MID-YEAR 2021 ECONOMIC FORECAST | EMERGING TRENDS IN SACRAMENTO'S ECONOMY

sacramento BUSINESS REVIEW

MID-YEAR 2021

Sacramento Housing "Booms" During Covid, BUT, For How Long?

Labor Market & Regional Economy
SBR/SAFE Credit Union Consumer Sentiment Survey
The Small Business Economy
Real Estate
Capital Markets & Banking Forecast
Human Capital Trends

MID-YEAR
2021

sacramento
BUSINESS REVIEW

MISSION

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

LABOR MARKETS & REGIONAL ECONOMY

SBR/SAFE CREDIT UNION CONSUMER SENTIMENT SURVEY

THE SMALL BUSINESS ECONOMY

REAL ESTATE

CAPITAL MARKETS & BANKING

HUMAN CAPITAL TRENDS

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MESSAGE FROM THE CHIEF ECONOMIST

Dear Friends,

If you look around you, it is hard not to agree with our January headline: Is Sacramento Better Than the Bay Area? Spring season saw an explosive boom in home sales and median prices as a new gold rush enabled by "work from home" brought thousands from the Bay Area to Sacramento in search of a better quality of life. As I predicted, the economy has rebounded sharply in the first half, although the Delta variant has unexpectedly tempered economic growth for the remaining year. The stock market continues its ascent upwards with not even a 5% pullback the entire year. Schools have reopened, but mask mandates remind us life will perhaps never be the same again. Cruise lines and airlines will have to wait more for a fair share in the reopening trade.

Construction and health care remain the bright spots, while leisure and hospitality will continue to struggle with fears of more COVID strains and the associated restrictions on a full reopening. Technology and adaptability will define the losers versus winners in dining, shopping, education, entertainment, food delivery, exercising, investing, travel, real estate, and work from home. Housing is no longer affordable to the median family, and I predict housing price increases are not sustainable since Sacramento lacks a diversified economy and abundant high paying jobs. While we have been an accidental beneficiary of people relocating here from the Bay Area, we are still plagued by the broader challenges confronting California. Our household incomes lag statewide averages. As the economy fully normalizes, be prepared for many employers to require their employees back to the workplace or to face income reductions similar to Google's recent announcement of a 25% pay cut for those not living in the expensive Bay Area.

The consumer remains strong on the backs of an unprecedented stimulus. As the free money dries up, and the party comes to an end, Sacramento may face a hangover and will need to work harder to thrive beyond an economy based only on housing, government, and service sector jobs. Stay tuned for our 2022 forecast.

Warm regards,

Sanjay Varshney

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FEATURES

KEY POINTS

LABOR MARKETS & REGIONAL ECONOMY

- The Region's unemployment rate has declined sharply post-pandemic but is still higher than the pre-pandemic rate.
- The leisure and hospitality sector has rebounded strongly, adding more jobs in the past twelve months than any other sector, but it is still well below its pre-pandemic levels.
- The construction and health care sectors continue to be the strongest sectors of the labor market.
- Average weekly earnings have increased, outpacing inflation, but have fallen well behind median housing price increases.

SBR/SAFE CREDIT UNION CONSUMER SENTIMENT SURVEY

- Regional consumer sentiment is up since our annual release in January 2021, whereas national sentiment has remained roughly the same.
- In absolute terms, the level of regional and national sentiment are relatively similar, with regional consumers expressing more optimism for the future.
- Compared to our annual release, regional consumers indicate less near future intent to acquire mortgages and credit cards and slightly higher intent to acquire student loans.

SMALL BUSINESS ECONOMY

- Overall, the Small Business Economy in the Sacramento Region has quickly recovered and is on its way to surpassing previous highs on various fronts. The Small Business Confidence Index (SBCI) results were encouraging, lending activity is abundant, and business transactions appear to be on steady footing.
- Lending activity in Sacramento County and El Dorado County are on pace to finish 2021 at the highest level since the Sacramento Business Review (SBR) team started tracking loan volume activity. However, Yolo County is having a very slow year with lending activity in the area decreasing almost 60% year-over-year.
- Business transactions increased relative to the last update and the numbers of listings was virtually unchanged. Median revenue of active listings and average cash flow multiples decreased 10% year-over-year. While the current recovery is impressive, the region has some work to do to keep the momentum strong and the Small Business Economy healthy.

REAL ESTATE

- **Office Market:** Tenants are shifting towards a hybrid real estate strategy resulting in increased vacancy throughout the market. However, the need for office space remains clear as many tenants opt to remain in their current location on a reduced footprint.
- **Industrial Market:** Fundamentals remain strong. New activity will be increasingly tied to construction as the market lacks big block supply to serve the tenants looking to locate in Sacramento.
- **Retail:** Outlook remains in doubt given the substantial impact that COVID-19 has had on the retail landscape. Lack of consistency in pandemic restrictions only increases economic pressure on users' long-term viability.
- **Single Family:** Property value growth remains strong with no change expected in the near-term. Consistent demand from individuals and investors combined with a shortage of housing in region have combined for a 12.9% increase in property value year-over-year.

CAPITAL MARKETS & BANKING FORECAST

- Highs for everything from stocks to housing to crypto; it is hard to tell exactly how market levels will adjust when the Fed begins to pull back on its quantitative easing programs, but one thing is for sure, uncertainty will persist well into 2022.
- Regional banks and credit unions continue to see deposit growth, albeit at a slower pace relative to 2020 and the first part of 2021. Margin pressures will persist with the low rate environment, but institution bottom lines have benefited from credit losses that never materialized.
- The Sacramento Business Review's proprietary financial conditions index shows regional economic activity has rebounded from the two-month recession of early 2020, but recent concerns and restrictions related to the Delta variant are limiting near-term growth prospects.

HUMAN CAPITAL TRENDS

- Employees feel unfulfilled and engagement is down.
- The ongoing skills gap has turned into a skills abyss during the COVID-19 pandemic.
- Most employees say they need to learn new skills in the short term to continue in their current jobs.
- Organizations do not have sufficient training programs in place to address their skills needs, and they are not finding the needed skills in the labor market.
- For pandemic recovery, organizations need to improve in areas of change management and communication as those are imminently needed.
- Organizations are preparing for longer term Work from Home (WFH) arrangements.

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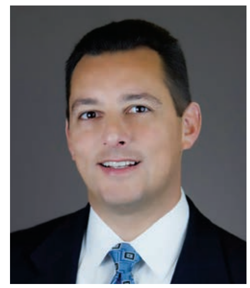

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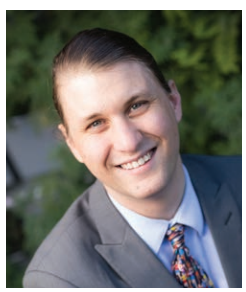

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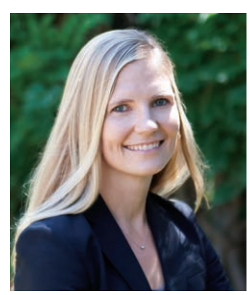

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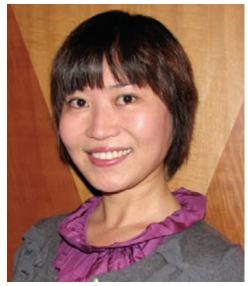

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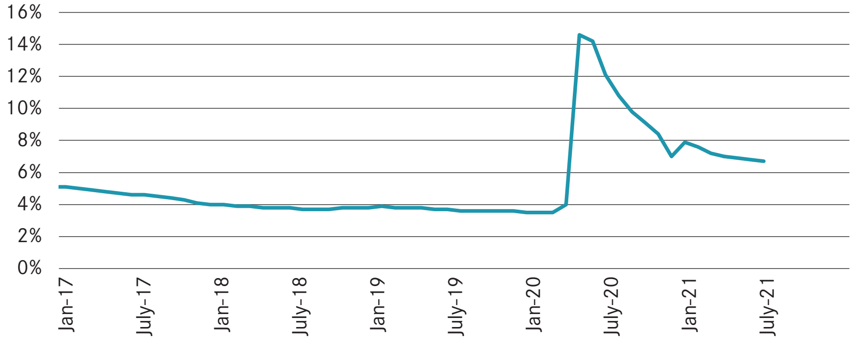
Labor Markets
& Regional Economy

The Sacramento Region's labor market bounced back from the Coronavirus pandemic and related economic restrictions over the past year. The region's seasonally adjusted unemployment rate has declined by more than half from a pandemic high of 14.6% in April 2020 to 6.7% currently; however, the unemployment rate is still high relative to the pre-pandemic level.

