JANUARY 2024 ECONOMIC FORECAST | EMERGING TRENDS IN SACRAMENTO'S ECONOMY

sacramento BUSINESS REVIEW

JANUARY 2024

Volume 16 Issue 1 » sacbusinessreview.com

Will 2024 be the Road to Recovery or Recession?

Labor Market & Regional Economy
SBR/SAFE Credit Union Consumer Sentiment Survey
The Small Business Economy
Real Estate
Capital Markets & Banking
Healthcare Industry Conditions
Tourism & Hospitality

JANUARY
2024

sacramento
BUSINESS
REVIEW

MISSION

To educate consumers on the economic and financial health of the Sacramento Region.

LABOR MARKET & REGIONAL ECONOMY

SBR/SAFE CREDIT UNION CONSUMER SENTIMENT SURVEY

THE SMALL BUSINESS ECONOMY

REAL ESTATE

CAPITAL MARKETS & BANKING

HEALTHCARE INDUSTRY CONDITIONS

TOURISM & HOSPITALITY

FOLLOW US ON TWITTER

twitter.com/SacReview • **@SacReview**

CONTACT

Sanjay Varshney, PhD, CFA, Chief Economist, *Sacramento Business Review*
(916) 799-6527
sanjay@sbvarshney.com

EDITORS
Jason Bell, CFA
Sanjay Varshney, PhD, CFA

GRAPHIC DESIGN
Carrie Dennis Design

PHOTOGRAPHY
Tim Kesselring Photography
iStockphoto

PROOFREADING
Suzanne Stone Freelance Services

PRODUCTION SUPPORT
Melissa Sheldon

PARTNERS
Sacramento Business Journal • CFA Society Sacramento

MESSAGE FROM THE CHIEF ECONOMIST

Dear Friends,

The year ended on a celebratory note, with the pendulum swinging wildly back from the negative aftertaste of a dismal 2022. The economy and markets defied conventional wisdom and surprised on the upside. We even saw one of the strongest Santa rallies in the stock market!

I would like to first take a quick victory lap (read my commentary and predictions from last year): We were right about no recession, strong economic growth despite higher rates, lower and continued declining inflation, stronger labor market keeping the consumer resilient, the Fed pause and pivot on rates, and market pricing in rate cuts in 2024. It is hard to be so accurate on so many fronts! The stock market closed out with the S&P 500, Dow, and Nasdaq rising 24%, 14%, and 43% respectively. The Magnificent 7 now command a market capitalization that exceeds that of the UK, Canada, and Japan combined. Inflation is down to 3.1%, but closer to 2% without the housing component.

2024 will prove to be a year of consolidation: Despite being unsustainable, government spending will cushion any economic slowdown due to the consumer petering out — as we watch delinquencies rise, savings decline, and the job market continue to weaken, but not collapse. Barring some external shock, we should see a soft landing, with corporate earnings expanding and markets normalizing as rate cuts will provide some tailwinds. Election years tend to be economically uneventful as both parties behave for the vote — we expect the same this year.

I will reiterate my pessimism regarding the several socio-economic challenges confronting Sacramento: housing unaffordability, a fragile and recovering service sector economy, rising homelessness and crime, slow return to the office, and, of course, any fallout due to our overexposure to California's projected budget deficit.

Overall, I expect 2024 to be a good year for the economy, markets, jobs, inflation, Wall Street, and Main Street.

Warm regards,

Sanjay Varshney

Sanjay Varshney, PhD, CFA
Chief Economist, *Sacramento Business Review*
(916) 799-6527 | Sanjay@sacbusinessreview.com | sacbusinessreview.com

FEATURES

KEY POINTS

LABOR MARKETS & REGIONAL ECONOMY

- The unemployment rate now sits at approximately 4.3%, slightly higher than we saw heading into the pandemic, but recent rates appear largely in line with the pre-pandemic economy.
- Among local economic sectors, the Private Education and Health Services sector continues to be a bright spot, growing by 13,500 jobs, or 7.5%, year-over-year.
- Despite widespread inflation across the nation, regional wages have remained relatively flat over the past year.

SBR/SAFE CREDIT UNION CONSUMER SENTIMENT SURVEY

- Regional and national sentiment continue to improve, with national sentiment slightly ahead of regional.
- The majority of respondents continue to expect inflation to rise over the next year, outpacing the rise in income levels.
- Regional respondents have an increased interest in acquiring mortgage, credit cards, and auto loans for the next year, reflecting expected rate cuts.

SMALL BUSINESS ECONOMY

- The Small Business Confidence Index (SBCI) results have not reached previous pandemic lows of 2020; however, they are lower than any other period with the exception of 2011.
- Weakest areas were in Access to Credit and Hiring.
- Loan Volume for the Total MSA is estimated to finish 11% lower relative to last year and below the 2-year moving average.
- Revenue and cash flow multiples of closed sales came in higher than multiples recorded in 2021-2022.

REAL ESTATE

- **Residential Market:** Seasonal patterns have returned to the Sacramento housing market, similar to most major housing markets across the country. Resale housing supply remains limited, hindering sales and pushing buyers to the new home market where there is supply. The new home market continues to outperform the resale market as builders have the ability to offer rate buydowns and other incentives.
- **Office Market:** Significant hardship is likely in 2024. Tenants that signed five-year leases in 2019 have yet to downsize and will likely do so in the coming year. Property values will continue to fall as vacancy creeps up. One point of optimism is the return of user-sales in the market. The office sector is returning to the affordability levels for which it was once known.
- **Industrial Market**: The industrial market is the best positioned in Sacramento. The risk of oversupply has diminished compared to early 2023 as the pace of new construction has slowed. However, fundamentals remain strong and properties are holding their value well in a difficult environment.
- **Retail Market:** The retail market remains in good standing considering the last few years. Availability is still near the lowest it's been since the Great Financial Crisis, and there remains demand for the region's big box spaces. Rising interest rates hampered transaction levels and property values, but the market rests on a strong foundation.

CAPITAL MARKETS & BANKING

- Equity market returns exceeded expectations, albeit due to outlier returns for large tech names – interest rates ended the year in line with SBR team expectations, it was quite a ride, however!
- Regional banks and credit unions will continue to grapple with lackluster deposit growth and unfavorable asset quality trends in 2024. Interest rates are likely to remain relatively high with a swift decline only coming with the onset of recession and broader economic concerns.
- Our proprietary SBR Financial Conditions Index shows continued expansion through Q3 of 2023, but the team anticipates future slowing due to headwinds on the employment and banking fronts.

TOURISM & HOSPITALITY

- Occupancy rates continue to increase towards pre-pandemic levels, although they have not been achieved yet.
- Transient Occupancy Tax (TOT) collections in FY2022/23 represented the highest single revenue year since the city began imposing and collecting TOT in FY1993/94.
- Average Daily Rates (ADR) and Revenue per Available Room (RevPAR) are somewhat lower than pre-pandemic levels.
- March 2023 was the highest occupancy month in 2023 based on the first 10 months' statistics.

HEALTHCARE

- Post-pandemic stabilization fuels optimism within Sacramento's healthcare sector.
- Sacramento achieving world-class status as a destination for medical education and training.
- The healthcare labor force — burned from years of stress and loss — slowly recovers.


IDAHO
• Boise
• Nampa
CALIFORNIA
• McClellan
• Sacramento
• Tracy
• Vacaville
NEVADA
• Reno / Sparks
10,000
ACRES OF LAND DEVELOPED TO DATE
7+ MILLION
SF OF INDUSTRIAL BUILDINGS UNDER OWNERSHIP
12+ MILLION
SF OF MANAGED PROPERTY IN THE WESTERN U.S.
LDK|VENTURES
LDK Ventures is an entrepreneurial real estate development and investment company whose master-planned community and adaptive reuse projects span the Western United States.
LDKVENTURES.COM
Pictured: McClellan Park, an LDK Ventures development


Lead the future of healthcare with an MHA degree from CNU.
According to the Bureau of Labor Statistics, over 4 million healthcare jobs will be added through 2026, making it the fastest-growing professional field. Additionally, the employment of medical and health services managers is projected to grow 32% from 2019 to 2029, much faster than the average for all occupations.
• 21-month degree completion time
• Classes delivered hybrid or 100% online
• Convenient weekend schedule
• Three concentrations: Leadership, Service Excellence, and A.I.
• World class faculty
CALIFORNIA NORTHSTATE UNIVERSITY
Master of Healthcare Administration
mha.cnsu.edu
SCAN ME
©2024 California Northstate University

ABOUT THE AUTHORS

Will Austin

Will Austin is the Director of Market Analytics at CoStar Group, specializing in Sacramento and the Central Valley. He analyzes market fundamentals for office, industrial, retail, and multifamily commercial real estate throughout Northern California for a variety of platforms. He holds bachelor's and master's degrees in sociology from Trinity College and California State University, Fullerton, respectively and an MBA from UC Davis.

Jessica Bagger, PhD

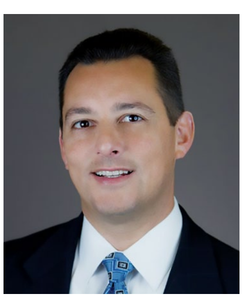
Jessica Bagger is a Management Professor at California State University, Sacramento, and Associated Faculty at the University of Gothenburg in Sweden. She received her PhD in business management at the University of Arizona. Dr. Bagger's scientific research relates to factors impacting employee wellbeing and performance, including strategy, HR systems, leadership, and organizational culture and change. In her consulting work, Dr. Bagger works to develop leaders and organizations through coaching, training, and change management. Clients include organizations ranging from small businesses to large enterprises in the Healthcare, Technology, Manufacturing industries, and among others.

Jason Bell, CFA

Jason Bell is Chief Investment Officer and Managing Director at Capital Planning Advisors, LLC, where he is responsible for directing the investment policy of the firm and managing the investment and research team. He earned his bachelor of science degree in business administration from the University of the Pacific and holds a master of business administration degree from the University of California, Davis, where he was inducted into the Beta Gamma Sigma academic honor society. He is a Past President of CFA Society Sacramento and previously spent four years as an advisor to the Board of Governors of CFA Institute.

Shelly Chen

Shelly works on various research projects as they relate to for-sale residential real estate at John Burns Research and Consulting (JBREC). Prior to this, Shelly was a Senior Consultant at JBREC where she prepared custom project opportunity analysis reports for new for-sale and rental housing developments throughout Northern California. Shelly has also worked in KPMG's commercial real estate valuation practice and holds a B.S. in Real Estate from San Diego State University.



Matt Cologna

Matt Cologna graduated with a degree in business from California State University, Sacramento, and has been active in commercial real estate in Sacramento for the past 20+ years. His experience includes owner/user and investment sales, logistics, landlord and tenant representation, land assemblage, build to suits, and developer relations. He has represented clients on a local, regional, and national basis. He is involved with the Cushman & Wakefield Global Supply Chain Solutions Group, offering additional insight into current and future needs of occupiers in the market. Matt has completed over 17 million square feet of deals with a value exceeding $620 million.

Maya Heinert, MD, MBA

Maya Heinert is a physician, healthcare executive, and consultant whose work focus is health equity and professional wellness. She holds an MD from Wayne State University School of Medicine in Detroit, Michigan and an MBA from California State University, Sacramento. Dr. Heinert is board-certified in General Pediatrics and Pediatric Emergency Medicine. She serves as Adjunct Professor at California Northstate University (CNU) since 2021 where she ushered in the inaugural class for the master's in Healthcare Administration degree. Her experience spans emergency medicine, private for-profit national healthcare, managed healthcare including Medi-Cal, and healthcare consulting.

