They see...

Local experts tell us what to expect in their industries in the year ahead

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Published 12:00 am PST Sunday, January 6, 2008

REGIONAL ECONOMY

Forecaster: David Lyons, labor market consultant at the state Employment Development Department. He has been analyzing the Sacramento market for EDD since August 1994.

The economic slowdown will translate into a weak labor market in the Sacramento region, with overall job losses outweighing those sectors still hiring. The regional economy is in for a very slow start to the year.

The region generated a net gain in jobs in 2007, but the growth rate slowed to a crawl by year's end. As of November, the region had added just 6,600 net jobs in the past 12 months – a gain of 0.7 percent. It marked the first time the annual growth rate was below 1 percent since 1993.

And 2008 is looking bleaker. It's very likely we're going to be in negative territory.

Unemployment in November was 5.6 percent, a full percentage point higher than the year before.

In 2008, construction payrolls will probably continue to shrink. The financial sector will likely stabilize but won't grow. And state government, a major source of new jobs in 2007, probably will slow down as the state wrestles with a projected deficit of as much as $14 billion.

Given the state budget situation, we can't count on state government to be a big growth area. Many departments will likely rely on attrition to slim down or curb their growth.

The area's likely growth areas will be education, health and some of the professional services industries, which includes such wide-ranging categories as temp services, engineering and the like.

RESIDENTIAL REAL ESTATE

Forecaster: Dean Wehrli, vice president of the Sullivan Group Real Estate Advisors in Elk Grove. Wehrli has analyzed economic, housing and demographic trends for home builders for six years in Sacramento, the Bay Area, the Central Valley and northern Nevada.

Foreclosures soar; buyers wait; credit tightens. The picture for Sacramento's residential market in 2008 doesn't look good.

But all bad? Builders will sell around 7,500 homes next year, and owning a home of your own is still built into the American fabric.

Confidence is key. Just as the hot market was fueled by absurd assumptions and false expectations, this frigid market is clamped down in part by fear.

Mainly, though, prices are still too high for potential buyers. Consequently, prices will continue to regress in the second half of this decade to the place they should have been had we not been so frenzied in the first place.

If we are waiting for equilibrium – when buyers hold as much "power" as sellers – then we will still be waiting by the end of 2008. Builders will hunker down, and lenders will try to figure how bad things are, while buyers – if they can get a loan – will rejoice.

COMMERCIAL REAL ESTATE

Forecaster: Don Little, senior vice president of Opus West Corp. in Northern California. He has guided retail developments such as Broadstone Plaza in Folsom and Sacramento Gateway in Natomas, and office projects such as the 230,000-square-foot Rocklin Corporate Center.

The commercial real estate industry is anticipating a continued slowdown into 2008.

Debt market risk and pricing uncertainty will affect investment levels and new construction. Underwriting will be more conservative, with less reliance on future rent growth.

Class A properties will do the best in terms of holding value, new construction starts, occupancy and investor interest, as these assets will still be viewed with long-term value in mind.

Lower-quality properties will have difficulty securing capital for new tenant occupancy costs, refinancing and sales. Land prices will soften from 2007.

In Sacramento, we do not foresee a retreat from development, just a cooling from robust levels.

Corporate earnings are solid. Vacancy rates should trend lower by the end of 2008. The last few years have essentially pulled normal annual demand forward from future years, so a falloff is not surprising.

The region's diverse economy, skilled labor pool, West Coast synergy and quality of life bode well for a stable Sacramento in 2008. Interest rates will remain low with more focus on credit. The key indicator to watch will be employment growth.

FINANCIAL INSTITUTIONS

Forecaster: Carol Hauck, president and chief executive officer of First U.S. Community Credit Union. She has been a member of the institution's senior executive team for 20 years.

Everyone is wondering how long the real estate slowdown will last. A number of institutions in my industry are unable to accurately estimate the impact of losses this year.

They hold option adjustable-rate mortgages and other creative financing packages that will reset, and the borrowers will not be able to make payments under the new terms.

Some subprime lenders will face foreclosures as forfeitures and losses mount, and business dries up due to a lack of capital for new financing.

Meanwhile, housing values continue to fall, making financing a challenge for the institutions that remain.

Refinancing to pay off other debt has stopped for many who have no equity to borrow. People who financed at the top of the market may owe more than their home is currently worth.