In total, the Sacramento Region's employment has increased 7.5% since May 2020. Leisure and hospitality jobs have led the recovery, increasing nearly 30% over the past twelve months. Apple's mobility data shows that driving and walking traffic have come back to the pre-pandemic normal, evidencing a recovery in economic activities. However, the total number of leisure and hospitality jobs is still down 30,000, or 27% from its high. Local construction employment is experiencing a historical high since the Great Recession. Construction jobs are up 40% in the past 5 years and 120% in 10 years, making it the strongest

Figure 1
Sacramento Unemployment Rate (Seasonally Adjusted)



Data Source: California EDD

Sector	Jobs (in thousands)	12-month % change (05/20 – 05/21)
Total Nonfarm	**982.7**	**7.5**
Leisure and Hospitality	81.0	29.0
Trade, Transportation, and Utilities	159.7	12.9
Construction	76.6	11.8
Professional and Business Services	132.2	4.3
Education and Health Services	164.3	4.1
Manufacturing	35.7	2.9
Financial Activities	51.7	2.0
Government	239.0	1.9

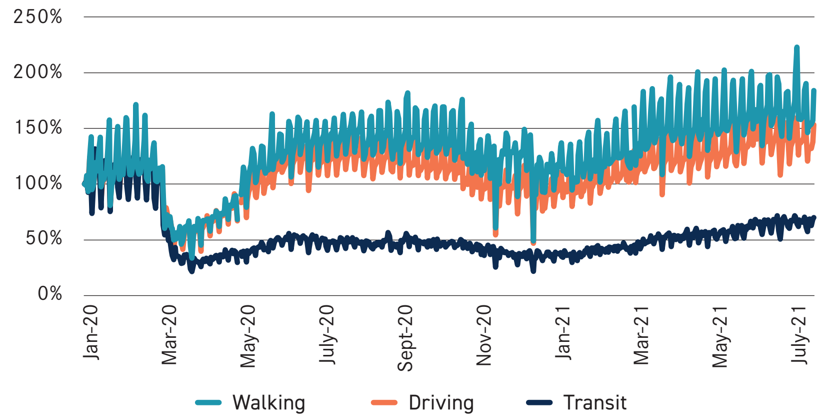
Data Source: BLS

growing sector in the region. Health care employment grew steadily, increasing 40% in the 10 years preceding the pandemic, and recently bouncing back over 4.0% in the past 12 months post-pandemic. Trade, transportation, and utilities have also reported a strong comeback, increasing nearly 13% in the last 12 months.

The labor market recovery has supported a recovery in worker earnings. Average hourly earnings increased 2.5% over the past year, while average weekly hours worked increased 3.5%, leading to a 6.1% increase in average weekly earnings. Meanwhile, inflation for the Western United States increased just 4.1% over the same period. However, housing prices have surged. Nearly 20,000 households moved into the Sacramento region from the San Francisco-San Jose Bay Area, bringing in many high-income families. The median listing price per square foot has surged 20.6% over the past year and is up 47.1% over the past five years. This has caused the differential between weekly earnings and housing prices to widen in recent years, making housing affordability an increasingly dire issue in the Region. A recent Sacramento County report showed that 4,454 people were experiencing homelessness on March 31, 2021 in a one-day count. The majority of homeless individuals surveyed indicated affordable housing was the primary need to help resolve their homelessness according to the most recent Sacramento County Point in Time Homeless Count report.

Nearly 20,000 households moved into the Sacramento region from the San Francisco-San Jose Bay Area, bringing in many high-income families.

Figure 2
Sacramento Mobility Data



Data Source: apple.com

	Avg. Weekly Earnings	Median Price per Square Foot	Difference
1 Year	+6.1%	+20.6%	-14.5%
3 Year Average	+4.1%	+8.6%	-4.5%
5 Years	+4.9%	+8.0%	-3.1%

Data Source: St. Louis Federal Reserve

Top 3 Regions	Households moved into the Sacramento Region in 2020
San Francisco-Oakland-Berkeley MSA	14,706
San Jose-Sunnyvale-Santa Clara MSA	5,110
Los Angeles-Long Beach-Anaheim MSA	4,787

Data Source: USPS

SAFE CREDIT UNION

MID-YEAR UPDATE

Consumer Sentiment *Survey*

For the mid-year update, 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 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. To measure sentiment, we utilized questions from the University of Michigan Consumer Sentiment© survey that were adapted to specifically address the Sacramento region. Per methods used by the University of Michigan survey, we calculated the following three indices for the region and compared them to the national data.

(1) **Index of Consumer Sentiment:** An overall measure of how consumers assess their own personal economic prospects and broader regional or national economic conditions.

(2) **Index of Current Economic Conditions:** A measure of how consumers assess their own personal economic prospects compared to a year ago along with perceptions about the current market for making major household purchases.

(3) **Index of Consumer Expectations:** A measure of what consumers expect to happen in the future for their own finances and the regional or national economy.

Table 1 · Regional vs. National

	Regional Index Score		National Index Score	
	Mid-Year Update	Change Since January 2021	Mid-Year Update	Change Since January 2021
Index of Consumer Sentiment	79.1	**+6.7**	80.8	**+0.1**
Index of Current Economic Conditions	75.8	**+3.0**	84.5	**-5.5**
Index of Consumer Expectations	81.3	**+9.2**	78.4	**+3.8**

Notes: National data obtained from the University of Michigan Consumer Sentiment Survey July 2021 Preliminary Data, 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.

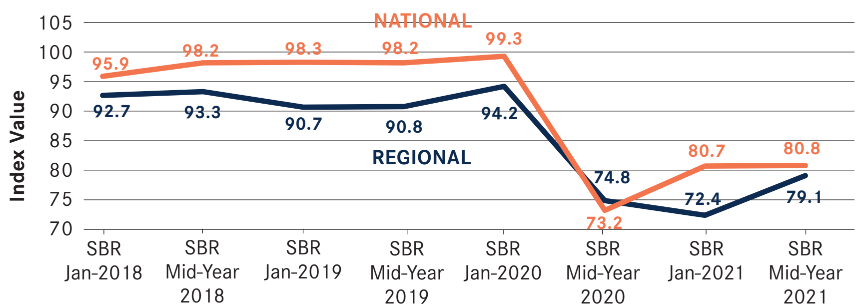
Overall, national consumer sentiment has held steady since our annual release (80.8 mid-year 2021 vs. 80.7 January 2021), with a more optimistic outlook about future expectations offsetting a decrease in consumer perceptions of current economic conditions. At the regional level, we are now starting to see the same rebound in consumer sentiment that national data showed back in our 2021 annual release, with regional consumer sentiment increasing 6.7 points to 79.1 from a low of 72.4 in January 2021. Regional sentiment is now nearly in line with national levels. Regional perceptions of current economic conditions continue to be significantly lower than national sentiment. Interestingly, though, regional outlook regarding future expectations saw a significant increase since our annual release and now once again exceeds national sentiment (see Table 1 and Figure 1). This may be a reflection of California's economy fully reopening on June 15, shortly before the survey was released.