Nick Hladek

Nick Hladek currently serves as Head of Data Science at ClubNFT, a startup focused on building tools and solutions for NFT collectors. Prior to his time at ClubNFT, Nick worked as a Senior Quantitative Modeler at Golden 1 Credit Union and as a Senior Research Analyst at the Greater Sacramento Economic Council. He holds a bachelor's degree and a master's degree in economics from California State University, Sacramento.

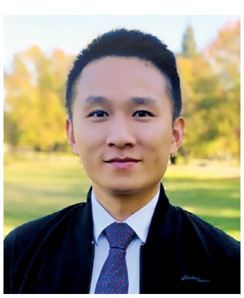
Tristan Hopkins, CFA

Tristan Hopkins is a co-founder and Managing Partner of Elm Grove Partners, a private investment firm based in Sacramento, organized to acquire and operate companies in the lower-middle market. He also serves as President of ArcherHall, a company that provides digital forensics and e-discovery services to law firms, government agencies, and corporations. Tristan received a BS in Economics and Mathematics, *cum laude*, from Duke University. He also holds the Chartered Financial Analyst (CFA®) designation.

Hao Lin, PhD, CFA

Hao Lin is a Professor of Finance in the College of Business at California State University, Sacramento. He has a PhD in finance and an MS in financial mathematics, both from the University of Warwick in England. His expertise is in the areas of financial markets and market microstructure. Dr. Lin holds the Chartered Financial Analyst designation.

Chang Liu, PhD, CFA



Chang Liu is an Assistant Professor of Finance in the College of Business at California State University, Sacramento. Prior to moving to Sacramento, Chang Liu was an Assistant Professor of Finance at Hawai'i Pacific University. His primary research interests are boards of directors, institutional investors, mergers and acquisitions, and security issuance. Chang received his PhD in finance from the Carson College of Business at Washington State University and holds the Chartered Financial Analyst (CFA®) designation.

ABOUT THE AUTHORS

Lan Liu, PhD, CFA

Lan Liu is a Professor of Finance in the College of Business at California State University, Sacramento. She received both her PhD in finance and MSc in economics and finance from the University of Warwick in England. Her research focuses on portfolio risk management, forecasting, and performance measurement. Dr. Liu holds the Chartered Financial Analyst designation and serves on the Board of Directors of the CFA Society Sacramento.

Andrey Mikhailitchenko, DBA

Andrey Mikhailitchenko is a Professor Emeritus of Marketing at California State University Sacramento and Associate Dean of the Business School of University of Colorado Denver. He earned an undergraduate degree in International Economy and Chinese Language from Moscow State University, a degree in Chinese Language from Beijing Foreign Studies University, an MBA from Syracuse University, and a DBA from Cleveland State University. Prior to joining academia Andrey had multi-year managerial experience in international business and global supply chain. He performed consulting projects for California State Treasurer's Office, California Department of Transportation, California Department of Insurance, City of Sacramento as well as public and private entities.

Joe Niehaus, CFA

Joe Niehaus is a Senior Vice President with the Credit Union Financial Services (CUFS) Group at Jefferies where he leads leveraging the Jefferies investment banking platform to meet the evolving needs of credit unions. Prior to joining Jefferies, Joe was VP of Finance at Golden1 Credit Union, and he has also held key treasury roles at SAFE Credit Union and Rabobank, NA. Joe is a CFA Charterholder, and he also holds an MBA from the University of Nebraska and a BS in Finance from Sac State. Joe is currently a doctoral student at the Grenoble School of Management based out of Grenoble, France where he studies financial cooperative economics and the relationship between societal factors and the value of credit union membership. Prior to his corporate experience, Joe served five years in the U.S. Navy as an airborne electronic intelligence analyst.

Melissa Sheldon, MBA

Melissa Sheldon is the Master of Healthcare Administration Graduate Program Director in the College of Graduate Studies at California Northstate University. Prior to joining CNU, Melissa was the Executive Director for Executive and Professional Programs in the College of Business Administration at California State University. In that role, she worked alongside business faculty to grow the signature MBA for Executives program as well as other self-support graduate programs. Before her career in academia, she worked in the private sector at several high-tech companies — one dedicated to SaaS applications for (SMEs) in the health insurance and benefits industry, and another, a leading global engineering firm of wide-format printing technologies.

Lisa Stanley

Lisa Stanley has spent the past 20 years as a commercial real estate broker in the Sacramento Region, providing strategic advisory services in leasing, purchasing, and selling commercial real estate. Lisa's area of expertise includes office buildings and specialty use properties such as mixed use, educational properties, medical office buildings, and land. She has done extensive work with non-profit organizations and government agencies and is experienced in the nuances of ground-up development and major renovation projects. Lisa has completed 700+ lease and sale transactions worth over $630 million. She is a 5-time nominee for ACRE's Office Broker of the Year Award. In 2020, she was recognized as a CREW Women of Influence Award Honoree for Outstanding Women in Real Estate.

Yang Sun, PhD

Dr. Yang Sun is a business dean and professor with extensive experience in managing a variety of business programs, including EMBA/MBA, healthcare administration, information systems, and business analytics. He holds engineering degrees from Arizona State University and Tsinghua University, as well as a Six Sigma Black Belt certification. Renowned for his contributions in global supply chain management, operations strategy, healthcare delivery, Lean and Six Sigma methodologies, regional economy, decision theories, operations research, and data analytics, Dr. Sun's consulting, research, and teaching have had significant impacts in these fields. Previously at Sac State, Dr. Sun earned notable recognition as a three-time recipient of the university's Outstanding Faculty Awards, highlighting his achievements in teaching, research, and community service.

Sanjay Varshney, PhD, CFA

Sanjay Varshney is Founder and Principal, Goldenstone Wealth Management and Professor of Finance at California State University, Sacramento. He was Senior Vice President/Investment Strategy Specialist for California and Nevada at Wells Fargo Private Bank – Wealth Management Group. He served as the Vice President for Economic and Regional Partnerships and Dean of the College of Business at California State University, Sacramento, for 10 years. He earned an undergraduate degree in accounting and financial management from Bombay University, a master's degree in economics from the University of Cincinnati, and a PhD in finance from Louisiana State University. He also holds the Chartered Financial Analyst designation. Dr. Varshney serves as the Chief Economist for the *Sacramento Business Review*.

Andrés R. Villegas, CFA

Andrés Villegas is a Principal and Co-Founder of Goldenstone Wealth Management, LLC - an independent wealth management firm based in El Dorado Hills, California. Andrés has managed the wealth of families, business owners, and large nonprofit organizations across California, Texas, and New Mexico, as well as international clients from Latin America. Prior to founding Goldenstone, Andrés was a Vice President and Investment Strategist at Wells Fargo Private Bank, managing over $400 million in assets. Andrés earned an undergraduate degree in finance from the University of Texas at Austin. He completed a business program at the University of Chicago Booth School of Business, and he holds the Chartered Financial Analyst (CFA®) designation. Andres serves as a Director for the Board of the CFA Society of Sacramento and is an active member of the El Dorado Hills Chamber of Commerce.

Ashmeet Virk

Ashmeet Virk recently joined California Public Employee Retirement System as an Investment Officer with the Real Assets team. Before relocating to Sacramento, she attained her Bachelor of Business Administration with a concentration in finance and accounting from Simon Fraser University. With nearly two years of experience as an Investment Analyst at a Vancouver-based pension plan consulting firm, Ashmeet made contributions to the Market Updates and Manager Research teams in addition to her other responsibilities. She continues to be committed to her professional advancement and is actively working towards her Chartered Financial Analyst designation (CFA Level II candidate).

Anna V. Vygodina, PhD

Anna Vygodina is a Professor of Finance in the College of Business at California State University, Sacramento. She holds a PhD in finance from the University of Nebraska, Lincoln, and an MBA with economics minor from the University of Nebraska, Omaha. Dr. Vygodina's research interests are in exchange rates, speculative tensions, and heterogeneous expectations in the capital markets.

PARTNERS AND SPONSORS

Banner Bank
California Northstate University
Capital Planning Advisors
CoStar Group
Cushman & Wakefield

CFA Society Sacramento
DCA Partners
Golden 1 Credit Union
Goldenstone Wealth Management

J.P.Morgan | Chase
John Burns Research & Consulting
LDK Ventures
Nor Cal Carpenters Union

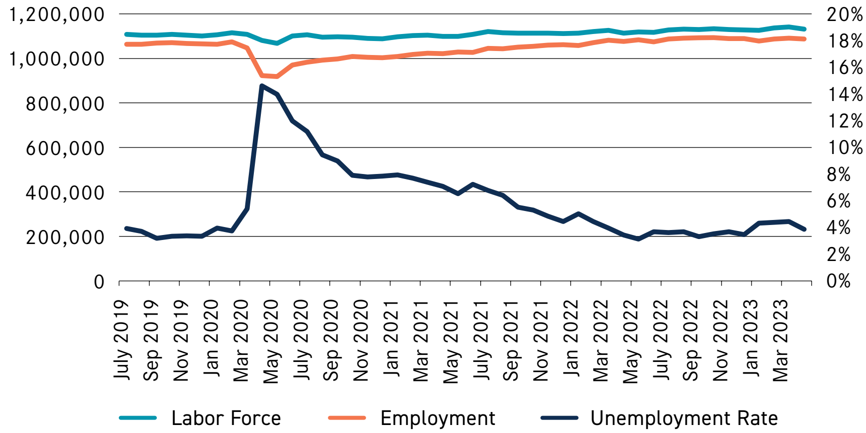
PacificRidge Builders, Inc
Sacramento Business Journal
SAFE Credit Union
SMUD

Labor Markets
& Regional Economy

At the beginning of the COVID-19 pandemic, the Sacramento Region lost 160,000 jobs, with 50,000 people exiting the labor force altogether. This resulted in an unprecedented spike in the unemployment rate, from 3.7% in February 2020, to 14.6% in April 2020. The regional — and global — economies have come a long way since then. As of October 2023, the region appears to have fully regained all lost jobs and labor force participation. The unemployment rate now sits at approximately 4.3%, slightly higher than we saw heading into the pandemic, but recent rates appear largely in line with the pre-pandemic economy. Barring a major macroeconomic event, we anticipate the unemployment rate to remain relatively stable in the coming year. However, we may observe a slight upward trend in the unemployment rate as the Federal Reserve continues to battle inflation and Bay Area transplants are called back to their offices.

WE MAY OBSERVE A SLIGHT UPWARD TREND IN THE UNEMPLOYMENT RATE.

Figure 1
Sacramento Regional Labor Force and Unemployment Rate



Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics

As of October 2023, the region appears to have fully regained all lost jobs and labor force participation.

The region has seen strong overall job growth of 2.2%, equating to the creation of 23,800 nonfarm jobs over the past year. Among local economic sectors, the Private Education and Health Services sector continues to be a bright spot, growing by 13,500 jobs, or 7.5%, year-over-year. The Construction and Government sectors also remain strong, with 4.6% and 2.2% year-over-year growth, respectively. However, we have seen a substantial decline in the Financial Activities sector of 3.3%, or a loss of 1,700 jobs. Overall, we anticipate the labor market will remain stable through 2024. However, we would not be surprised to see reduced or negative growth in the Construction sector due to the high interest rate environment.

