

NAPA COUNTY: ECONOMIC VOLATILITY AND OPPORTUNITY

NAPA, CA

JANUARY 2023

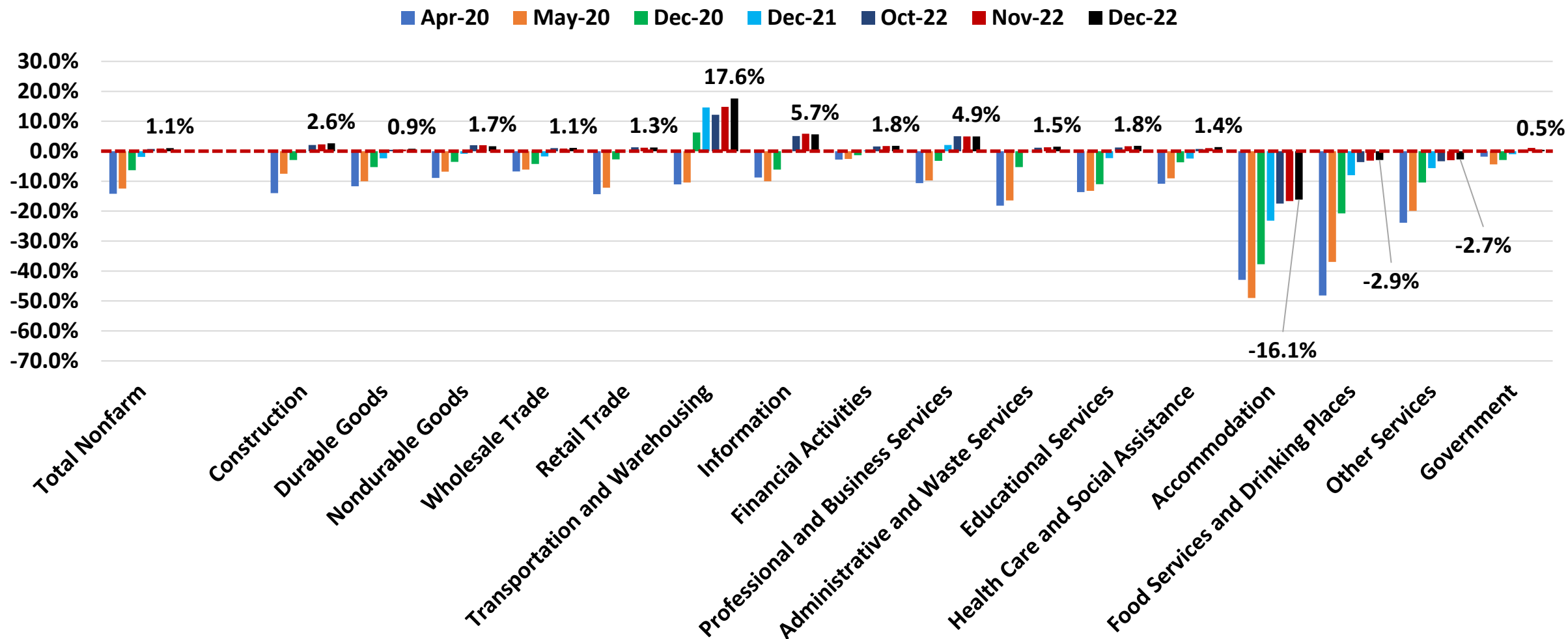
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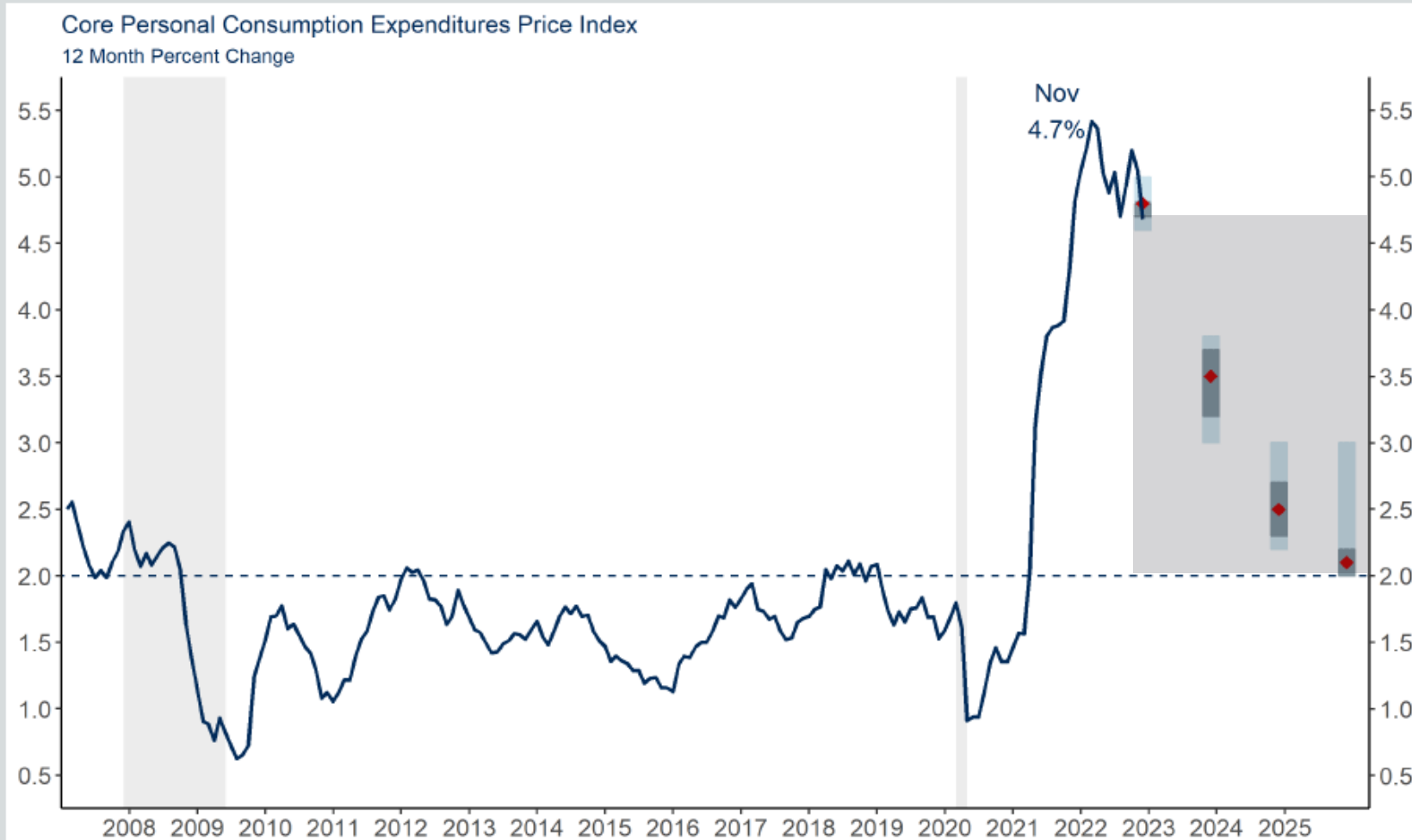
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% Changes in Jobs, Selected Industries, April 2020 to Dec 2022 Compared to Jan 2020, US, Seasonally Adjusted