Regional Consumer Sentiment and Household Income

The data suggest that consumer sentiment varies considerably by household income level. Regional sentiment is similar to or higher than in the annual release across most income ranges, with the exception being the highest income range ($250,000+), which exhibited a slight decline since our annual release in January 2021. Still, sentiment continues to be the highest among those at the top end of the income spectrum ($250,000+), though there

REGIONAL CONSUMER SENTIMENT IS UP SINCE OUR ANNUAL RELEASE.

Figure 1
Regional and National Consumer Sentiment



Notes: 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
Index of Consumer Sentiment By Household Income Level

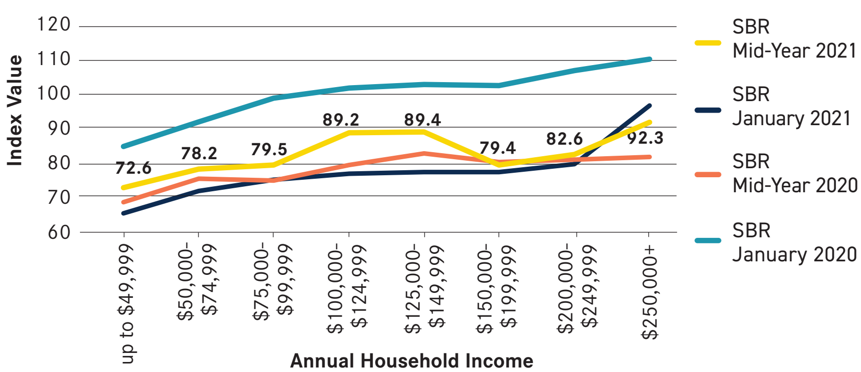
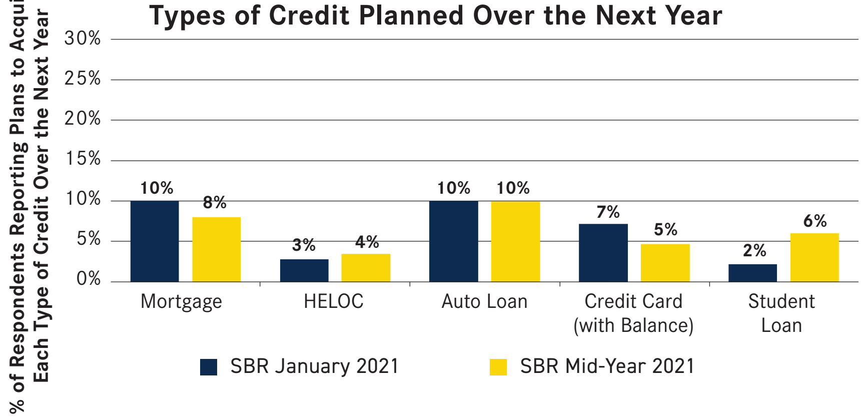


Figure 3
Types of Credit Planned Over the Next Year



appear to be some distinct increases in sentiment for households with incomes in the $100,000-$149,000 range (see Figure 2). While we are unable to isolate the impact of government stimulus efforts, it is notable that the $100,000-$149,000 household income range roughly corresponds to the upper bound for eligibility to receive full payment from some of the federal stimulus programs. Nevertheless, despite the general rebound since our January 2021 release, consumer sentiment for all income levels remains well below where it was before the pandemic in January 2020.

Purchasing and Credit

We again asked regional respondents about the types of credit they currently hold and their plans to acquire credit over the next year. Compared to our annual release, the data suggested slight decreases in the number of consumers holding auto loans (40% current vs. 43% annual release), credit cards with balances (53% current vs. 56% annual release), and student loans (9% current vs. 14% annual release). Plans for acquisition suggest less near future intent to acquire mortgages (8% current vs. 10% annual release) and credit cards (5% current vs. 7% annual release) and slightly higher intent to acquire student loans (6% current vs. 2% annual release) (see Figure 3).

Summary

Regional and national consumer sentiment has rebounded since the middle of 2020, but continues to be well below pre-pandemic levels. Since our January 2021 release, local sentiment has shown a substantial rebound, whereas national sentiment has remained roughly flat over this period. While the absolute level of consumer sentiment is similar locally and nationally, regional consumers exhibit more optimism for the future economic conditions relative to the national data.

The Small Business *Economy*

MID-YEAR UPDATE

The *Sacramento Business Review* (SBR) team conducted its mid-year checkup of the Small Business Economy in the region. Relative to its annual update of 2021, most of the data points showed a continued bounce in the overall economy. The Small Business Confidence Index (SBCI) results were encouraging and, on aggregate, indicate that sentiment in the region has quickly recovered and is on its way to surpassing its all-time high from January 2020. Since the lows recorded 12 months ago, the aggregate results are 39% better, primarily driven by Local Supportiveness, which saw an increase of 126% from its low recorded one year ago. Every data point compared to the annual update this year saw an improvement, with the best read coming from the Outlook of the Economy. Access to Credit continues to show positive momentum that started in January 2021, and the result is higher than its 18-month moving average for the second consecutive time.

Lending activity data provided by the Small Business Administration shows that loan volumes are on pace to reach an all-time high by the end of this year. As usual, Sacramento County makes up more than 60% of the loan activity with Placer and El Dorado County poised to grow more than 40% versus last year. The laggard in this update is Yolo County, which is on pace to decline almost 60% compared to 2020. Placer County is on pace to have the best growth as compared to last year, but it is still about 2% below its three-year average. If momentum stays this strong, Sacramento and El Dorado County will wrap 2021 with the highest volume in the last 15 years. If the first half of the year is an indicator of how the rest of the year will finish, then the loan data, along with the results from the Small Business Confidence Index, confirm that access to credit is plentiful across the region.

Figure 1 • Overall Sentiment
(January 2011 - July 2021)

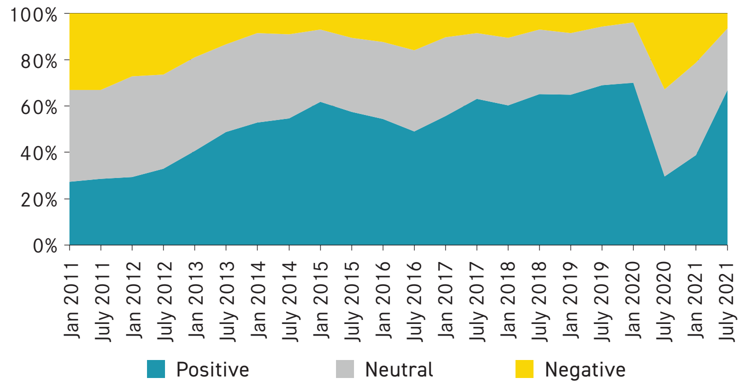


Figure 2 • SBCI Total: Local Business Conditions
(18-month Moving Average)

