source: California Economic Forecast, 2015 actual, 2016-2019 forecast

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Santa Cruz County Employment Growth by Size Category

- Over the last ten years, 3,000 jobs were created in firms with fewer than 50 workers.
- Employment in firms of 50 to 249 employees increased by 1,400 jobs.
- Firms with fewer than 50 employees will create 3,000 positions over the forecast period.
- Firms with 50 to 249 employees will create 2,500 jobs.
- Employment in firms of 1,000 or more workers declined by 1,400 jobs over the last ten years.
- Over the forecast period, employment in the largest firms is expected to remain unchanged.



Source: California Economic Forecast