Despite widespread inflation across the nation, regional wages have remained relatively flat over the past year. Average hourly wages in the Sacramento area have risen by 1.1% year-over-year, an increase of 38 cents. Average hours worked per week has remained in the 33-to-34-hour range, with a slight decrease of 2.38% year-over-year. As a result, average weekly income has also remained relatively flat. However, after taking inflation into account, regional workers are almost certainly worse off today than they were one year ago.

Over the next 12 months, the economy is expected to continue to demonstrate resilience. However, specific groups, including renters and commuters; young families aspiring to purchase homes or manage child care expenses; seniors with inadequate long-term savings; and workers in less favorable employment situations grappling with substantial student loan debts, will likely continue to face challenges, stemming from persistently high housing costs, elevated inflation rates, and significant interest rates.

Table 1 • Local Labor Market

Sacramento Local Industrial Sector	# of Jobs (as of Oct 2023)	Year-over-year % Change in Jobs
Total Nonfarm	1,104,800	+2.2%
Government	253,400	+2.0%
Private Education and Health Services	193,500	+7.5%
Trade, Transportation, and Utilities	171,500	+0.5%
Professional and Business Services	151,500	-0.5%
Leisure and Hospitality	111,800	+0.6%
Construction	81,100	+4.6%
Financial Activities	50,500	-3.3%
Manufacturing	41,200	+0.7%

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics

Figure 2
Average Hourly Wage and Weekly Hours

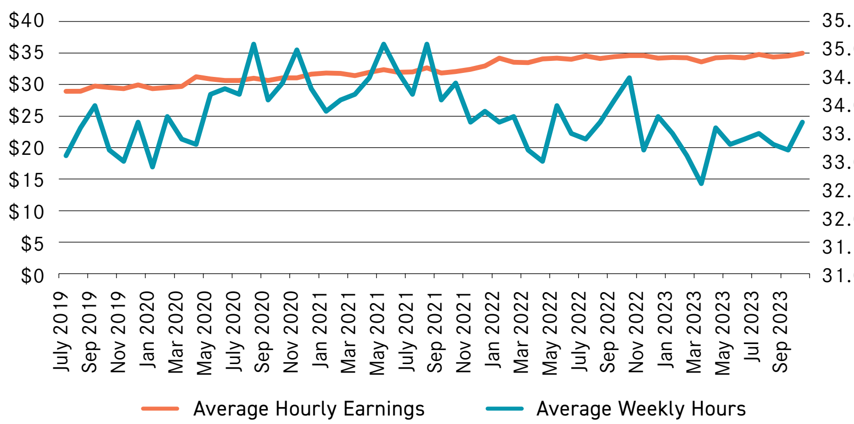
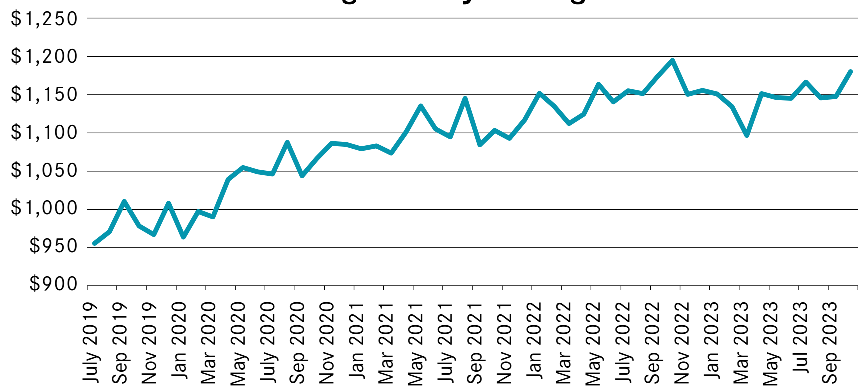


Figure 3
Average Weekly Earnings



Source (Figures 2 & 3): U.S. Bureau of Labor Statistics, Current Employment Statistics

Consumer Sentiment *Survey*

For the 2024 annual release, the *Sacramento Business Review* (SBR), in partnership with SAFE Credit Union, conducted another round of our regional consumer sentiment survey. The survey included measures of personal and regional economic conditions, along with expectations regarding prices and income, as well as purchasing and credit utilization.

Regional vs. National Sentiment

The SBR team once again compared regional sentiment with national sentiment measures with the results shown in Table 1. Overall, the regional sentiment has rebounded since the notable decline observed in the mid-year 2022 survey, although the change in sentiment from mid-year 2023 has been marginal. Unlike the past two surveys, the regional sentiment now slightly trails the national sentiment, while consumers continue to have a pessimistic view at both the regional and national levels.

Nationally, consumers hold a relatively more favorable perception of current economic conditions compared to their regional counterparts, with the regional view declining relative to the mid-year 2023 responses. Nevertheless, consumers both nationally and regionally share a more optimistic outlook regarding future economic conditions.

Inflation and Income

Inflation continues to remain a concern for regional consumers, particularly the ability of their income to stay in pace with the rising prices. Consistent with the last survey responses, inflationary concerns have begun to alleviate. Around 54.6% of respondents expressed apprehension about potential price increases over the next year, relative to the 67.9% reported last year. Similarly, there is a modest increase in the number of respondents anticipating their income will outpace price inflation. Nevertheless, the majority of the respondents continue to believe price increases will outpace rises in income.

Figure 1
Regional and National Consumer Sentiment

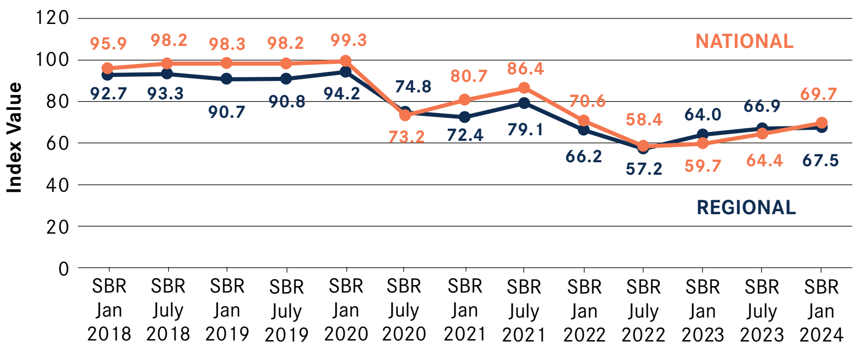


Table 1 · Regional vs. National

	Regional Index Score			National Index Score		
	Annual Release 2024	Change Since Mid-Year 2023	Change Since January 2023	Annual Release 2024	Change Since Mid-Year 2023	Change Since January 2023
Index of Consumer Sentiment	67.5	0.6	3.5	69.7	5.3	10.0
Index of Current Economic Conditions	58.4	-3.4	2.2	73.3	4.3	13.9
Index of Consumer Expectations	73.3	3.2	4.2	67.4	5.9	7.5

Notes (Table 1 & Figure 1): National data obtained from the University of Michigan Consumer Sentiment Survey, available at: https://data.sca.isr.umich.edu/. Indices calculated using the methods specified at: https://data.sca.isr.umich.edu/fetchdoc.php?docid=24770.

Figure 2
Expectations for Prices (Inflation) Over the Next Year
(% of Responses)

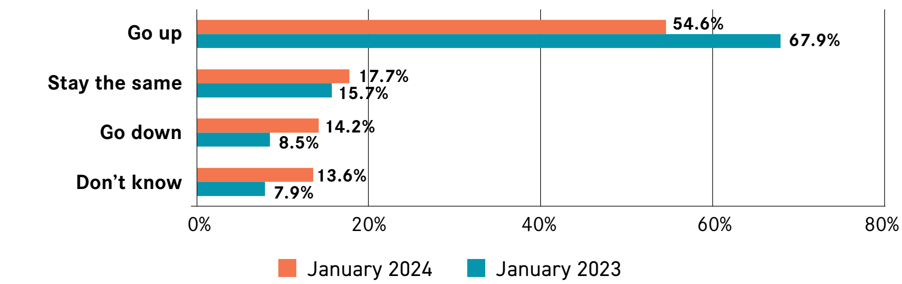
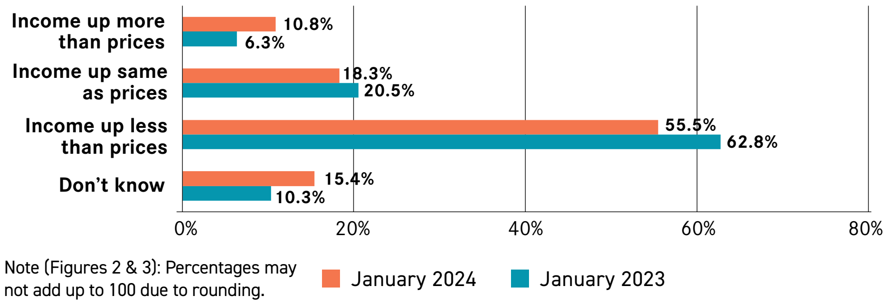
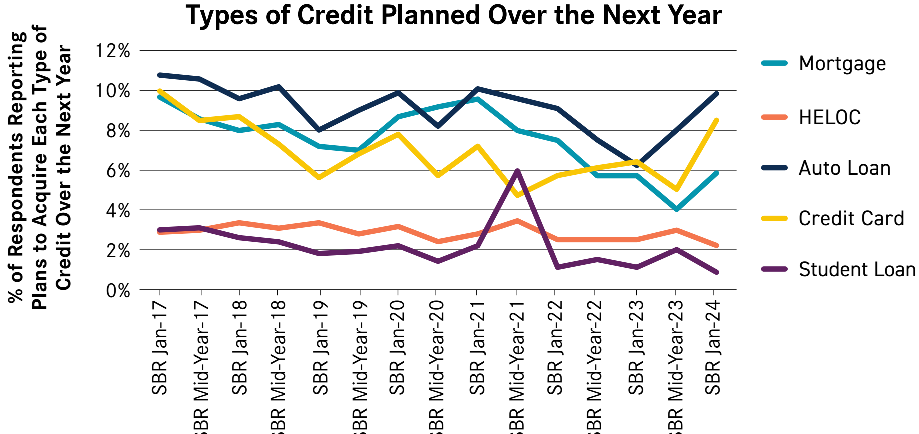


Figure 3
Expectations for Income Relative to Prices (Inflation) Next Year
(% of Responses)



Note (Figures 2 & 3): Percentages may not add up to 100 due to rounding.

Figure 4
Types of Credit Planned Over the Next Year



Purchasing and Credit

We once again surveyed regional respondents about their existing credit holdings and plans for credit acquisition over the next year. There has been an uptick in the number of respondents considering acquiring a credit card or an auto loan. Moreover, for the first time since January 2021, the number of respondents planning for a mortgage has seen a slight increase (see Figure 4). These observations could be in response to anticipated rate cuts over the next year.

Summary

We continue to observe improvement in both the regional and national sentiment, with the national sentiment slightly surpassing the regional sentiment. Pessimism prevails at both regional and national levels, yet there is optimism about the future outlook. Similarly, concerns about inflation persist at the regional level, but have diminished compared to last year. Additionally, there is increased interest among regional respondents for credit acquisition such as mortgages, auto loans, and credit cards over the next year; likely influenced by expected rate cuts.