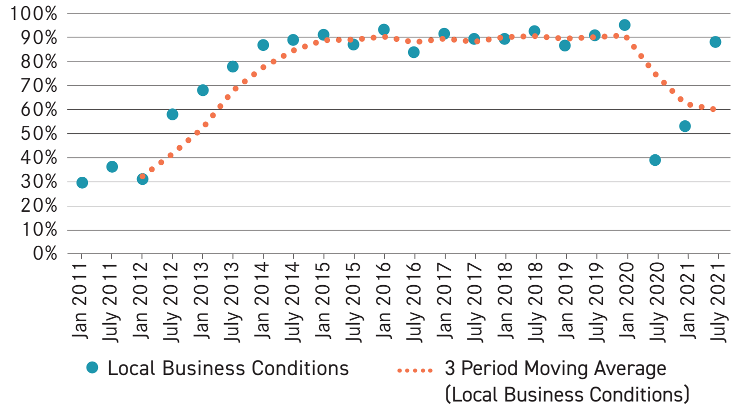


Figure 3 • SBCI Total: Credit Access
(18-month Moving Average)

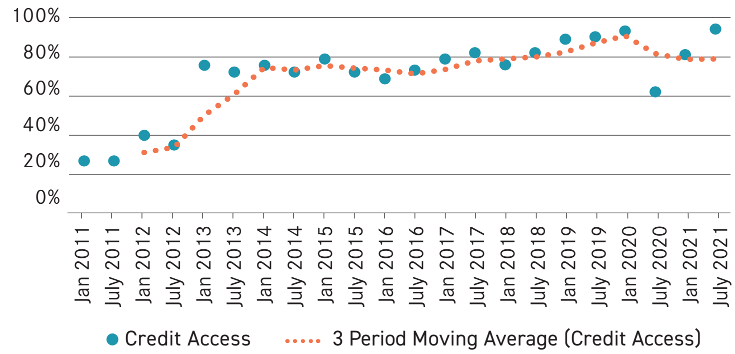
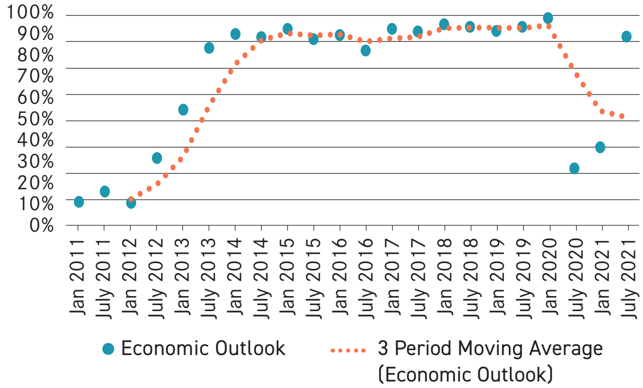


Figure 4 • SBCI Total: Economic Outlook

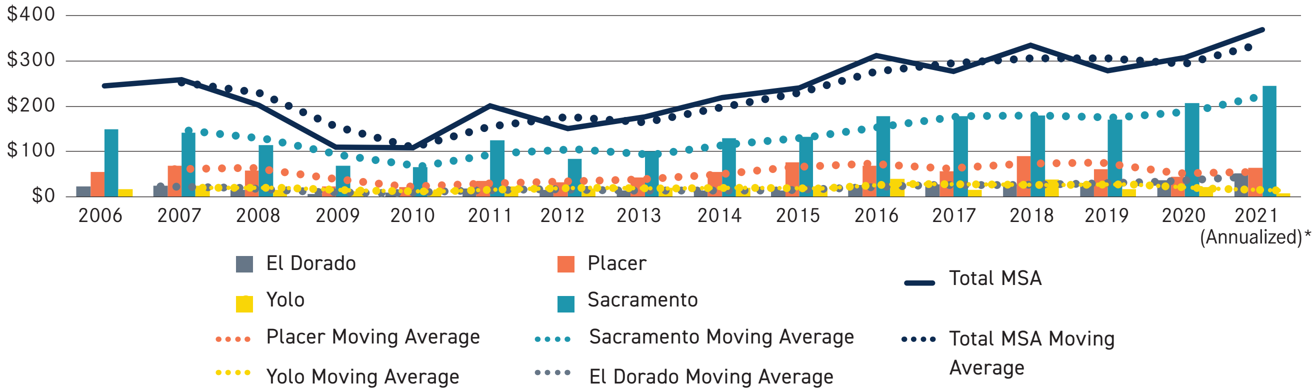
(18-month Moving Average)



Business listings in the region are holding steady, but business transactions occurred in a lower segment of the market, primarily coming from the Service Sector. The number of listings is 18.9% higher year-over-year and the median asking price was roughly $236,000 or 4% higher year-over-year according to BizBuySell. Business metrics are not as strong with median revenue of active listings decreasing 10.2% year-over-year and the revenue multiple of closed sales coming in below its four-quarter moving average. Excluding a 2020 outlier reading, Cash Flow Multiple of Closed Sales appear rich. While the current recovery is impressive, the region has some work to do to keep the momentum strong and the Small Business Economy healthy.

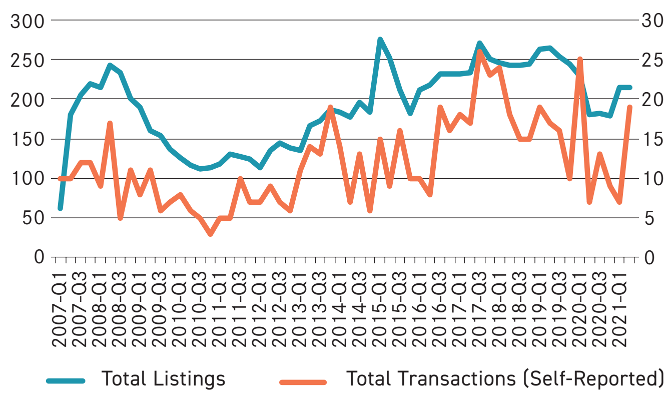
Figure 5 • Total SBA Loan Approvals By County

(in millions, 2-Year Moving Average)



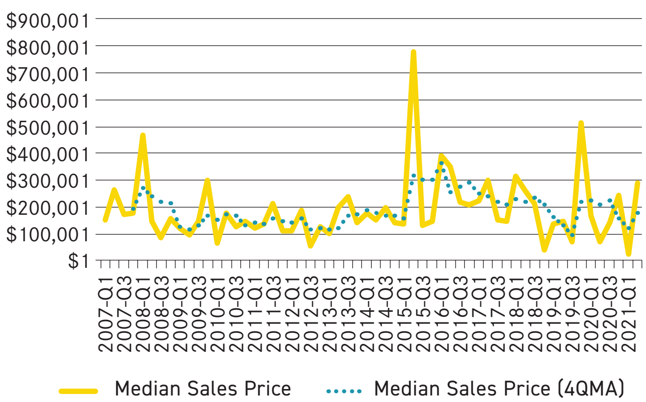
Moving Average is average of two previous data points.

Figure 6 • Number of Listings vs. Actual Sales (Quarterly)



Data Source: BizBuySell

Figure 7 • Median Closed Sales Price (Quarterly)



Data Source: BizBuySell

SMALL BUSINESS

Real Estate

Office

The economic shock of COVID-19 continues to reverberate through the office market. Net absorption totals negative 881,000 sf to start the year, with the downtown core accounting for negative 197,000 sf. Correspondingly, vacancy rates have increased by 270 basis points year-over-year, reaching 12.7% at the end of the second quarter. Additionally, asking rates have fallen in the first half of the year, down only $0.01 overall after a $0.07 increase in 2020. Despite negative net absorption and decreasing pricing, Sacramento's office fundamentals remain consistent with historical averages.

