

From the Sacramento Business Journal:

<https://www.bizjournals.com/sacramento/news/2021/10/06/business-review-midyear-2021.html>

Economic rebound masks region's continued struggle to attract jobs, report finds

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The Sacramento region's economy rebounded sharply in the first half of 2021, according to a new economic forecast. However, as the Covid-19-era factors that helped keep the economy afloat fade away, some of Sacramento's longer-term problems may have gotten worse.

"I think for us, the one thing that stood out is that we've been a huge winner this past year," said Sanjay Varshney, chief economist of the Sacramento Business Review. Last week, the Business Review released its annual midyear forecast.

Varshney is also a finance professor at California State University Sacramento, and founder and principal at Goldenstone Wealth Management in El Dorado Hills.

In the first half of 2021, a flock of buyers from the Bay Area led to an explosion in home sales. And in commercial real estate,



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Sanjay Varshney, chief economist of the Sacramento Business Review.

stimulus, relief programs and Federal Reserve support helped avoid huge spikes in vacancy, according to the report.

But, as the economy recovers, those factors could go away.

“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,” Varshney wrote.

The biggest standout from the recovery thus far was the housing market, he said. The pandemic saw a huge influx of families from the Bay Area buying houses in Sacramento.

In 2020, 14,706 households moved to the Sacramento region from the San Francisco metro area, 5,110 moved from the San Jose metro area and 4,787 moved from the Los Angeles metro area, according to the report.

In the first half of 2021, the median home price rose 12.9% year-over-year, to \$480,000. Over the past five years, the median home price has increased 47.1%.

“The question is, 'hey, is this sustainable?'" Varshney said.

He said that while worker earnings are beginning to recover from 2020, with a 2.5% increase in hourly earnings over the last year and a 3.5% increase in average weekly hours worked, they haven't nearly kept pace with rising housing prices.

“The people from the Bay Area are the main driver there,” Varshney said. “We don't have the income in Sacramento to afford those kinds of homes.”

As more Bay Area employers call their workers back to the office, Varshney said the housing market is likely to slow back down. But he doesn't think prices will suddenly collapse.

“My prediction is it will be more gradual,” Varshney said. “We have always been a very attractive population center.”

What Sacramento hasn't been able to do, he said, is turn into a major job center.

The job recovery has been good so far. The unemployment rate has declined from 14.6% in April 2020 to 6.7%. From May 2020 to 2021, Sacramento added back nearly a million jobs, with hospitality and leisure jobs leading the recovery and an increase in construction jobs that hasn't been seen since the Great Recession. But Varshney said a lot of the jobs that have come back are minimum wage jobs, and even as the pandemic upended the economy, some trends that have plagued Sacramento for years continued.

"Sacramento simply has not measured up as a major attractive employment center," he said.

The region has continued to lose high-paying jobs in the information sector, which includes telecommunications, publishing and technology. Over the last 10 years, the region has lost 40% of its information jobs. It was the only sector that didn't see job growth following the Great Recession.

"Many companies have simply passed by us on the 80 corridor and gone to Reno," Varshney said. There, companies enjoy no state income tax or state corporate tax, an easy availability of land and a friendlier business climate than they can find in California.

"They are much more affordable than California, both from a living perspective and from a business perspective," Varshney said.

Austin, Texas, and Phoenix have also found the same winning factors that have led to growing tech sectors there, while, according to the 2020 Census, [California declined in population](#). As Sacramento recovers from the pandemic, Varshney wrote in the report that these issues, which the region has been trying to solve for years, are still underlying factors in the economy.

"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," he wrote.

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