How the FED fares: Inflation on the Mend?

Core Personal Consumption Expenditure Price Index



Notes: FOMC projection is the median, range, and central tendency for Q4/Q4 percent changes, from the December 2022 meeting. Red dots indicate median projections. Core PCE Price Index excludes expenditures on gasoline and food services.

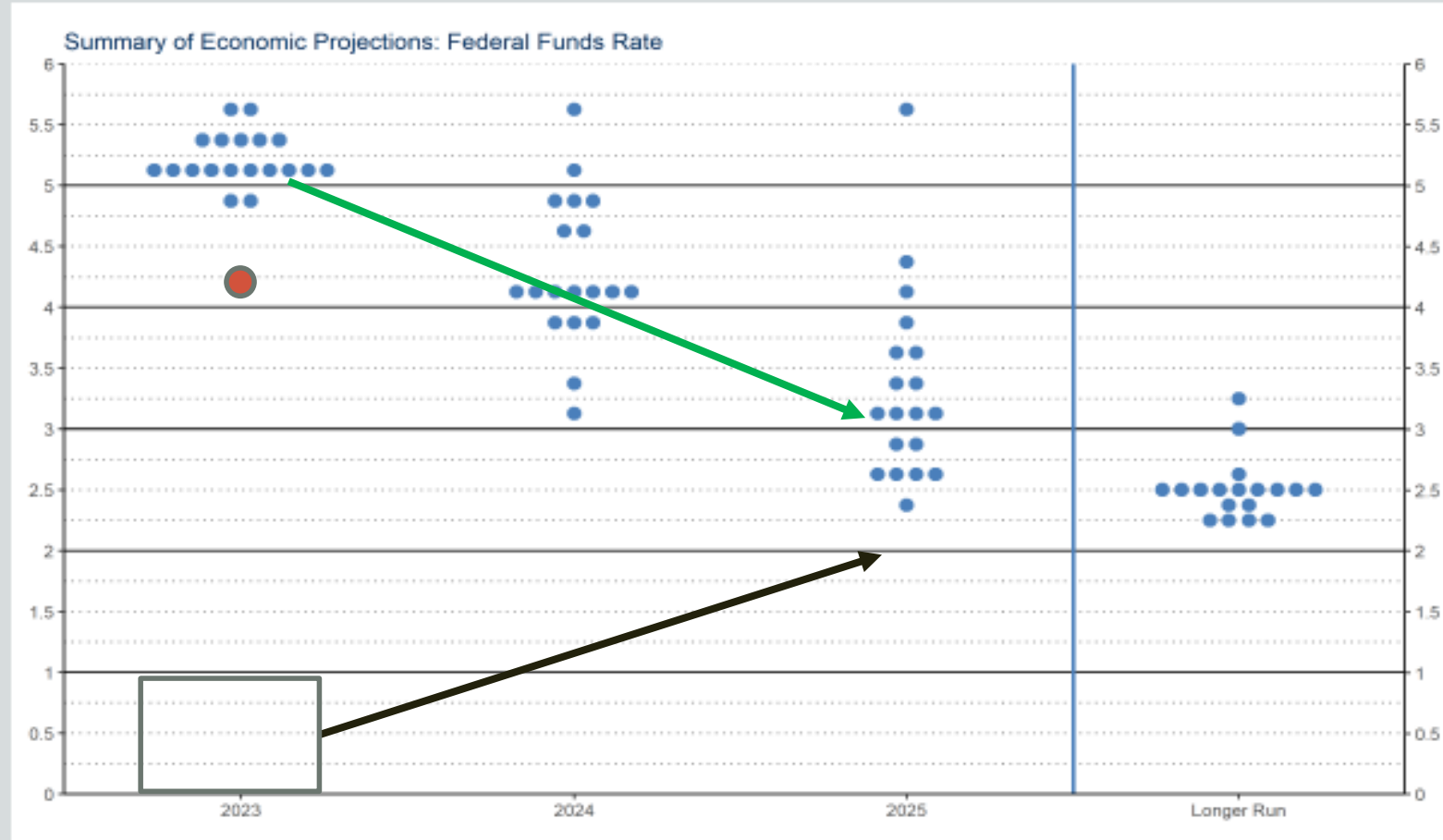
What's Next?

