

EAST BAY SEPTEMBER 2004 MONTHLY ANALYSIS

Prepared by staff of the Economic Development Alliance for Business (EDAB)
Serving the East Bay, the Bright Side of the San Francisco Bay

The East Bay Monthly augments the East Bay Quarterly Forecast authored by economists at the UCLA Anderson Forecast. Monthly and quarterly reports may be viewed at www.edab.org. You are encouraged to reproduce or forward this report to other interested parties. We welcome your comments and suggestions.

GDP SUMMARY – Slowing but average GDP growth

The preliminary 2.8% 2nd quarter economic growth of goods and services produced in the U.S. was more sluggish than the 3% advanced estimate, and further indication of the “soft patch” described by Federal Reserve Chairman Alan Greenspan. This is consistent with August’s .3% slowdown in the growth of the Leading Economic Indicators, the third consecutive monthly decrease. Although the GDP is still within the normal growth range, this is a considerable drop off from the brisk 4.5% annual rate for the 1st quarter. While 2nd quarter personal consumption expenditures and private inventory investment continued to increase, they both slowed considerably compared to the 1st quarter. Those rate declines along with soaring energy prices and a problematic trade deficit were the major factors contributing to the decrease of the GDP growth rate. On the positive side, 2nd quarter business spending on equipment and software was up 13.6%. More information can be found at <http://bea.gov/bea/dn/home/gdp.htm> and <http://www.tcb-indicators.org/us/LatestReleases/>.

COST OF LIVING – Rising moderately but pushed by energy

During the first eight months of 2004, excluding food and energy, the national Consumer Price Index for All Urban Consumers (CPI-U) advanced at a 2.2 % seasonally adjusted annual rate (SAAR) after advancing 1.1% in all of 2003. Adding in the volatile food and energy items, the CPI-U rose at a 3.7% SAAR during the first eight months compared to an increase of 1.9% for all of 2003. The energy index, which increased 6.9% in 2003 and at a 21.9% SAAR in the first eight months of 2004, was the major cause of the difference between the two rates. Petroleum-based energy costs increased at a 35.9% annual rate and charges for energy services rose at an 8.7% annual rate. The food index increased at a 2.9% rate through August, following a 3.6% rise for all of 2003. Over the previous two months the August CPI-U for the San Francisco-Oakland-San Jose area fell .2% but it is 1.2% higher than August 2003.

EMPLOYMENT, UNEMPLOYMENT – East Bay unemployment falls lower than the nation or state

Because it struck late, according to the Bureau of Labor Statistics, Hurricane Charlie can’t be blamed for the lack of improvement in unemployment numbers from July to August. Using unadjusted numbers, national unemployment was 5.4% in both the payroll and household surveys. Nonfarm payroll employment did increase by a modest 144,000 with some service sector job gains. However, temporary help payrolls, sometimes used as an indicator of future hiring, remained relatively flat for the third straight month after adding 293,000 jobs from April 2003 to May 2004.

Since an August 2003 low, about 1.7 million have been added to the national nonfarm payroll. Over half that growth occurred this past March through May when job gains averaged nearly 300,000 per month. However, job growth slowed considerably in June and July (+96,000 and +73,000, as revised) before picking up somewhat in August.

In contrast to the nation, the East Bay picture seems to be improving. The East Bay’s unadjusted August unemployment rate was 5.2%, down from July’s revised estimate of 5.9%. State Employment Development Department figures show the East Bay’s August rate is also better than the state’s 5.7%.

EAST BAY SECTOR EMPLOYMENT – East Bay growth

According to the Employment Development Department, using data that is not seasonally adjusted, total East Bay employment improved by 4,700 nonfarm jobs since last August. The biggest gains were in Construction, Financial Activities, and Educational and Health Services. Seasonal gains are responsible

for some of the monthly change in Construction, but there is also more activity as indicated by the 3,600 additional jobs this August compared to August 2003. Boosted by an increase in accommodations and food services Leisure and Hospitality jobs also made a healthy monthly gain, but the yearly comparison is much more modest. The largest decline was in Government. The closure of the Alameda County Fair accounts for some of the monthly loss, but wide spread government budget cuts are probably reflected in the 2,500 jobs lost since last year. Information, a sector that includes telecommunications, continues a downward slide.

EDD East Bay Employment Changes by Sector (Not seasonally adjusted)

Industry	Month to Month			Year to Year		
	7/04	8/04	Change	8/03	8/04	Change
Total Jobs	1,022,800	1,022,300	-500	1,017,600	1,022,300	4,700
Farm Jobs	3,000	2,800	-200	2,800	2,800	0
Nonfarm Jobs	1,019,800	1,019,500	-300	1,014,800	1,019,500	4,700
Nat. Resources and Mining	1,200	1,100	-100	800	1,100	300
Construction	71,400	72,800	1,400	69,200	72,800	3,600
Manufacturing	97,000	97,000	0	96,500	97,000	500
Trade, Transp. and Utilities	195,700	196,100	400	196,600	196,100	-500
Information	30,500	30,200	-300	31,700	30,200	-1,500
Financial Activities	69,700	69,400	-300	67,800	69,400	1,600
Prof. and Business Svcs	144,400	144,400	0	143,500	144,400	900
Educational and Health Svcs	117,800	117,700	-100	116,400	117,700	1,300
Leisure and Hospitality	82,200	82,800	600	82,700	82,800	100
Other Services	38,900	39,000	100	38,100	39,000	900
Government	171,000	169,000	-2,000	171,500	169,000	-2,500

HOUSING – Market still hot

Although down 1.5% from July, August’s total of 12,674 new and resale homes was the third highest Bay Area sales volume in 16 years according to DataQuick Information Systems. Santa Clara recorded the highest number of homes sold in the nine-county Bay Area with 3,017, followed by Alameda with 2,742 and Contra Costa with 2,560. Although Santa Clara sales volume declined from August 2003, the East Bay was up -- Alameda County 2.2% and Contra Costa 1.1%. As the Bay Area median price of \$520,000 set a new record, Alameda County’s median price increased to \$497,000, up 18.3% over August 2003, and Contra Costa’s \$468,000 was up 17.3%. According to the California Association of Realtors, “Residential real estate sales in California are on track to set a new annual record in 2004.”

COMMERCIAL REAL ESTATE – Oakland subleases costlier than San Francisco?

According to tenant broker Mihalovich Partners, sublease space in Oakland is now more expensive than San Francisco by \$3 per square foot per year. The East Bay’s vacancy rate of 13% in the second quarter was also lower than San Francisco’s 17%, and Santa Clara’s 18%.