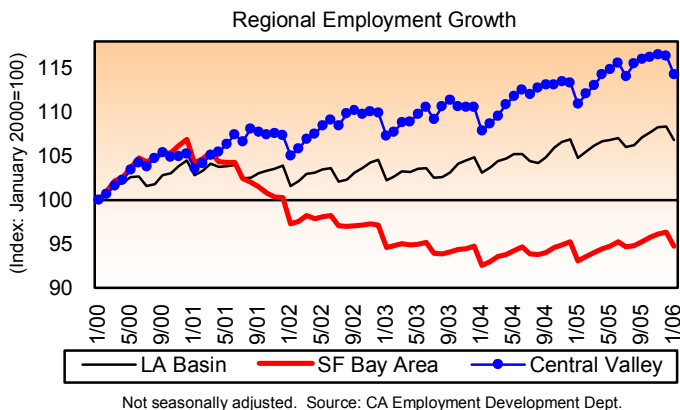


## Regional Focus: The Central Valley Economy Is Blossoming

Spring is a great time to visit the Central Valley. Winter rains have turned fields into a lush green carpet and orchards are in bloom. This year, visitors to the region will also notice—among wild poppies and lupines—numerous signs advertising new home sales and store openings dotting the landscape. Yes, the economy of the Central Valley is also blossoming.

### Job growth has been strong since 2000.

The Valley has been the fastest growing region in California since 2001. The following chart shows the cumulative changes in nonfarm payroll jobs since the beginning of 2000 for the San Francisco Bay Area (10 counties), the Los Angeles Basin (5 counties), and the Central Valley (8 counties<sup>1</sup>). If, for example, a region is at 110 on the vertical scale, it has 10% more jobs than in January 2000.

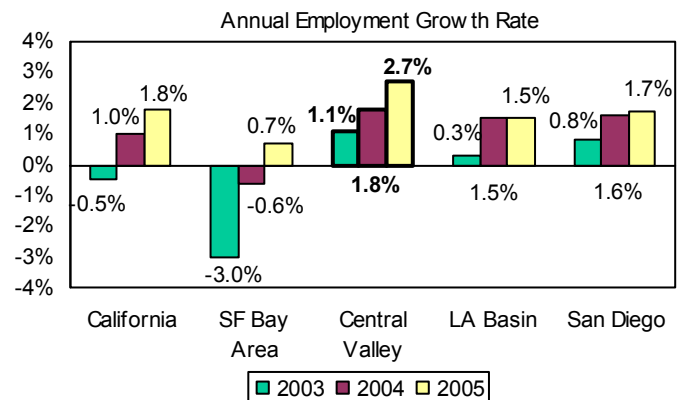


All three regions had almost identical job growth during 2000. But the recession in 2001 dramatically changed the course of these regions. The San Francisco Bay Area was the only area affected by the recession in 2001, where large-scale job loss occurred. The level of payroll employment held steady in the Los Angeles Basin. However, the Central Valley continued to experience strong employment growth. As of January 2006, the region had about 14% more jobs than six years earlier.

During 2005, official employment data showed that the region's employment growth—which had been consistently faster than that of the state since 2001—was approaching the statewide average. Based on this fact, some economists believed that the Central Valley was cooling down. This view, however, was generally inconsistent with other signs of continued economic expansion in the Valley. It was a mystery.

<sup>1</sup> These eight counties include San Joaquin, Stanislaus, Merced, Madera, Fresno, Tulare, Kings, and Kern Counties.

Fortunately, this mystery was solved recently. Along with the January 2006 job report, the State of California released revised 2004 and 2005 industry employment data, reflecting the new March 2005 benchmark. Based on the new data, growth of the Central Valley region actually accelerated last year.



The chart above compares annual percentage changes of nonfarm payroll employment among regions in the state. Payroll employment increased 1.8% statewide in 2005, faster than the national average of 1.5%. The Valley saw its job growth (excluding the farm sector) accelerate to 2.7% in 2005 from 1.8% in 2004.

### More affordable housing attracted population and jobs.

So what is fueling growth in the Valley? There may be multiple factors, but the most obvious one is the region's housing boom. As the price of homes in the coastal regions became increasingly expensive, the Valley offered more affordable alternatives. Many families moved to the Valley so that they, too, could become homeowners.