The Small Business *Economy*

Overall Sentiment in the Sacramento Region, as measured by our proprietary Small Business Confidence Index (SBCI), came down from the recent highs of the past couple of years. Both Credit and Hiring showed a decline of approximately 20% relative to last year. Credit is even lower than the 2020 low; the other indicators (Economic Outlook, Local Support, Future Revenue Prospects, Hiring) are higher than the 2020 lows by an average of 51%. The Manufacturing Sector has the weakest sentiment in Access to Credit and Hiring, with results coming in 33% and 50% lower than the 2020 low, respectively. Hiring showed the largest decline, with sentiment decreasing 28% relative to the mid-year update. All data points (Economic Outlook, Local Support, Future Revenue Prospects, Hiring) are lower than the 5-year pre-pandemic numbers by an average 26%.

Figure 1

Overall Sentiment (January 2011 - January 2024)

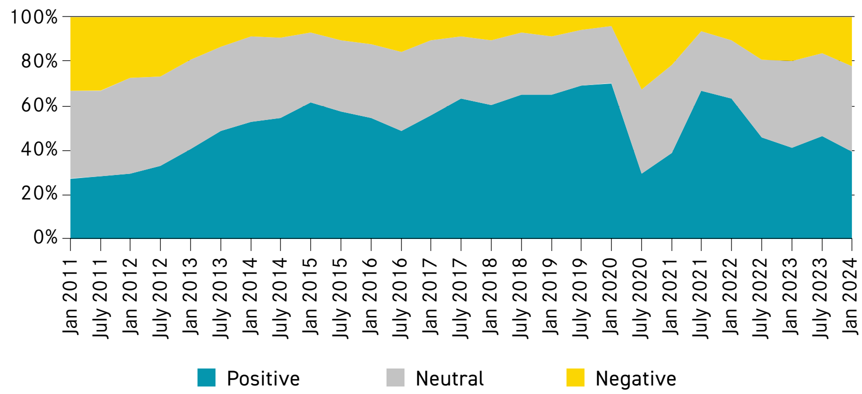
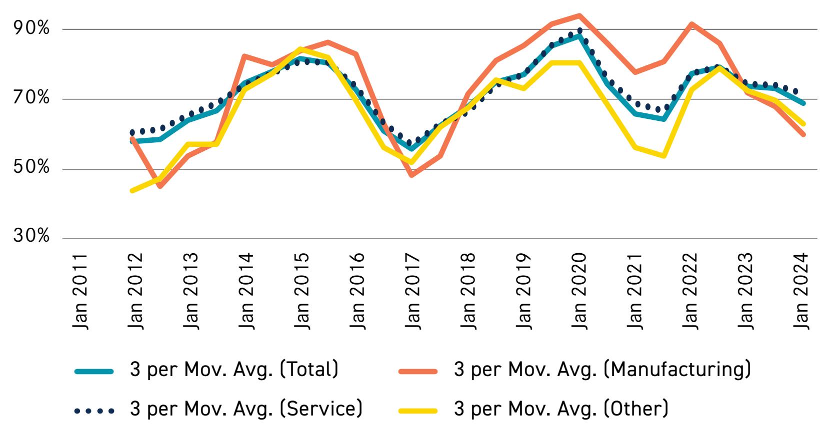


Figure 2

SBCI Hiring by Sector (18-month Moving Average)



CREDIT ACCESS IS STILL VERY WEAK IN ALL AREAS BUT PARTICULARLY IN THE MANUFACTURING SECTOR.

TOTAL SBA LOAN APPROVALS ESTIMATED TO END 11% LOWER VERSUS LAST YEAR; SLOWDOWNS IN PLACER AND YOLO COUNTY MAIN CAUSE.

Figure 3
SBCI Credit Access by Sector

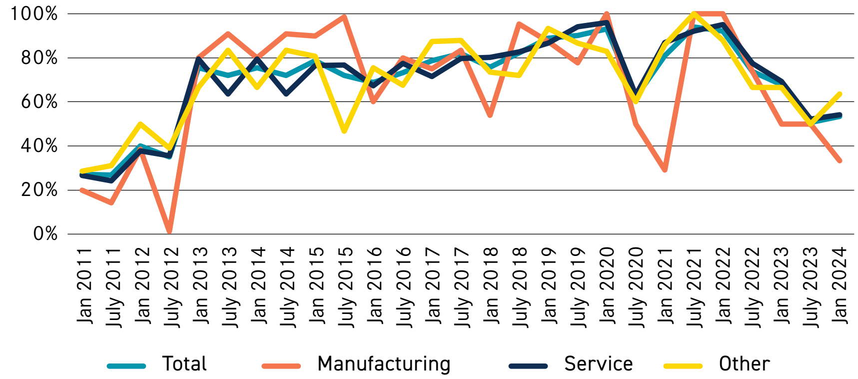


Figure 4
SBCI Total: Future Revenue Outlook (18-month Moving Average)

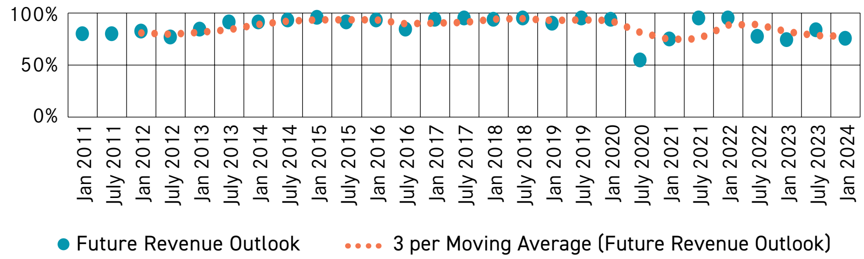


Figure 5
SBCI Total: Economic Outlook (18-month Moving Average)

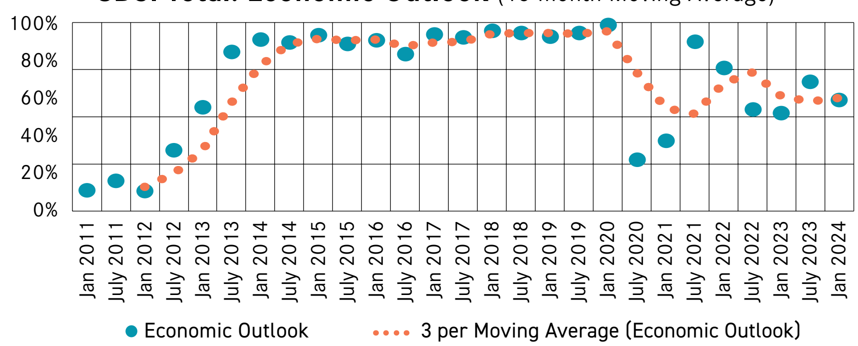
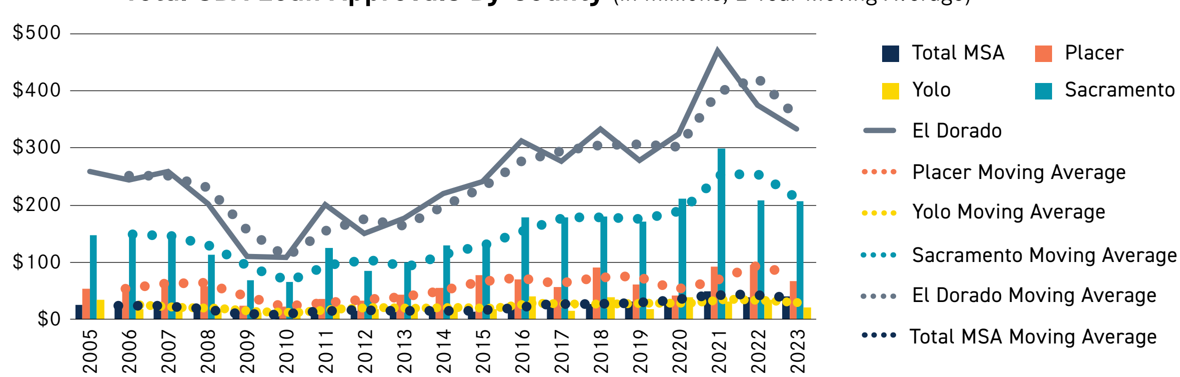


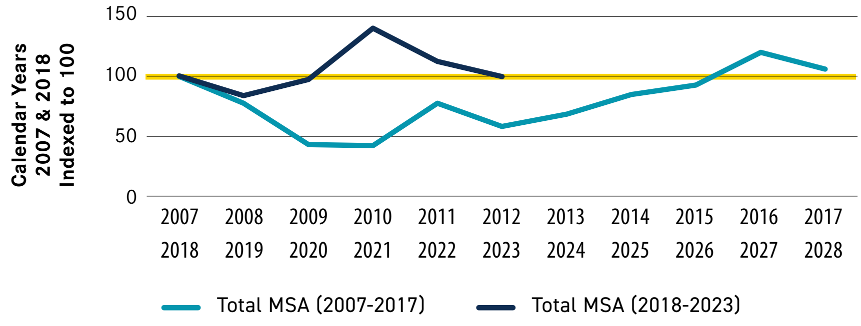
Figure 6
Total SBA Loan Approvals By County (in millions, 2-Year Moving Average)



Moving Average is average of two previous data points.

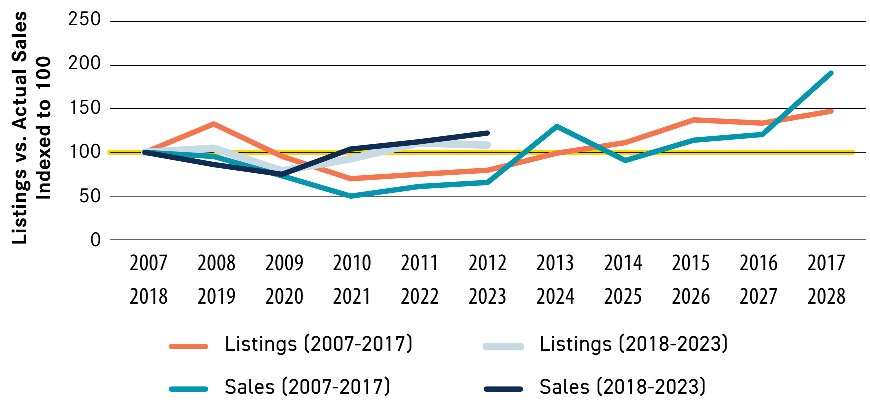
COMPARING RECOVERIES; GREAT FINANCIAL CRISIS VERSUS PANDEMIC

Figure 7
Total SBA Loan Approvals: Total Metropolitan Statistical Area • An Unusual Recovery; Comparing (2007-2017) vs. (2018-2023)



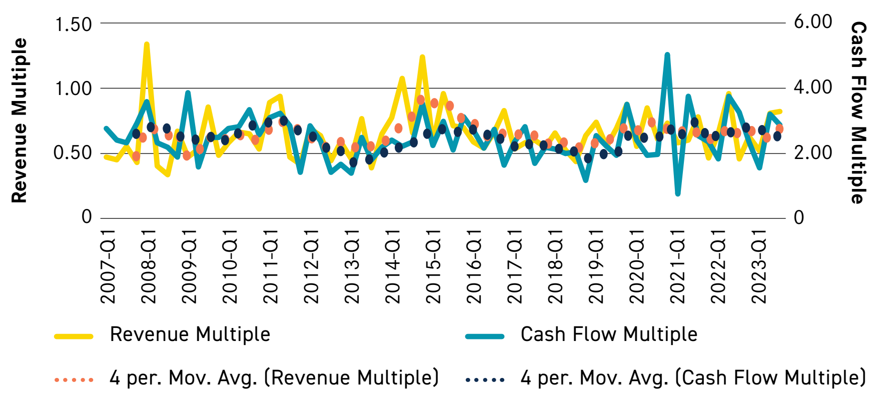
LISTINGS AND TRANSACTIONS DECLINED VERSUS THE MID-YEAR UPDATE.