- Interest rate stability and maybe cuts in 2023?
- Housing markets to give back gains (think 10-15% in 2023)
- Job losses coming: may be limited to tech, logistics and retail

The Federal Reserve and next steps: Bringing more Fight to Inflation

Outlines and Arrows as of Dec 2022 and predicted path in Sept 2021

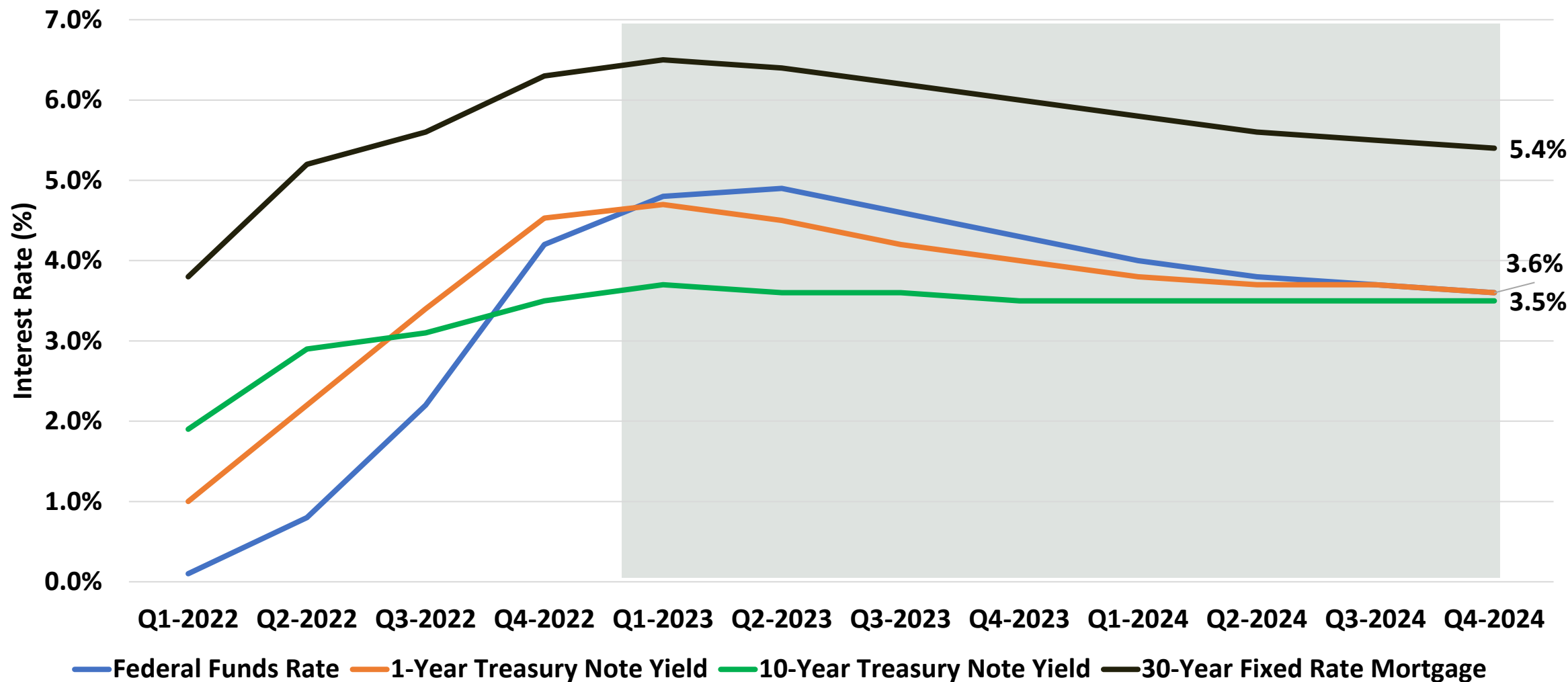
Summary of Economic Projections: Federal Funds Rate



- Three things to consider:
- How much is enough?
 - If recession, do we go down the slide?
 - What happens to inflation expectations?