Looking long-term, the office market remains well-positioned to weather the impact of COVID-19. With tenant demand starting to increase, the office sector could pivot back towards expansion as early as the end of 2021.

Industrial

The industrial market remains the best positioned commercial sector to weather the economic crisis. With consumer shopping increasingly

Figure 1
Office Market Activity 2008 – YTD 2021

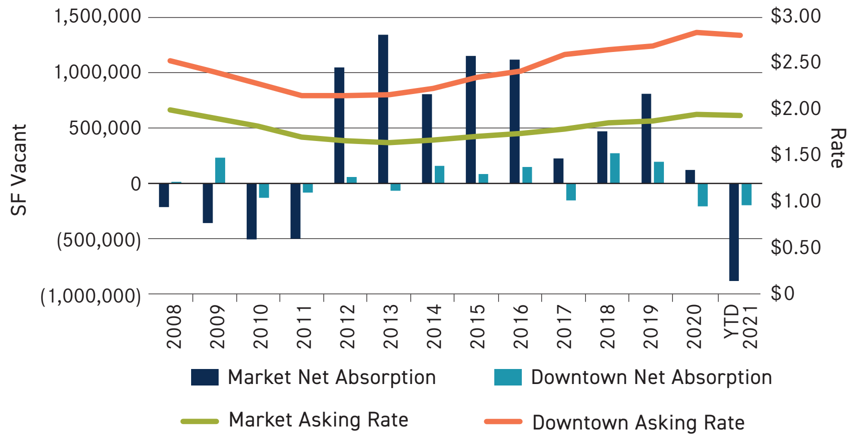
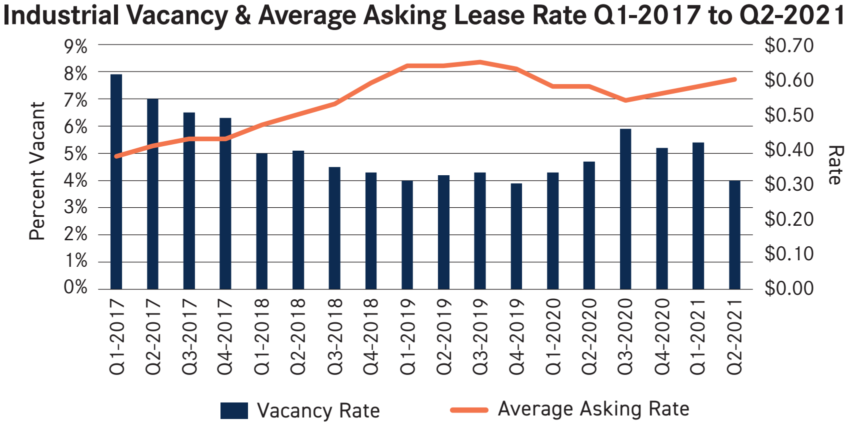


Figure 2
Industrial Vacancy & Average Asking Lease Rate Q1-2017 to Q2-2021



shifting towards an online model, the need for large, high clear-height distribution buildings is increasing. Net absorption totaled 2.4 million sf for the first half of the year, primarily due to the completion of large construction projects. The vacancy rate fell by 70 basis points year-over-year and has been at or below full occupancy threshold since the end of 2017. Construction remains a major market component, with 12 million sf of new buildings either proposed or under construction.

Market activity more than makes up for the less than stellar 2020 and industrial product is the least affected commercial sector thus far. Fundamentals will likely remain strong as Metro Air Park continues to come online and the various other construction projects complete and are quickly occupied.

Retail

The pandemic has had the largest effect on the retail sector. Repeated mandatory shutdowns of many retail establishments resulted in layoffs, economic hardship and business closures. As a result, net absorption for the first half of 2021 totaled negative 194,000 sf. Vacancy was on the rise as well, increasing by 70 bps year-over-year. Occupiers that have endured the pandemic thus far will likely survive, but growth is expected to be organic and slow, with the Delta Variant and low vaccine rates further slowing growth. Retailers still face a number of short-term and long-term challenges including increased competition from online shopping, difficulties in finding adequate staff and new establishments leveraging low asking rates to reduce start-up costs.

Repeated mandatory shutdowns of many retail establishments resulted in layoffs, economic hardship and business closures.

REAL ESTATE

Figure 3
Industrial Gross Absorption & Construction 2006 – YTD 2021

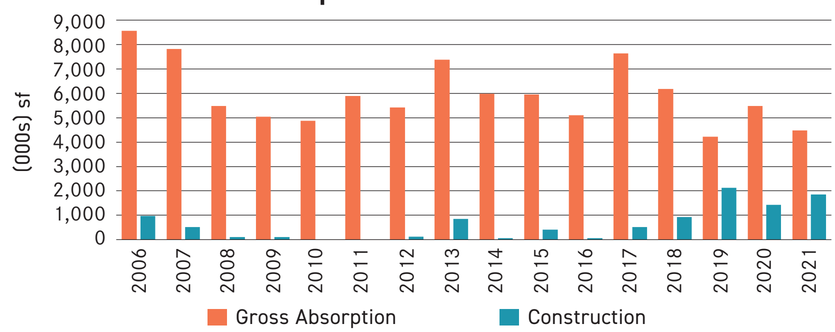
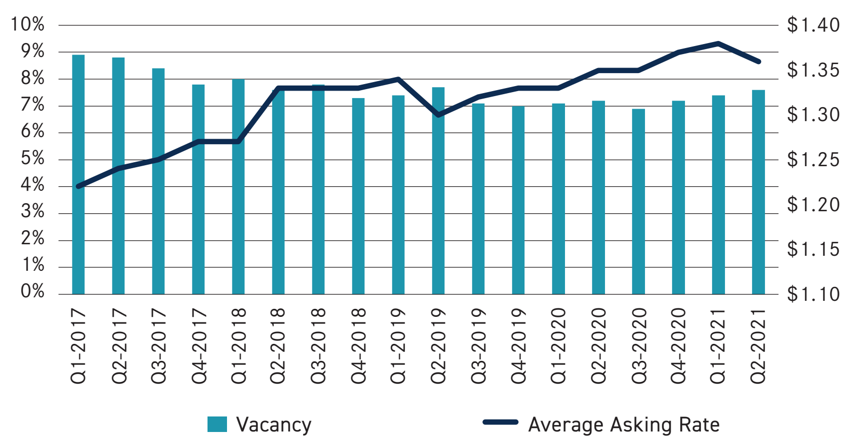


Figure 4
Retail Vacancy & Average Asking Lease Rate Q1-2017 to Q2-2021



Real Estate

PROPERTY VALUE GROWTH REMAINS STRONG WITH NO CHANGE EXPECTED IN THE NEAR-TERM.

Single Family

The single-family housing market enjoyed accelerated growth in the first half of the year. The median sale price reached $480,000, an increase of 12.9% year-over-year, the third consecutive quarter of at least 10.0%. Unsurprisingly, market transactions are increasing, with only 29.3% of deals occurring below $400,000 compared to 51.4% in 2018. Housing sales in excess of $800,000 have accounted for 10.5% of all deals. This is in contrast to activity from prior years, which saw sales activity concentrated in the $200,000 to $600,000 range.

The increase in demand is diversified, with people from the Bay Area looking to relocate to the region, and investors hoping to leverage low interest rates and insufficient housing supply. Demand is expected to continue to outpace supply through the balance of the year generating significant upward pressure on pricing.