Figure 8
Total Listings vs. Actual Sales (Annually) GFC vs. COVID



REVENUE AND CASH FLOW MULTIPLES CAME IN HIGHER THAN AVERAGE MULTIPLES IN 2021 AND 2022.

Figure 9
Revenue and Cash Flow Multiples of Closed Sales (Quarterly)



Data Source (Figures 7-9): BizBuySell

Real Estate

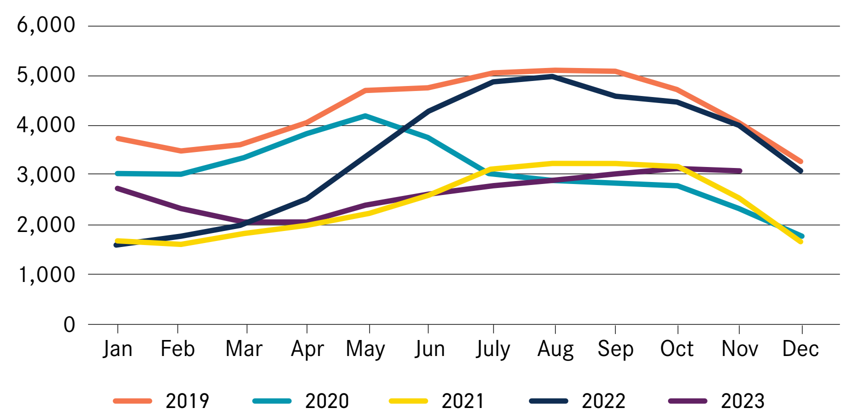
Residential

Seasonality has finally returned to Sacramento. However, the new home market continues to outperform the resale market as limited inventory and elevated mortgage rates persist in the second half of 2023.

Resale listings have gradually climbed since March 2023, but as of November 2023, they are still about 24% below listing levels of October 2019, a more normal year for housing. Trailing-twelve-month resale closings are at the lowest level since 2008. The recently cooling mortgage rates (peaked at 7.6% in October in Sacramento) may unlock more resale supply before the spring selling season.

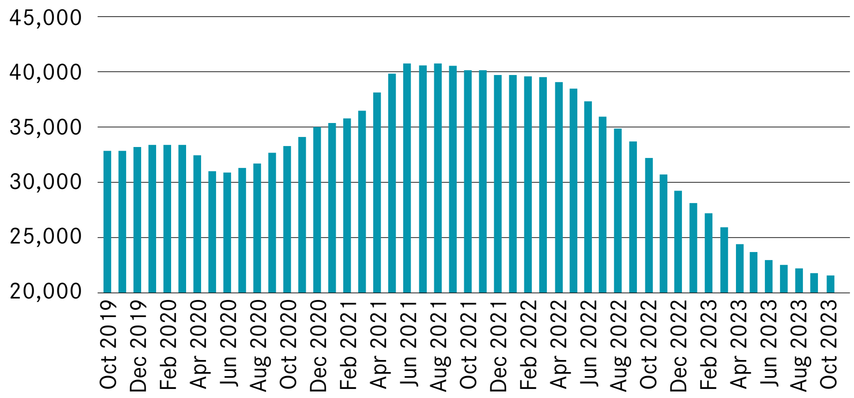
Public home builders continue to leverage mortgage rate buydowns to draw buyers in and help with affordability challenges. Many new home communities with quick move-in inventory offer rate buydown programs. These communities typically perform better than communities without quick move-in inventory, as quicker closes allow buyers to feel more confident about their closing mortgage rate.

Figure 1
Sacramento Total Resale Listings by Month



Source: JBREC estimates; John Burns Research and Consulting LLC (Data: Nov-23, Pub: Dec-23)

Figure 2
Sacramento Trailing-12-month Existing Home Sale Closings



Source: John Burns Research and Consulting Analysis of Public Records; John Burns Research and Consulting LLC (Data: Oct-23, Pub: Dec-23)

The apartment market continues to normalize but remains stable. The Burns Apartment Rent Index™ shows rents as of October 2023 are down one percent year-over-year, but still up one percent since January 2023. Apartment occupancy also remains healthy at 94%.

Office

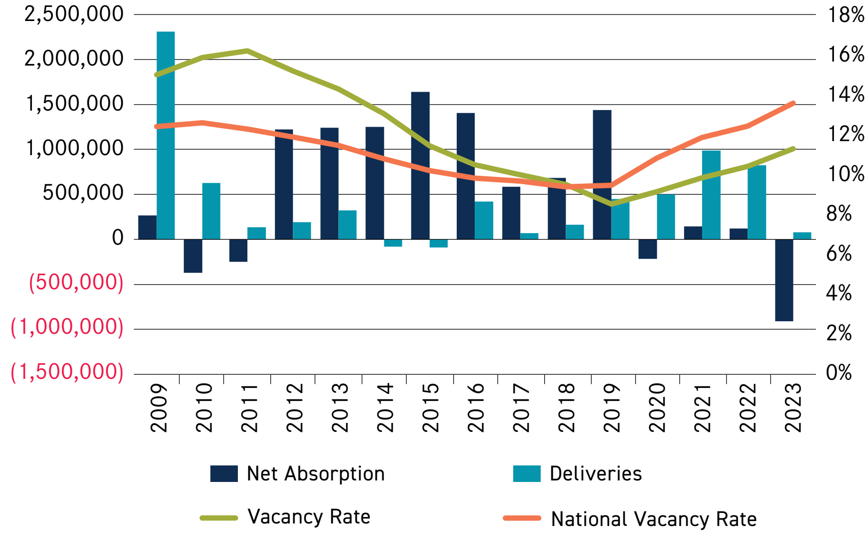
The Sacramento office market continues to struggle as tenants seek to downsize their space and increase operational efficiency. Prospective tenants are seeking high quality buildings in prime locations with as many amenities as possible at a cheaper rate, putting pressure on property level cash flows and values. Net absorption fell to the worst figure this century, but the lack of office construction over the past decade has kept vacancy rates lower than either San Francisco or Oakland.

Poor demand and decreasing effective rents are putting significant downward pressure on property values. On average, office properties traded for less than industrial buildings in 2023, and there are examples of deals closing at one-eighth the cost to build the project today. Falling prices have given users an opportunity to own their real estate. User sales tripled in 2023 as a percentage of total sales volume, with companies looking to take direct control of their costs. More pain is expected in the new year with some estimates pointing to a 30% or more decrease in value.

Industrial

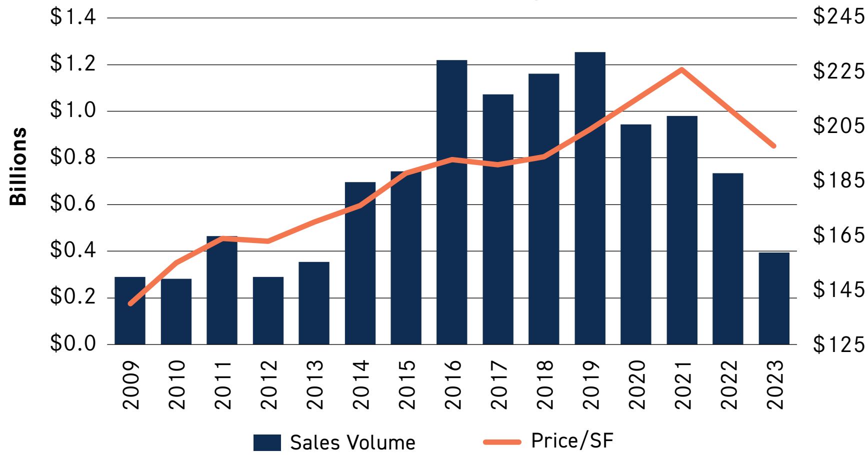
The industrial sector remains the best performing commercial asset class, but it has not been immune to a slowing economy. Demand for large distribution buildings has evaporated as the ecommerce boom that accompanied the pandemic has waned. At the same time, development totaling 2.4 million square

Figure 3
Office Market Activity: 2009-2023



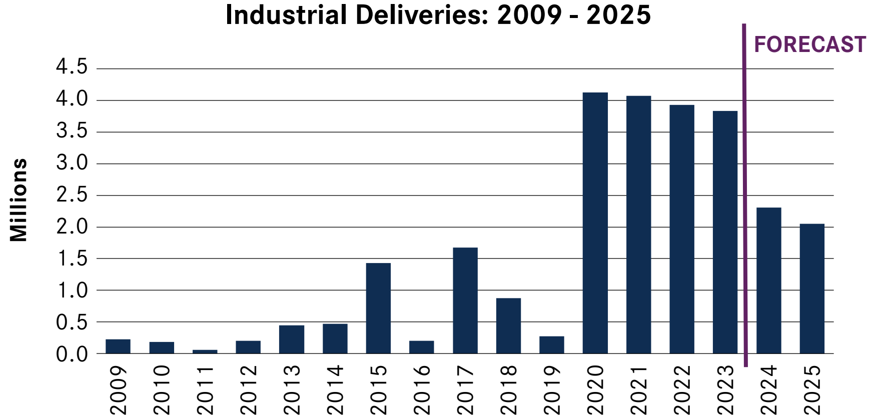
Source: CoStar

Figure 4
Office Sales Volume & Pricing: 2009-2023



Source: CoStar

Figure 5
Industrial Deliveries: 2009 - 2025



Source: CoStar

REAL ESTATE

feet remains. However, construction starts have slowed to their lowest level since 2018, a sign that the risk of oversupply that existed earlier in the year is diminishing.

Demand remains for the market's smaller spaces, and space is still difficult to source. There have been no new industrial parks built for more than a decade, leaving small users with very few options in the market. That is unlikely to change in the near term, as replacement costs still far exceed sale prices for these properties.

Low vacancy has allowed for rent growth in the market, which is up by 5% year over year. The industrial market has not softened like the office sector, and tenants do not have the leverage to command similar concessions. However, there is some indication that property owners are more willing to offer something to attract tenants, especially compared to 12 to 18 months ago.

The industrial market also saw a slowdown in sales transactions during the year, but it is not expected to have the pricing erosion seen in other asset classes. It is one of the few aspects of the market where public and institutional capital was active throughout the year. These sophisticated investors have largely chosen to remain on the sidelines and wait for prices to fall, with industrial being the only exception. Sales volume is likely to increase in the new year as cap rates are expected to increase slightly. However industrial property values should remain relatively stable, comparatively.