FNMA Interest Rate Highlights, 2022-2024

2022 – 2024, Quarterly (Shaded = Forecast)



Federal Reserve Philadelphia

Forecast, Survey of Professional Forecasters

Q1 Real GDP: -1.6%
Q2 Real GDP: -0.6%
Q3 Real GDP: +3.2%

These data are from November 2022

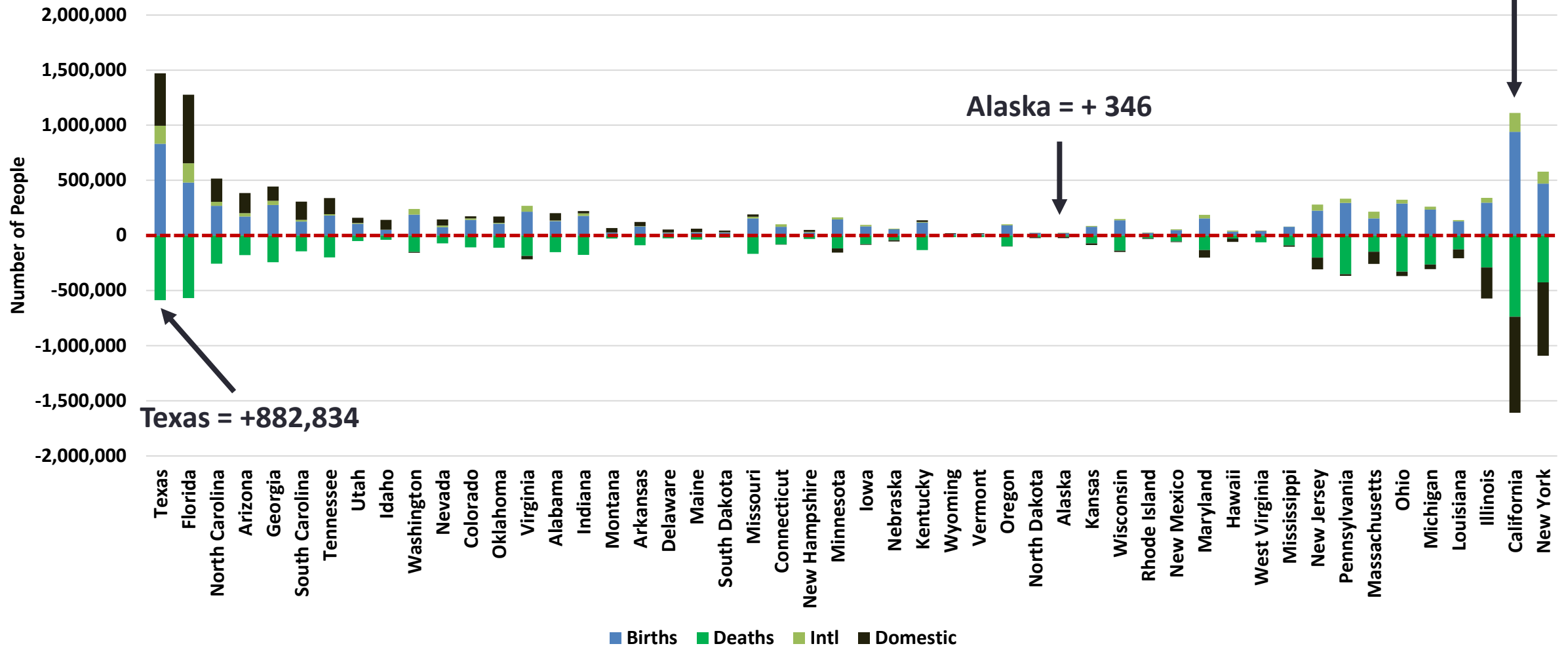
	Real GDP (%)		Unemployment Rate (%)		Core PCE Inflation (%)	
Annual data (projections based on annual-average levels):						
	Previous	New	Previous	New	Previous	New
2022	1.6	1.9	3.7	3.7	4.5	4.8
2023	1.3	0.7	3.9	4.2	2.8	3.0
2024	2.3	1.8	3.9	4.3	2.2	2.4
2025	2.1	2.2	3.9	4.2	N/A	N/A

Bottom Line: expect 2023 to be a slow, transition year
GDP has grown looking back 12 months for 7 quarters in a row