The map at the end of this report was prepared by the California Department of Finance. Dark colored counties are where population growth between 2004 and 2005 was above the statewide average of 1.37%. All of these high population growth counties are inland, including the entire Central Valley and the Inland Empire area in Southern California.

While the strong relationship between population growth and employment growth is indisputable, economic expansion triggered by a rising population may go through three distinct phases:

**1. Building Phase:** Before people can relocate, homes must first be built. In early days of economic expansion, job growth tends to be concentrated in the housing sector.

Contribution of the building industry to recent growth in the Central Valley has been unmistakable. (See the following chart.) The construction sector had by far the largest gain over the year, up 10,700 jobs since January 2005. On a percentage basis, the sector also had the largest gain of 14.3%. Those construction jobs are well-paying jobs and provide a significant initial boost to the local economy.

Much of the Valley now seems to be moving into this phase. In the preceding chart, we can already see the government, leisure and hospitality, retail trade, and health care sectors adding a large number of jobs. These new opportunities are a welcome relief for a region that has long been dependent on the agricultural sector.

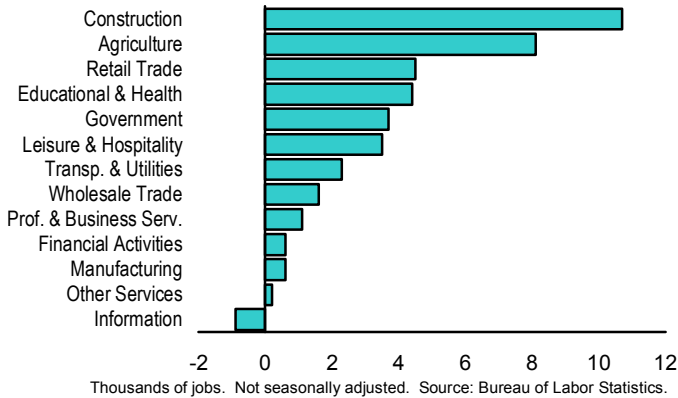
**3. Deepening Phase:** The settling-in phase can last for years, but as the density of population increases, the need for broader and perhaps more specialized services is also created. During this phase, specialty shops, gourmet and ethnic restaurants, and entertainment facilities begin to proliferate. Professionals, such as attorneys, tax accountants, medical specialists, and therapists, also recognize greater demand for their services and begin to practice.

As Valley home prices continue to rise, the affordability advantage the region originally had over coastal markets will start to wane. In fact, diminishing affordability in the local housing market is becoming a serious issue for many Valley residents. The pace of population migration will slow eventually and construction activities will also decrease.

Still, as the economic base of the region becomes broader and more diverse, there is a good chance that the current economic bloom will last considerably longer than the housing boom.

*Keitaro Matsuda, Senior Economist  
Union Bank of California, NA  
San Francisco, California*

Central Valley Job Growth Jan. 2005 – 06



**2. Settling-in Phase:** As new residents settle in, their presence immediately creates the need for certain services, including police and fire protection, public education, medical care, and food services, just to name a few. During this phase, the local economic base becomes broader and additional employment opportunities benefit both locals and newcomers.

Economic Forecast – March 2006

UNITED STATES	2004	2005	2006	2007
Real GDP Growth (%)	4.2	3.5	3.6	3.2
Unemployment Rate (%)	5.5	5.1	4.8	4.8
Consumer Prices Change (%)	2.7	3.4	2.8	2.2
Federal Funds Rate (%)	1.3	3.2	4.7	4.7
<b>CALIFORNIA</b>				
Real GSP Growth (%)	5.6	4.0	4.0	3.3
Nonfarm Employment Growth (%)	1.0	1.8	1.7	1.3
Personal Income Growth (%)	6.6	5.7	5.5	5.7

**Bold: Actual.** GSP stands for Gross State Product.

The information in this report is based on data available as of March 6, 2006, and has been obtained from sources believed to be reliable, but its accuracy, completeness, and interpretation are not guaranteed. We do not think it should necessarily be relied on as a sole source of information and opinion.

July 1, 2004 to July 1, 2005 Population Estimates  
Percent Change



Map Prepared by the California Department of Finance, Demographic Research Unit. March 2006.

The complete set of related maps is available at <http://www.dof.ca.gov/HTML/DEMOGRAP/Estimates/Maps/EstimateMapsJuly2005.pdf>.