Figure 5
Median Home Prices & Cost Per Square Foot 2015 - 2020

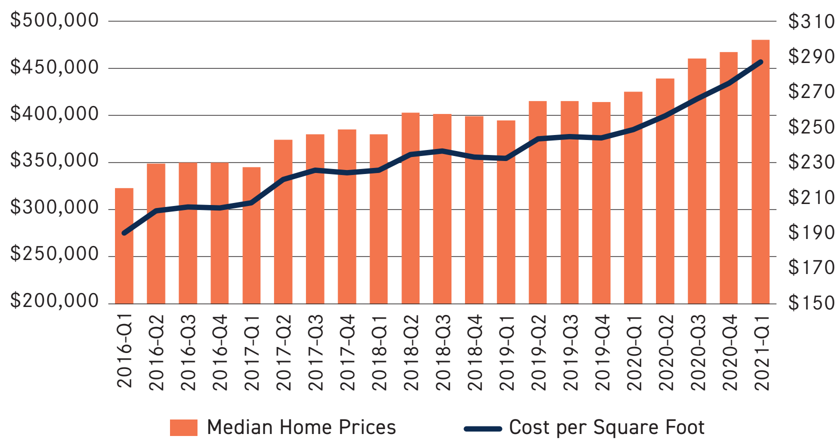
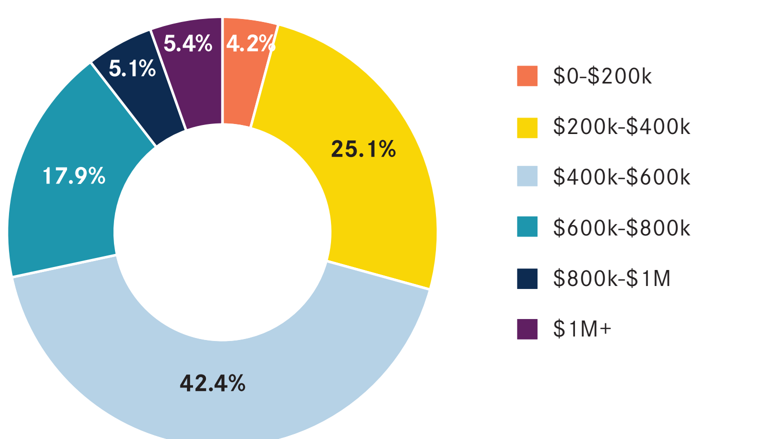
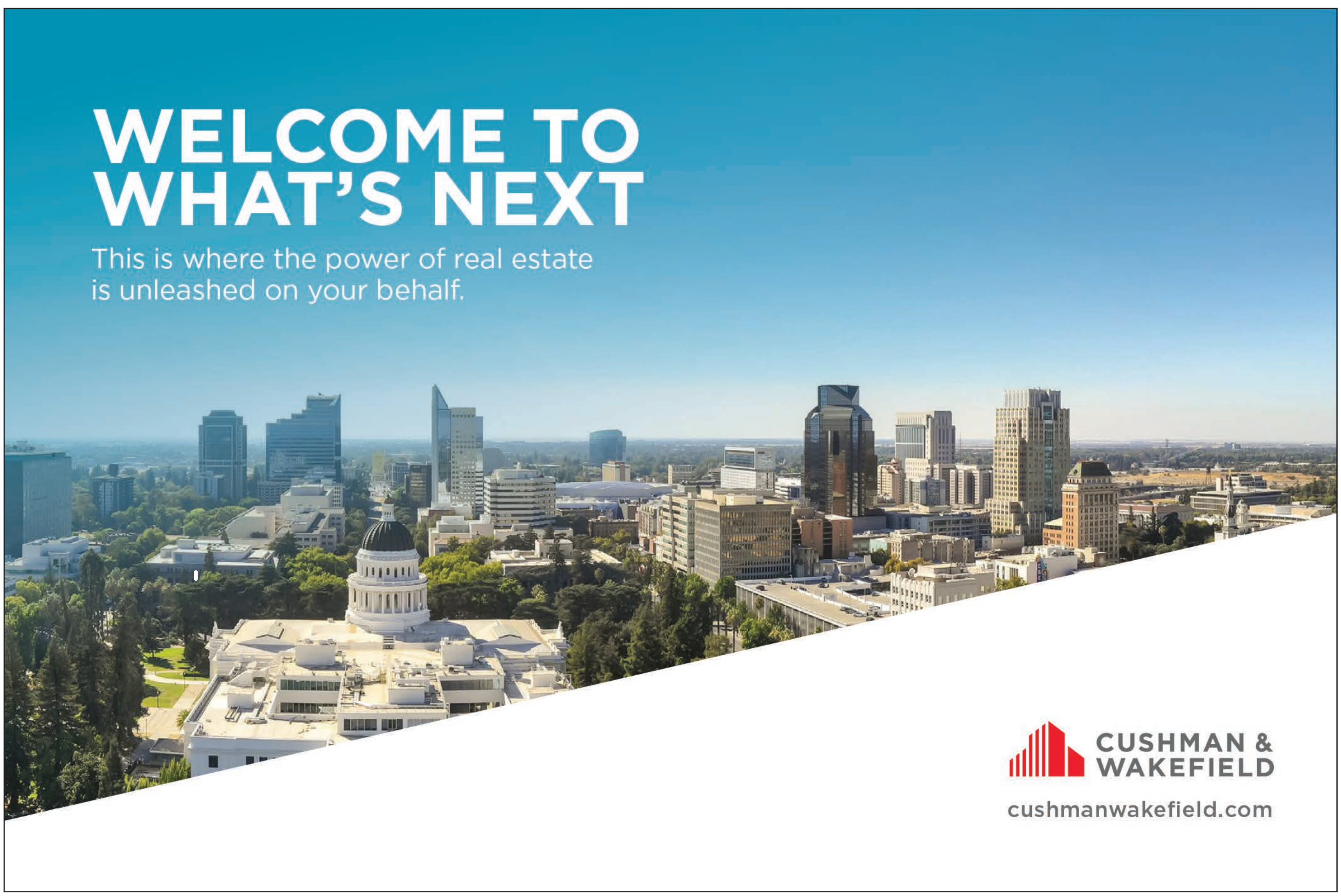


Figure 6
Home Sales by Price: YTD 2021



*2021 data includes January 1 through May 31

Note: The number total is slightly over due to rounding.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MID-YEAR UPDATE

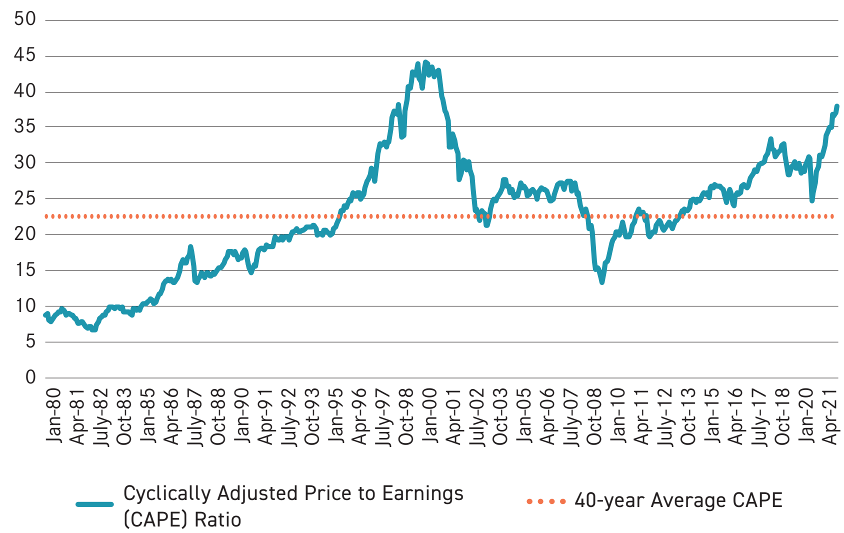
Capital Markets & Banking *Forecast*

EQUITY PRICES WITH MARKET VALUATIONS NEAR ALL-TIME PEAKS

Higher and higher seems to be the theme for financial markets these days, with everything from home prices to crypto currencies feeling the rush of the unprecedented fiscal and monetary stimulus brought about by the pandemic situation. Equity prices have been at the front seat of this roller coaster, with market valuations near all-time peaks relative to the actual earnings power of the companies they represent. This is demonstrated by looking at Robert Shiller's cyclically adjusted price to earnings (CAPE) ratio. The CAPE compares today's S&P 500 equity valuations to the average earnings of those companies in the index over the preceding 10 years.