All lenders should be doing whatever they can to help their account holders – owners, in the case of credit unions – get through this period. Traditional solutions may not be enough, and new ideas are needed to help borrowers while also protecting the viability of the institution.

RETAIL AUTOMOTIVE

Forecaster: Rick Niello, president of The Niello Co. of Sacramento. The company operates a dozen auto dealerships in Northern California known for carrying high-end, foreign-made cars.

The overall 2008 car market will not be as robust as 2007 or 2006, and ... that's primarily a result of the market being impacted for all the obvious reasons – the housing slump and tight credit making it very tough on many consumers. And ... the cost of fuel cannot be overlooked as far as impacting the market.

Two things are going to happen in the car business: The cost of gas will progressively increase over the next five years, and cars will get smaller.

The large, inefficient cars in the domestic segment, big pickups and SUVs, are going to be less attractive, because the public is going to want smaller, more fuel-efficient cars. The domestics (automakers) know this, and they're going to produce smaller, more fuel-efficient cars, and that's what they should do.

It's like any other business. The people who recognize the changes and conform to the new market and adapt will do well. Those who don't will struggle.

HEALTH CARE

Forecaster: Marian Mulkey, senior program officer for the California HealthCare Foundation, a nonprofit research group. For more than eight years, she has analyzed trends in the health insurance market and health policy areas.

Health care costs will continue to rise and exceed the overall inflation rate by a significant margin. Employers will continue to struggle to find affordable options, and some will decide to opt out of offering coverage.

Those that do continue to offer benefits will offer benefits that are a little more restrictive or require their employees to contribute more.

Employers are going to face difficult decisions. Is health insurance valued enough to pay the costs? The efforts to invest more into prevention and wellness to try to get employees better engaged in their health have some marginal benefits in terms of moderating – but not reducing – health care costs.

One of the unique features driving health care rates in the next few years is the pressure for seismic retrofitting in California. Hospitals will have to put up a lot of capital to rebuild or retrofit facilities. I would expect the nursing shortage and the strikes that have been affecting hospital care in the past year to continue.

VENTURE CAPITAL

Forecaster: Dan Lankford, managing director of Wavepoint Ventures, an early stage investment company with offices in El Dorado Hills and Menlo Park. Prior to his career in venture capital, Lankford was CEO of an energy startup company that went public and a senior executive with AT&T and Bell Labs.

Most economists agree that the U.S. economy will slow in 2008. The Sacramento region will likely feel a more pronounced tapering off, given the boom of the last several years and the large role that real estate plays in the local economy.

For startups, this means less money available from angel investors and fewer entrepreneurs willing to leave stable jobs to start a new company. This will likely result in a slowing of new investment opportunities for venture capital funds.

The slowing economy will also reduce the number of early stage companies acquired by larger firms, as they tend to conserve cash during economic downturns. Despite the slowdown, we would expect to see a couple of acquisitions of local venture-backed firms over the next year because several are at an attractive stage.

Since the tech bubble burst, mergers and acquisitions have been the primary form of exit for investors in startups, and we would expect that to continue for the next several years. Having said that, there seems to be a slow recovery in the IPO market, and companies with several quarters of strong performance in attractive sectors will increasingly see this as a viable alternative.

It would not surprise me to see at least one local firm take advantage this year of the London Stock Exchange Alternative Investment Market, which allows smaller companies to issue shares under a more flexible regulatory system than offered by the Nasdaq Stock Market.

Look for continued growth in clean tech (energy and environmental technologies), particularly important to the Sacramento area given the wealth of resources in the region such as UC Davis and SARTA-CleanStart.

Solar technology, in particular, will continue to be hot, and we would expect the cost to decline in the next year as new poly-silicon capacity (the raw material for solar cells) comes on line.

TECHNOLOGY

Forecaster: Rekhi Singh, chairman of R Systems International Ltd., an El Dorado Hills company that specializes in contract software development. It has more than 1,000 workers worldwide and its clients include Fortune 100 companies.

Computer system design and scientific research and development have been critical to job growth in the Sacramento region for the last few years.

A decline in job growth over the last few quarters in the computer/software segment has been balanced by slight growth in areas such as alternative energy and biotechnology.

We anticipate that the watch-and-wait attitude that has characterized decision-making in the industry will lead to a temporary freeze in job growth in the software area. This, however, will be offset by growth in hiring in the areas I have cited. This is likely to lead to flat growth lines, especially in the first two quarters of 2008.