Figure 6
Industrial Market • Vacancy & Avg Asking Lease Rate: 2009 - 2025

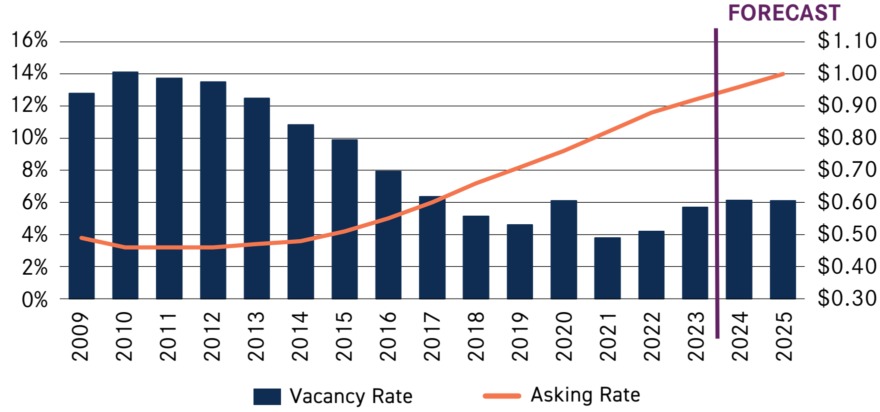
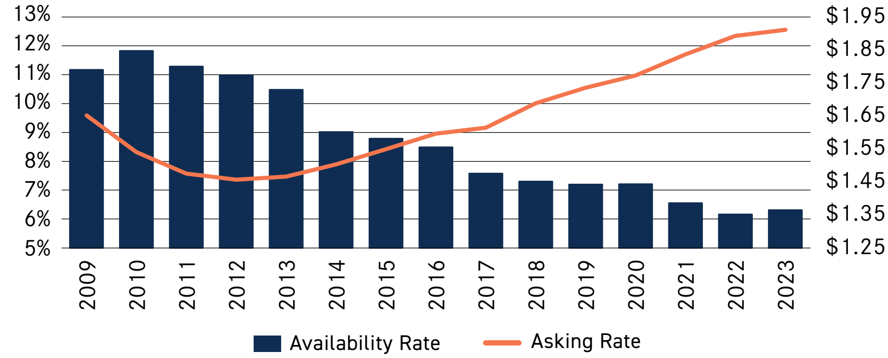


Figure 7
Retail Market • Vacancy & Avg Asking Lease Rate: 2009 - 2025



Source (Figures 6 & 7): CoStar

Grocery-anchored retail in particular has been resilient and continues to achieve a premium over the rest of the market.

Retail

The retail sector remains on good footing and leasing activity is solid. The market has benefited from the lack of construction in recent years, which has helped to keep the availability rate low. Current levels are some of the lowest since the Great Financial Crisis and are not expected to increase greatly in the new year. Net absorption was modest but positive in 2023, totaling 169,000 square feet. The figure would be higher, if not for moveouts in the Sunrise Mall as that property prepares for redevelopment.

Like the rest of the market, sales activity slowed significantly during the year. Fortunately, the underlying market fundamentals are strong and are helping some deals to close. Grocery-anchored retail in particular has been resilient and continues to achieve a premium over the rest of the market. The effect of higher interest rates is not expected to show in transactions data until 2024 as the bid-ask gap between buyers and sellers begins to diminish and properties trade at higher frequencies.

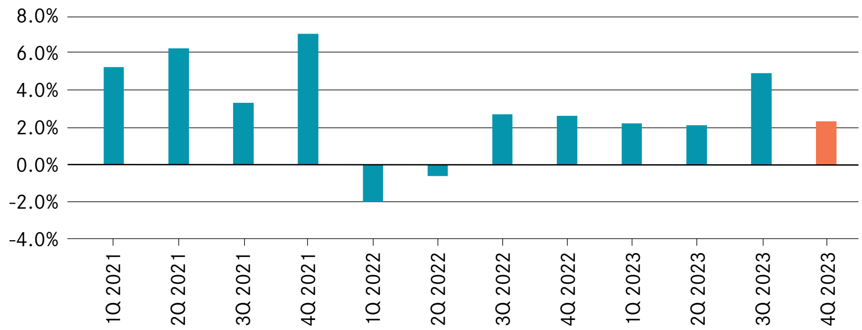
Capital Markets & Banking

Last year was a year that, in many ways, defied expectations. At this time last year, the consensus view was that — in an effort to tame inflation — the Federal Reserve would raise rates, which would ultimately cause a recession. However, the recession never materialized — unemployment has stayed low, wage growth was low but positive, and consumer spending has remained resilient in the face of head winds.

Driven by macroeconomic factors, equity markets experienced a meaningful rally over the course of the year. On the whole, companies were successful in navigating the difficult environment by cutting costs and managing interest expenses. However, the overwhelming gains were made by a small number of large cap technology companies, dubbed the "Magnificent 7" (Amazon, Apple, Google/Alphabet, Meta/Facebook, Microsoft, Nvidia and Tesla), which now make up nearly 30% of the S&P 500.

...the SBR believes the Fed is unlikely to cut rates without clear evidence that such a move is absolutely necessary, for fear of reigniting inflation.

Figure 1
Real GDP Growth (year-over-year, quarterly)



Source: Bureau of Economic Analysis and Atlanta Fed.

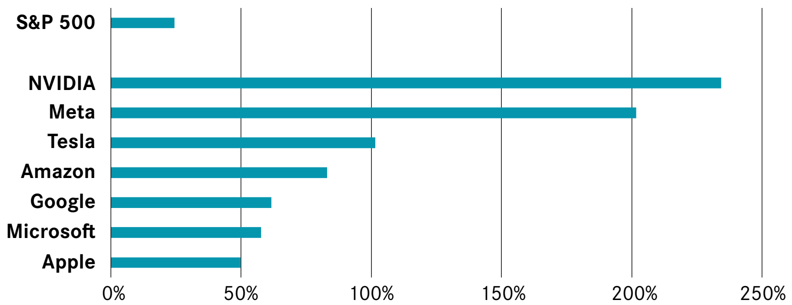
Going forward, fed officials have indicated that rate cuts could be needed to prevent overtightening. Markets have adjusted expectations, which was visible in the late year equity rally as well as rate contracts. Currently, futures contracts are pricing at a benchmark rate of 3.75% - 4.0% for the end of 2024, which would be 150 bps below current levels. However, the SBR believes the Fed is unlikely to cut rates without clear evidence that such a move is absolutely necessary, for fear of reigniting inflation.

While we avoided a recession in 2023, many of the same forces are still in effect, and in assessing the current conditions, it must be concluded that the U.S. economy is still poised for a slowdown. The effects of monetary policy are lagged and starting to appear: 1) lending growth — as we will discuss in the Banking section — has slowed dramatically; 2) commercial real estate is under pressure from both the Remote Work trend and higher rates; and, 3) Credit market deterioration is appearing in both corporate defaults and delinquent consumer credit card balances, which have risen to the early COVID levels.

Our outlook for equity markets is for more modest returns. The S&P 500 currently exhibits above-average valuations on a price-to-earnings basis, although as noted above, this is driven by a small number of large-cap technology companies. When parsed, other areas, including U.S. mid-cap and small-cap, and certain "left-behind" sectors such as Energy and Utilities, as well as global equities, continue to trade at substantial discounts to historical levels. And while elevated, U.S. stock valuations do not seem unreasonable considering current margins, healthy interest coverage, and prospects for improved corporate revenue growth. On the rates front, the SBR team expects the yield curve to flatten over the next twelve months with shorter term rates moving down and longer-term rates remaining near current levels, i.e., ~3.75 to 4.00% on the 10-year UST.

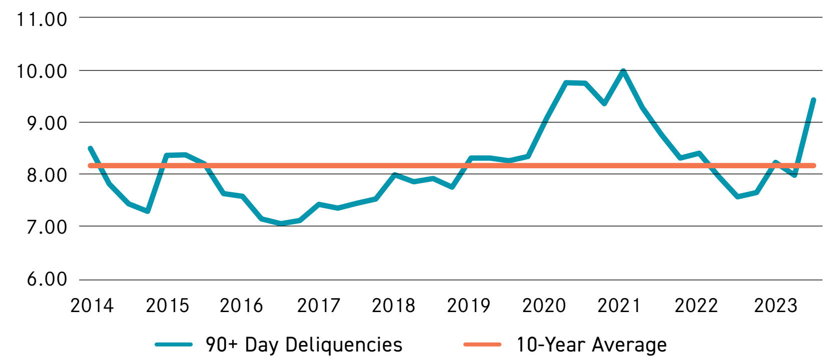
Our outlook for equity markets is for more modest returns.

Figure 2
The "Magnificent 7" - YTD Total Return vs. S&P 500



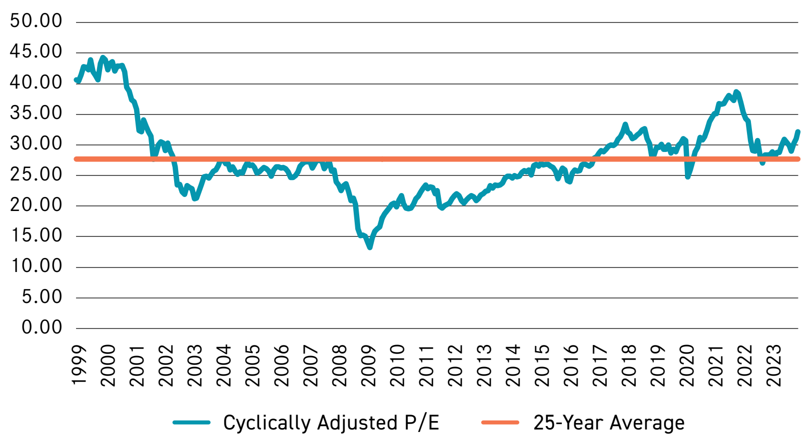
Source: Bloomberg as of 12/22/2023

Figure 3
Credit Card Delinquencies (90+ Days), Last 10 Years



Source: NY Fed

Figure 4
Equity Valuations Compared to Long-term Averages



Source: Robert Shiller

Regional Banking Update

Regional banks and credit unions went along for one wild ride in 2023, and planning for what may come in 2024 has been fraught with uncertainty not experienced in years. Will rates be higher for longer or will there be swift cuts to stave off a recession? Will there be a commercial real estate charge-off tsunami, an over-extended consumer, or both? These are just some of the questions that regional bank and credit union executives have been grappling with as they finalized budgets going into year-end. How the Fed proceeds in 2024 will be data driven, as Chair Powell routinely reminds us. The key question that remains is, will the Fed land the jumbo jet on the aircraft carrier, or will it be late to the game in tweaking the necessary policy levers?

To assess what may come in the next twelve months, it is best to take a quick look back over the last five years and see how we have arrived at where we are today.