As suggested at the beginning of the year, the SBR team still forecasts year-end equity returns to be in the mid-teens, with much of the upside valuations already realized by the economic re-opening that has already taken place. As the adage goes, one can typically expect an average annual equity return of 10%, but the road to that return can be quite bumpy.

Figure 1
How Many Times Over Are Earnings Worth Today?



EXPECT AN AVERAGE ANNUAL EQUITY RETURN OF 10%

Figure 2
Reversion to the Mean for Equity Returns?

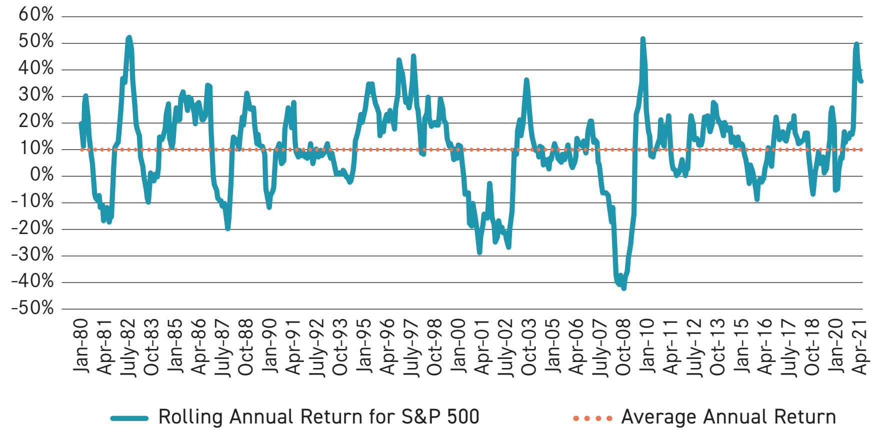
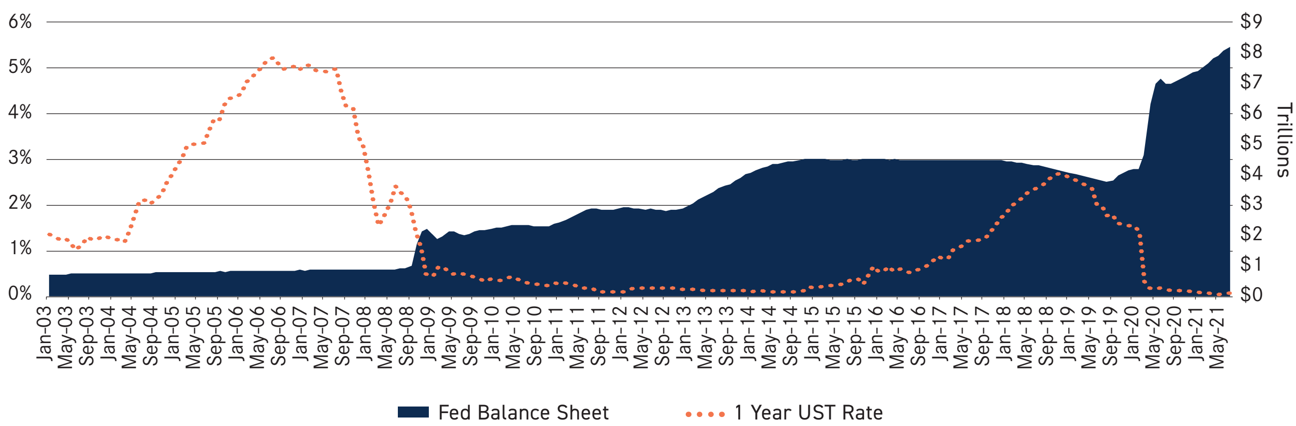


Figure 3
Cheap Money Does an Economy Good?



The lofty equity valuations seen over the course of the year are undoubtedly impacted by the tremendous amount of liquidity pumped into the financial system by the U.S. Government and the Federal Reserve. These actions were, of course, taken to try and maintain a stable financial system through the course of the pandemic. However, the lasting impact and ultimate return to equilibrium will be extremely hard for anyone, including the Fed to guide without feeling some turbulence along the way. The SBR team does expect the Fed to lay out a plan for tapering its asset purchases before year-end with those purchases stopping toward the latter part of 2022 or at the beginning of 2023 at the latest. The earliest we expect to see the Fed starting to raise rates is early 2023; however, the Fed may have to act sooner if inflation continues to run hotter and not be so "transitory" as the Fed has suggested time and time again.

Regional Bank and Credit Union Performance

The massive financial and monetary stimulus discussed so far has had a significant impact on the region's banks and credit unions. All financial institutions (FI) have seen their balance sheets grow at a rapid pace; however, this rapid growth has come at a time when interest rates remain near rock bottom, which has put downward pressure on net interest margins (interest income less interest expense) and the FIs' ability to generate earnings. Similar to most other institutions across the country, local banks and credit unions have been able to "reverse" provision expense (or reduce the amount of money set aside for loan losses) in the first half of 2021, which has helped to boost net income.

Figure 4
3-Year Quarterly Loan, Deposit and Net Income Trends for Regional Banks

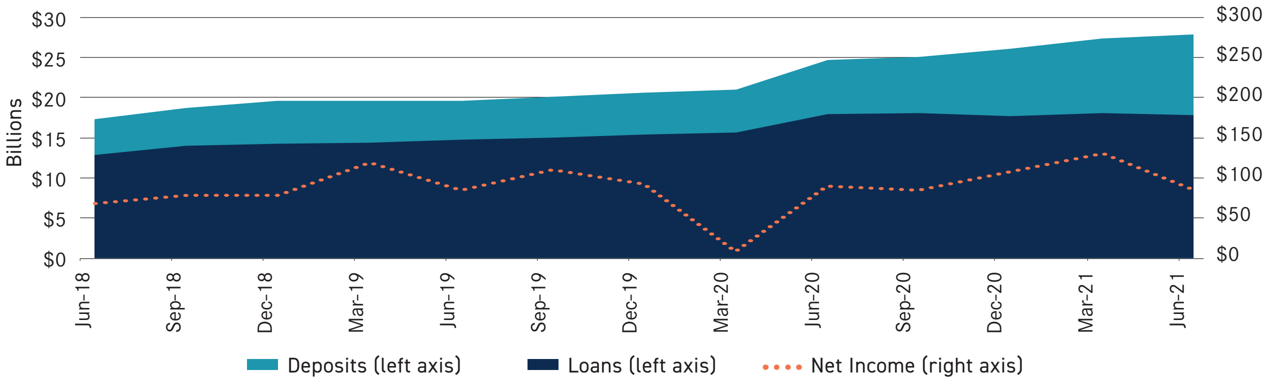
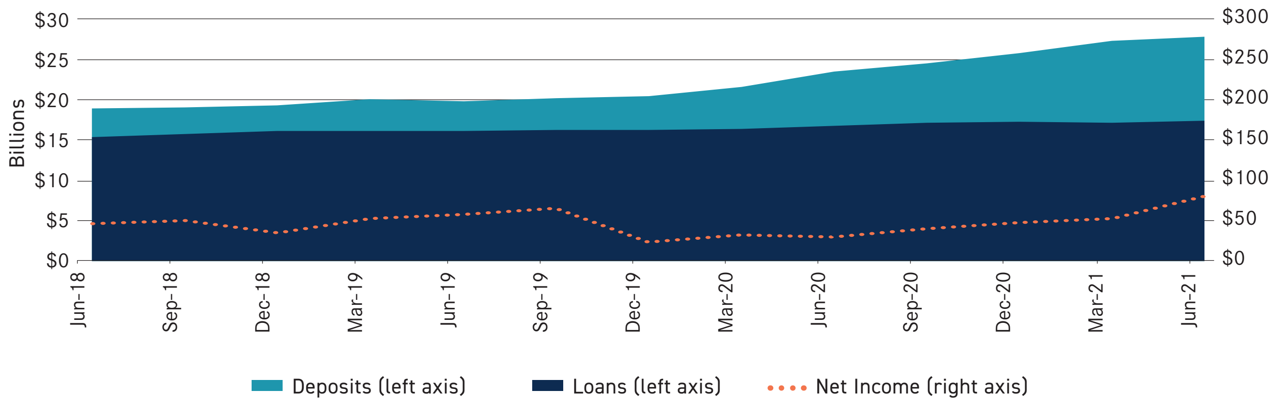