The situation will become less murky once the dust settles in the subprime lending market.

Flat or marginal job growth in the overall economy would help chase away the specter of a recession and improve the overall confidence of information technology executives. If this happens, we could see an improvement in the local tech picture.

The Sacramento region continues to be attractive because of its proximity to Silicon Valley, the leader in new job growth in the software industry, significant activity in the renewable energy segment, and the presence of so many government offices.

GROCERY

Forecaster: Bob Spengler, recently retired as president and chief operating officer of Save Mart Supermarkets. The privately held Modesto-based chain operates 248 grocery stores in Northern California and northern Nevada.

With the accelerated foreclosure rate, record oil prices and upcoming presidential elections, I expect customer visits to increase as people eat at home more often but the basket size to decrease as they pare down purchases.

This trend will place greater demands on us to deliver simple meal solutions in the form of quick recipes and ready-to-go meals that will fit into any budget.

Consumers will continue their focus on natural and organic foods. In part, this is driven by the increased visibility of a number of food recalls, causing consumer confidence to wane.

I have been in the food business my whole life, and my sincere belief is the quality of our food supply is as good or even better than it was 50 years ago. The difference now is we have more knowledge of food-borne diseases and far better practices for detecting them. The majority of food-borne illness is preventable, so consumers need to remain vigilant in their food preparation practices.

RESTAURANTS

Forecaster: Former Sacramento King Chris Webber owns a basketball-inspired restaurant in Natomas, Center Court with C-Webb, that he opened in 2006.

This past year was a challenging time for many of us in the restaurant industry. A significant amount of people, either by choice or necessity, are watching closely how they spend their money.

Even as times improve, consumers remain cautious about how they spend their leisure dollars.

For 2008, we are poised to accept an increased responsibility in enhancing each customer's experience. As a business leader, I know that I cannot assume that something will work in the future merely because it worked in the past. We can't blame fluctuating sales solely on the housing market or economy. The bottom line is people work hard, earn more and deserve more.

We must continue to be innovative in how we promote our restaurant and bring new customers through the doors while improving our existing relationships. We have to prove to our guests they are getting the best for their dollars – the best service, food and atmosphere.

Our vendors will need to prove to us that we are getting the best products at a solid value so that we can enhance the customers' dining experience and help customers stretch their dollars.

BIOTECHNOLOGY

Forecaster: Eric Rey, president and CEO of Davis-based Arcadia Biosciences, which is developing genetically modified food crops that grow with less fertilizer and water than current varieties. He has more than two decades of experience in the agricultural biotechnology field, including 17 years with Davis-based industry pioneer Calgene.

I'm hugely optimistic because environmental issues are getting much more attention than they did even a year ago. I think change happens when the public at large becomes more aware.

I'm doubly excited because that's the space we're in, and I think there are great opportunities. For example, our business with the nitrogen-use-efficient plants. Nitrogen fertilizer is a huge source of greenhouse gases and water pollution, and I think we can make a difference.

There are debates that go on about whether it's OK to use biotechnology to address one problem or another. But a question about the appropriateness of a particular technology like ours isn't just about what's happening in a crop or on a field; it's about what's happening on a global scale, and it's about taking a set of tools and using those tools as part of making intelligent choices.

If somebody wants to have a debate on whether to deploy our technology, my question is: Tell me how you're going to deal with the global warming issue, tell me how you're going to deal with the water pollution issue.

AGRIBUSINESS

Forecaster: Doug Youngdahl, chief executive officer of Sacramento's Blue Diamond Growers. A food-industry executive since 1985, he has headed the world's largest tree-nut processor for seven years.

The current situation in agriculture has been the best of times right across the board for most commodities. The weak dollar has been very advantageous for American agriculture internationally, and the ethanol boom clearly has raised prices for many crops.

If there's any concern, it's the rapid increase in the cost of operations. Obviously, petroleum is the big one, and fertilizers are very high. So there are some underlying signs of inflation that may well squeeze margins. If inflation causes a reallocation of the way consumer dollars are spent and it starts to erode demand, then obviously supplies can start to accumulate and prices soften. That's a concern.

Now, however, it's clearly the best of times. In 2007, we've had another all-time record almond crop in California of 1.4 billion pounds. We've also set shipment records each month since August, so there's strong global demand. Consumer demand for our Blue Diamond brands is up 22 percent from last year.

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