Figure 5
Regional Bank Loan and Deposit Trends

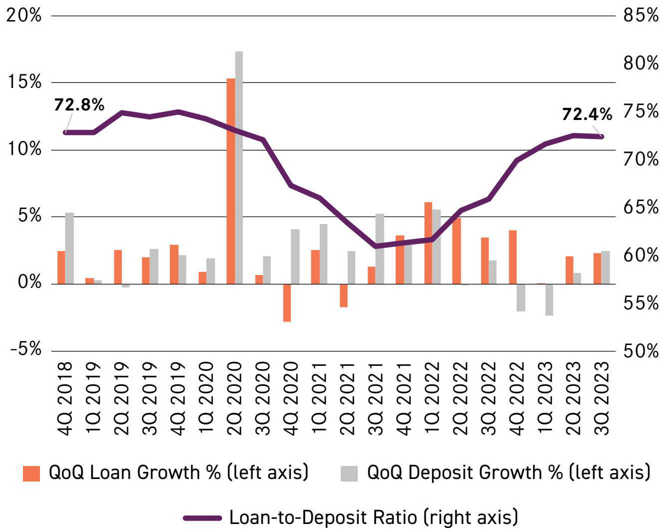


Figure 6
Regional Credit Union Loan and Deposit Trends

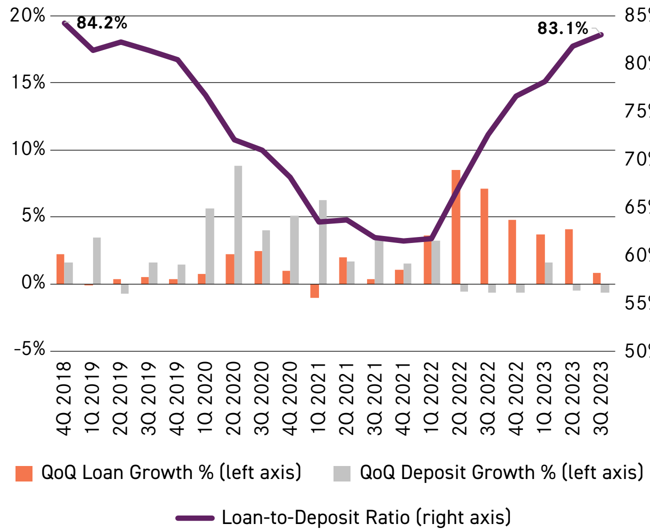


Figure 7
Regional Bank Net Inc. $ and Return on Avg. Assets %

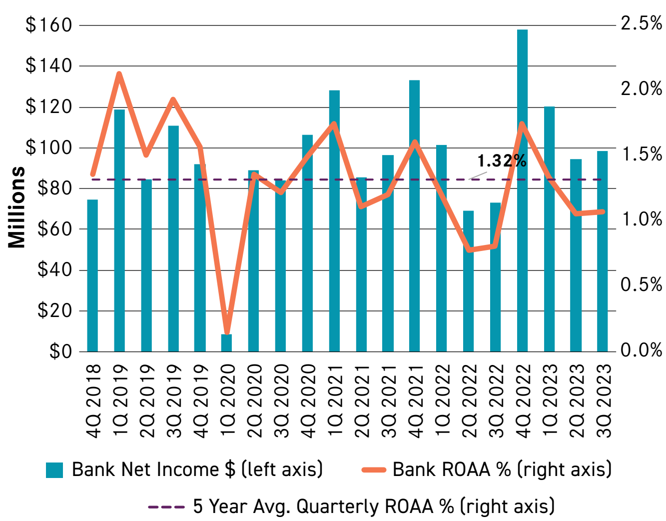
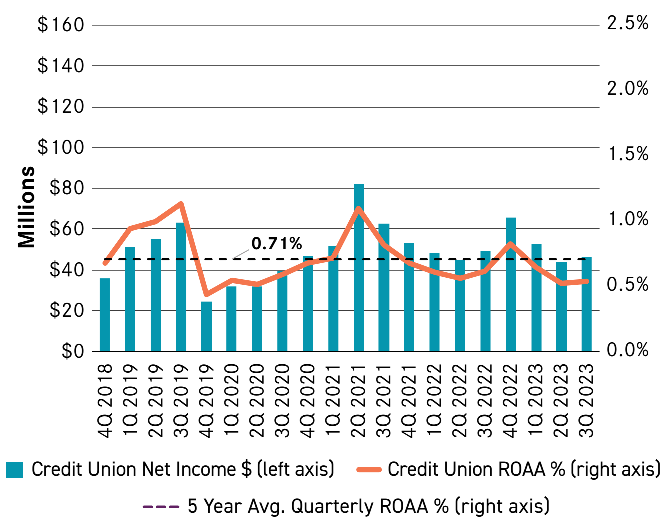


Figure 8
Regional Credit Union Net Inc. $ and Return on Avg. Assets %



Source (Figures 5-8): FDIC, NCUA, S&P Capital IQ

Loan and Deposit Trends

As of September 30, 2023, the Loan-to-Share ratios for regional banks and credit unions were 72.4% and 83.1%, respectively. After both groups bottomed out in the low 60% range amidst the massive monetary and fiscal stimulus brought about by the pandemic, both figures are near the high end of historical ranges. Tepid deposit growth coupled with persistent loan demand has resulted in regional financial institutions relying on cash and investment reserves to help fund cash outflows. Elevated Loan-to-Share ratios are likely to remain for 2024. Attractive money market mutual fund rates, stiff competition from online financial institutions, and the need to keep pace with a significantly higher priced economy will remain key obstacles for deposit growth over the next twelve months. However, a slowing economy and fears of a recession have traditionally resulted in a flight to safety (cash) and incremental deposit growth for regional financial institutions (FIs).

Asset Quality Trends

The direction of the economy over the next twelve months is a key consideration for asset quality trends. While regional banks have benefited from near zero charge-off rates over the last cycle, elevated net charge-offs are expected for 2024, in line with normalization trends and a reversion to a longer run average net charge-off rate of ~0.30%. Similarly, regional credit unions will also experience continued normalization trends for net charge-offs in 2024. The wild card for both regional banks and credit unions is how well the Fed can moderate economic growth through monetary policy. An economy that cools too fast, with its increasing unemployment levels and asset price pressures, will undoubtedly lead to more severe asset quality trends.

Figure 9
Regional Bank Net Charge-Offs: $ and %
(% annualized quarterly rate)

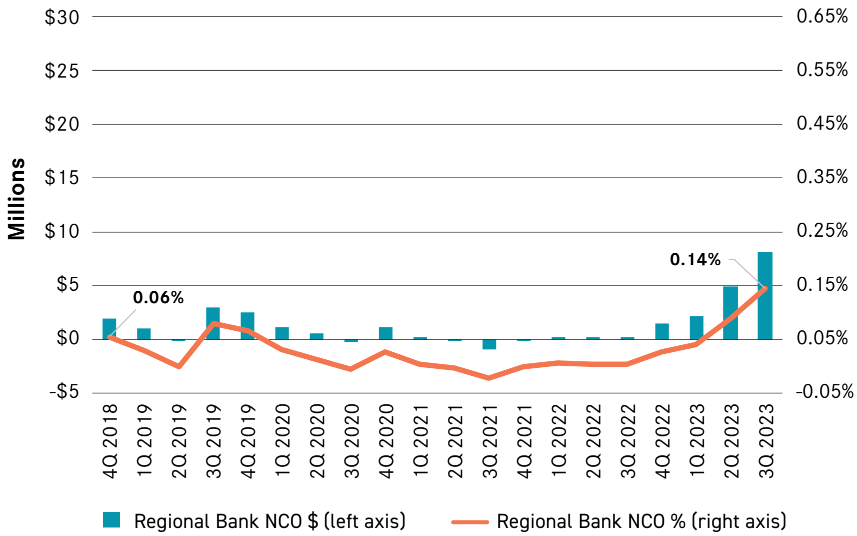
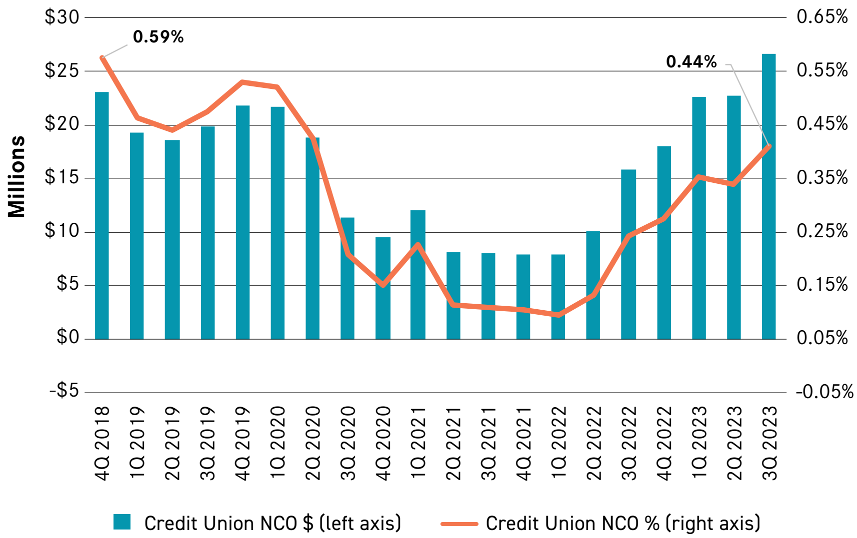


Figure 10
Regional Credit Union Net Charge-Offs: $ and %
(% annualized quarterly rate)



Source (Figures 9 & 10): FDIC, NCUA, S&P Capital IQ

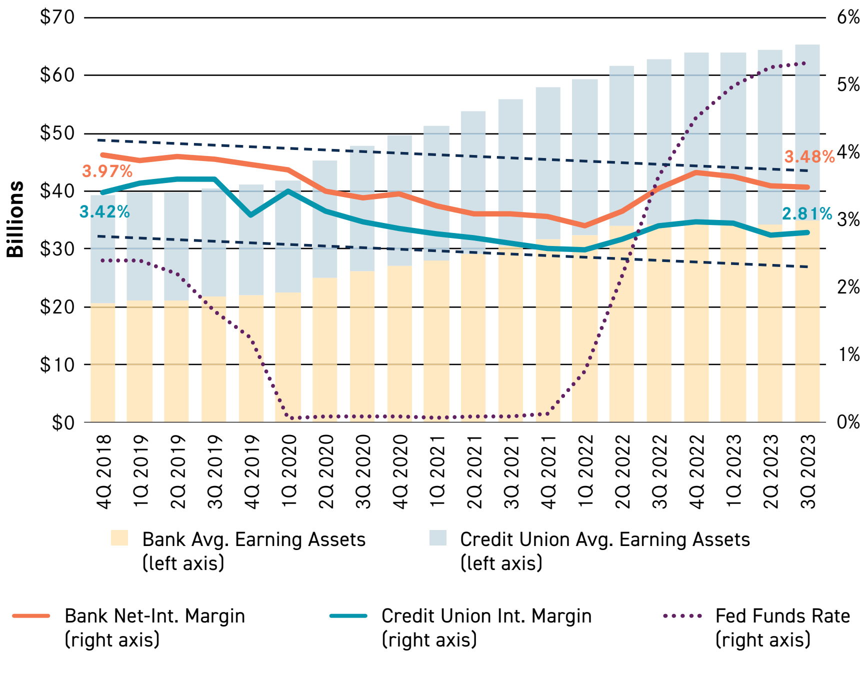
THE WILD CARD FOR BOTH REGIONAL BANKS AND CREDIT UNIONS IS HOW WELL THE FED CAN MODERATE ECONOMIC GROWTH THROUGH MONETARY POLICY.

Capital Markets & Banking

The Bottom Line

The unfavorable liquidity and asset quality trends discussed previously have weighed on regional FIs' bottom line. Quarterly net income levels for 2023 have trended below five-year averages, and these below average trends are expected to continue throughout 2024. Without cheaper funding, i.e., the return of core deposit growth (think lower cost checking and savings accounts), net interest margins, (interest income less interest expense relative to average earning assets), will remain under pressure. With this margin pressure persisting at a time of deteriorating asset quality trends, i.e., increasing net charge-offs, net income levels at or above average will be elusive in 2024.