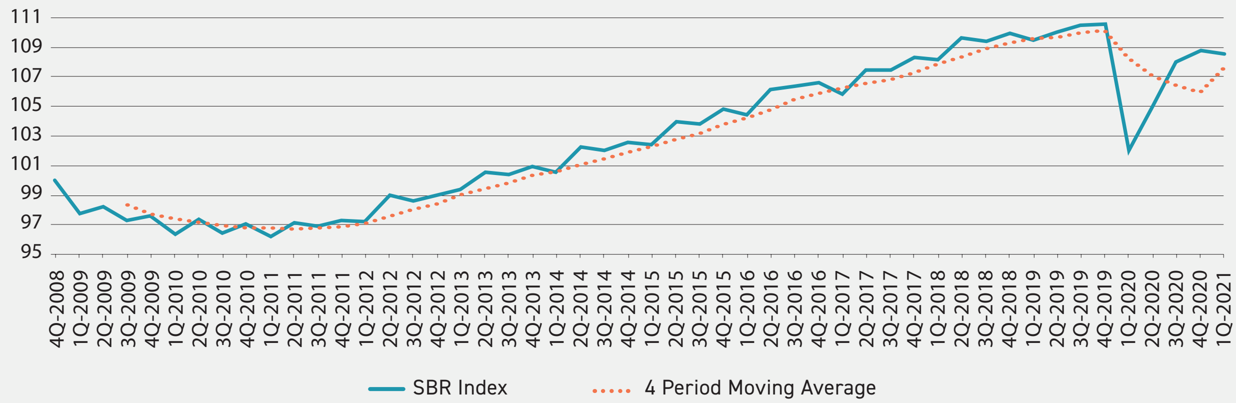
Figure 5
3-Year Quarterly Loan, Deposit and Net Income Trends for Credit Unions



Sacramento Business Review Financial Conditions Index

Our proprietary Financial Conditions Index built to monitor the pace of growth for the regional economy shows a sharp rebound in economic activity, similar to state and local trends. However, the tick downward as of the first quarter of 2021 suggests we are not out of the woods yet.

... the tick downward as of the first quarter of 2021 suggests we are not out of the woods yet.



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Human Capital Trends

The COVID-19 pandemic has put the importance of a fully staffed and trained workforce in the spotlight, precisely because very few organizations can say this about their workforce at the moment. Just like any other resource, the human resource needs to be maintained and developed to keep its value. Companies often ignore, or acknowledge in the periphery, that money and time need to be spent on the humans that work to create products and provide services to customers. Surely, these intangibles cannot be written on a balance sheet, but they have downstream effects on a company's business via the employee experience. A majority of employees say that their companies are failing them in finding fulfillment, growth, and joy at work. Employee engagement surveys are resource wasters and will kill morale if the findings are not addressed. Employees are not worried about layoffs as much anymore, as they are leaving organizations that don't fit with their life plans.

ORGANIZATIONS ARE PREPARING FOR LONGER TERM WORK FROM HOME ARRANGEMENTS.

EMPLOYEES FEEL UNFULFILLED AND ENGAGEMENT IS DOWN.

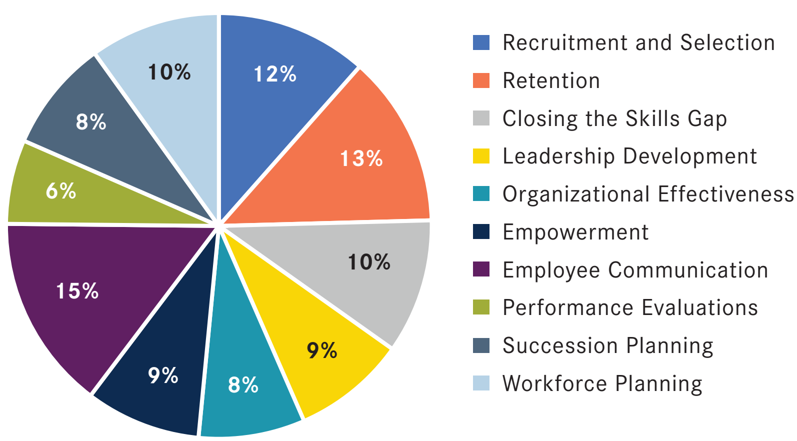
The skills gap is now a skills abyss, and organizations would greatly benefit from a more strategic and comprehensive approach to their talent management.

As we have reported over the past several years, the current skills gap exists. In fact, it has turned into a skills abyss during COVID-19, and opportunities for upskilling and reskilling need to materialize. This is magnified by the lack of needed job candidates for open positions. It is high time for companies to more strategically identify and plan for competencies and skills needed and create internal training programs or partnerships to address these voids. Most employees say they need to learn fresh skills immediately to continue in their current roles. While vocational schools and colleges prepare employees for entry-level jobs, they don't prepare employees for all the job movements and promotions that may occur later on the career ladder.

Organizations are settling into pandemic recovery and are starting to move from panic mode into planning mode. We see that organizations need to improve in areas of organizational change and communication as those immediately impact organizational effectiveness. Given the uncertainty with the upcoming winter months, organizations are preparing for longer term Work from Home (WFH) arrangements – partly because that is now what the employees themselves prefer and the productivity associated with these arrangements remains high.

We also asked respondents about their planned measures to assess success of the workforce and the human capital initiatives predicted to impact business performance in Q3/Q4. Looking to close out this year, organizations reported that their highest priorities are closing the skills gap, retention, and recruitment and selection – all efforts to make sure companies are fully and competently staffed. Diversity and inclusion efforts are still important and companies are now approaching this by bringing a Diversity, Inclusion, Equity, and Belonging (DIEB) lens to many business efforts, as well as hiring for DIEB specific roles. Regarding human capital initiatives with the greatest expected business impact, not surprisingly in these social distanced and working-from-home times, employee communication is still listed as the most important (Figure 1).

Figure 1
Human Capital Activities with Greatest Impact on Business Performance for Q3/Q4



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