Figure 11
Regional Bank & Credit Union Margin Pressure

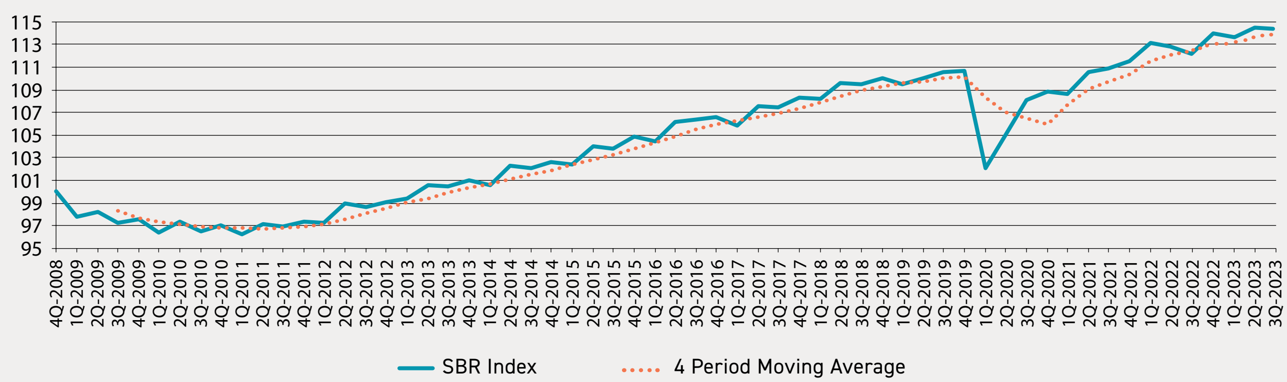


Source: FDIC, NCUA, S&P Capital IQ

> *...the SBR team anticipates future slowing on the employment and banking fronts to provide additional headwinds in 2024.*

Sacramento Business Review Financial Conditions Index (with 2-year moving average)

Our proprietary SBR Financial Conditions Index shows that the regional economy continued to expand through the third quarter of 2023, with the only drag on the index stemming from a persistent decline in the number of homes sold in the region. However, the SBR team anticipates future slowing on the employment and banking fronts to provide additional headwinds in 2024.



CAPITAL PLANNING ADVISORS™

YOUR FAMILY, YOUR BUSINESS, YOUR WEALTH

DISCOVER TRUSTED, COLLABORATIVE WEALTH MANAGEMENT WITH YOU AT THE CENTER

WEALTH MANAGEMENT | TAX & ESTATE PLANNING | BUSINESS PLANNING | RETIREMENT PLANS

ROSEVILLE & WALNUT CREEK
916.286.7650
www.capitalplanningadvisors.com

Healthcare *Industry Conditions*

> *Investments in employee diversity, inclusion, and wellness are already attracting talent from across the nation.*

Sacramento's healthcare landscape reemerges as a bright spot in the region's business forecast, welcoming 2024 with arms wide open. Healthcare executives, buoyed by the sector's slow but continued recovery and improving finances, are resuming and initiating plans for expansion.

Sutter Health, led by CEO Warner Thomas, is acquiring and building clinics both within and outside of the Sacramento region and is strengthening Sutter's draw through strong leadership investments. California Northstate University (CNU) CEO Alvin Cheung's visionary leadership continues to grow CNU's expanding empire with a massive remodeling of space underway for the College of Dental Medicine and clinic. The university is also working with state regulators to commence construction of CNU's teaching hospital and medical campus in Natomas. Kaiser Permanente's bid to build an acute care hospital and ancillary buildings in the Sacramento Railyards development site is seeing recent movement with state regulators, suggesting forward momentum in this project. And UC Davis Health's California

Photo Credit: Dennis McCoy | *Sacramento Business Journal*

HEALTHCARE

Tower expansion is underway, led by CEO David Lubarsky and a formidable team of design and construction specialists.

The pummeled regional healthcare labor force is being steadily revitalized through the strong commitments by executive teams to staff training and infrastructure. Investments in employee diversity, inclusion, and wellness are already attracting talent from across the nation. Missions and executable goals centered on providing accessible care to the tens of thousands of underserved in Sacramento create purposeful work that increases employee satisfaction. This focused mission is being observed in hospital organizations, centers for medical education, and clinics. One Community Health, an FQHC led by CEO Michelle Monroe, recently acquired two large properties in Sacramento that will double their capacity when construction is complete in the next 2-3 years. Although wages for much of the healthcare sector remained steady, significant increases were seen in areas hardest hit by the pandemic, including skilled nursing, assisted living facilities, and mental health facilities. This increase brings greater wage equality to these vital frontline workers (Sac Business Journal, Nov. 2023).

A relentless focus on medical education is also propelling Sacramento forward as a highly desirable location for prospective students of medicine and healthcare. In addition to medical school training at UC Davis Health and California Northstate University, the region supports graduate physician residency and fellowship training programs as well as master's and doctorate student training. The region is increasing our output of trained physicians; Sutter Health alone has announced plans to quadruple the number of physicians trained by the end of the decade. Equally impressive, prospective nursing students have many choices among nearly a dozen public and private programs in Sacramento. California Northstate University recently announced approval by the Board of Registered Nursing to move forward with the CNU College of Nursing which will begin matriculating students in fall 2024.

A relentless focus on medical education is also propelling Sacramento forward as a highly desirable location for prospective students of medicine and healthcare.

Tourism & Hospitality

Sacramento Hotels' Revenues

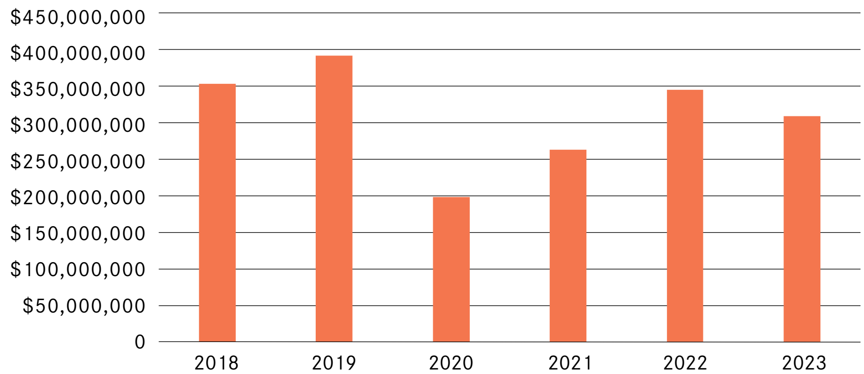
The following estimates for 2023 are based on the summary statistics for four zones provided by the Sacramento Convention & Visitors Bureau (Downtown, Point West, Natomas, and Outlying hotels) as of the end of October 2023.

Based on statistics for the first 10 months, 2023 is likely to show a decline of 10.3% in Sacramento hotels' revenues compared to 2022. This is still higher than in 2020 and 2021 (17.4 percent and 56.2 percent higher, respectively).

The pre-COVID level of hotel revenues achieved in 2019 remains the highest on record (21 percent higher than in 2023, based on statistics for the first ten months).

Based on statistics for the first 10 months, 2023 is likely to show a decline of 10.3% in Sacramento hotels' revenues compared to 2022.

Figure 1
Sacramento Hotel Revenues
(first 10 months of the year)



Source: Visit Sacramento

Occupancy Rates

Different dynamics are observed regarding hotels' occupancy rates. In 2023, rates were improved compared not only to 2020 and 2021 (8.2 and 8.0 percent, respectively), but also compared to 2022 (3.8 percent). However, it is still substantially lower than in the pre-COVID years of 2019 and 2018 (a decrease of 8.5 and 7.7 percent, respectively).

Among the three segments of hotel guests (transient, group, and contract travelers) the contract segment experienced the most substantial occupancy rate increase in 2023 (10.5 percent in 2023 compared to 6.4 percent in 2022). The group segment also demonstrated an increase (16.5 percent in 2023 compared to 13.3 percent in 2022). Despite the overall occupancy rate increase, these rates are still lower than in pre-COVID years (see Figure 2).

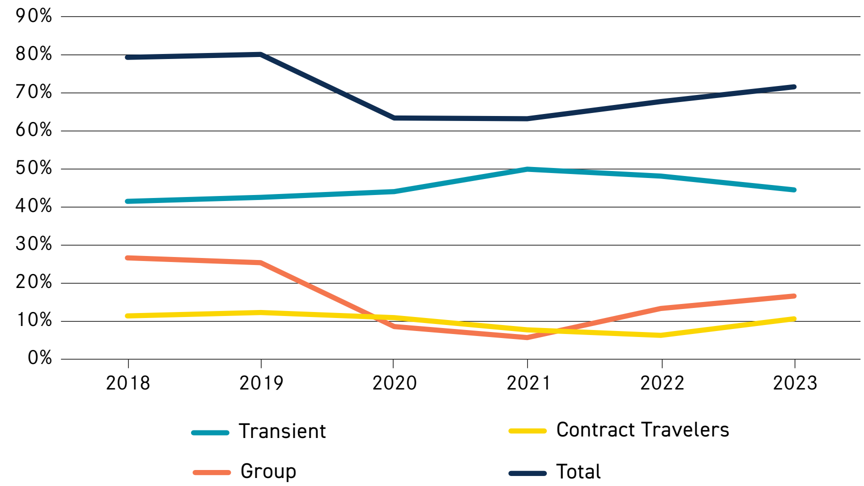
Pricing Trends

The Average Daily Rate (ADR) for Sacramento hotels decreased somewhat in 2023 ($134.5 compared to $143.6 in 2022). This is also lower than in the pre-COVID years of 2019 and 2018; ($140.0 and $134.3, respectively).

The Revenue Per Available Room (RevPAR) indicator demonstrates a trend that is similar to that of total revenue: an increase compared to the COVID years ($91.1 in 2023 compared to $74.5 and $70.3 in 2021 and 2020, respectively) and a decline compared to 2022 ($98.0) as well as to the pre-COVID 2019 and 2018 ($112.5 and $107, respectively).

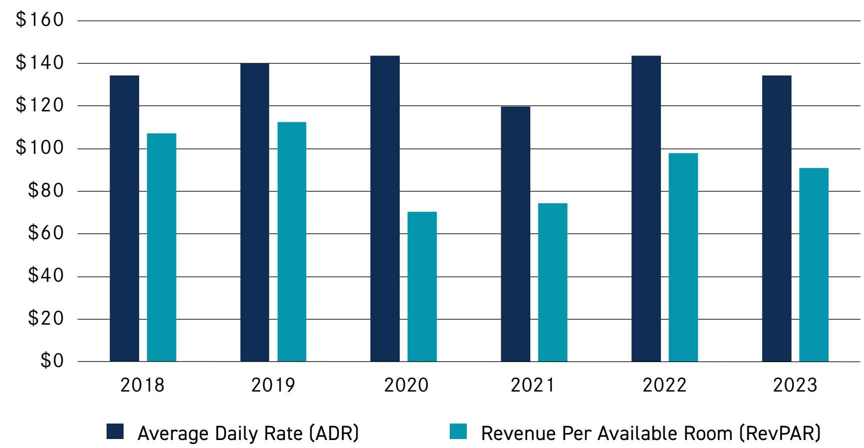
Among the three segments of hotel guests (transient, group, and contract travelers) the contract segment experienced the most substantial occupancy rate increase in 2023.

Figure 2
Sacramento Hotel Occupancy (%)



Source: Visit Sacramento

Figure 3
Sacramento Hotels Average Daily Rate and Revenue Per Available Room



Source: Visit Sacramento

TOURISM & HOSPITALITY