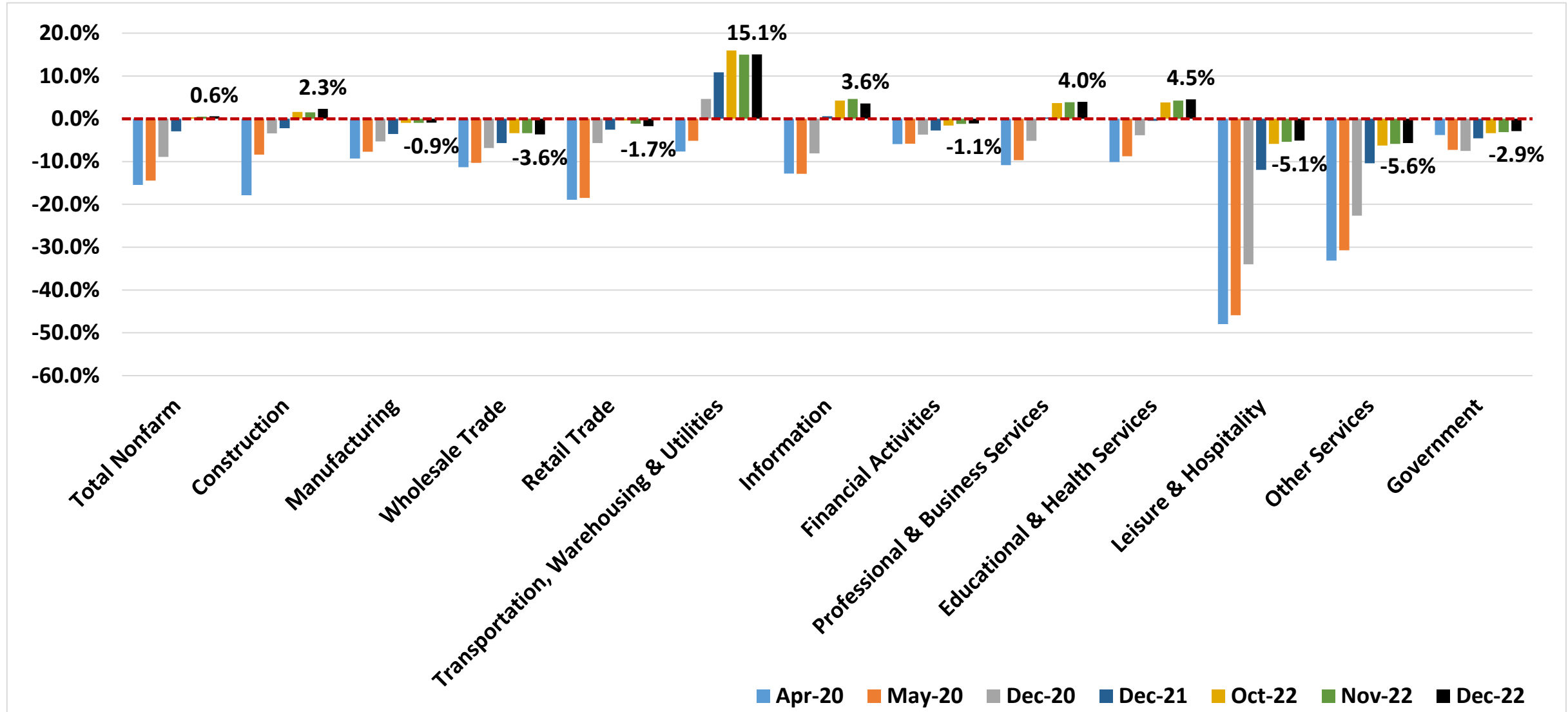
Why the National Economic Context Matters for Napa County

- Wine industry
 - Slowdown on ultra-premium and luxury wines in 2023 and 2024 (wealth effects)
 - Labor issues to persist: some pull back on production as reaction to economic slowdown
- Tourism
 - May see continued strength here if travel shifts to a regional model in 2023
 - Inflation and exchange rates: some headwinds to prevail
- Health care
 - Continued aging population: slowly rising demand
 - Inflation persisting may delay some visits, but general demand to remain

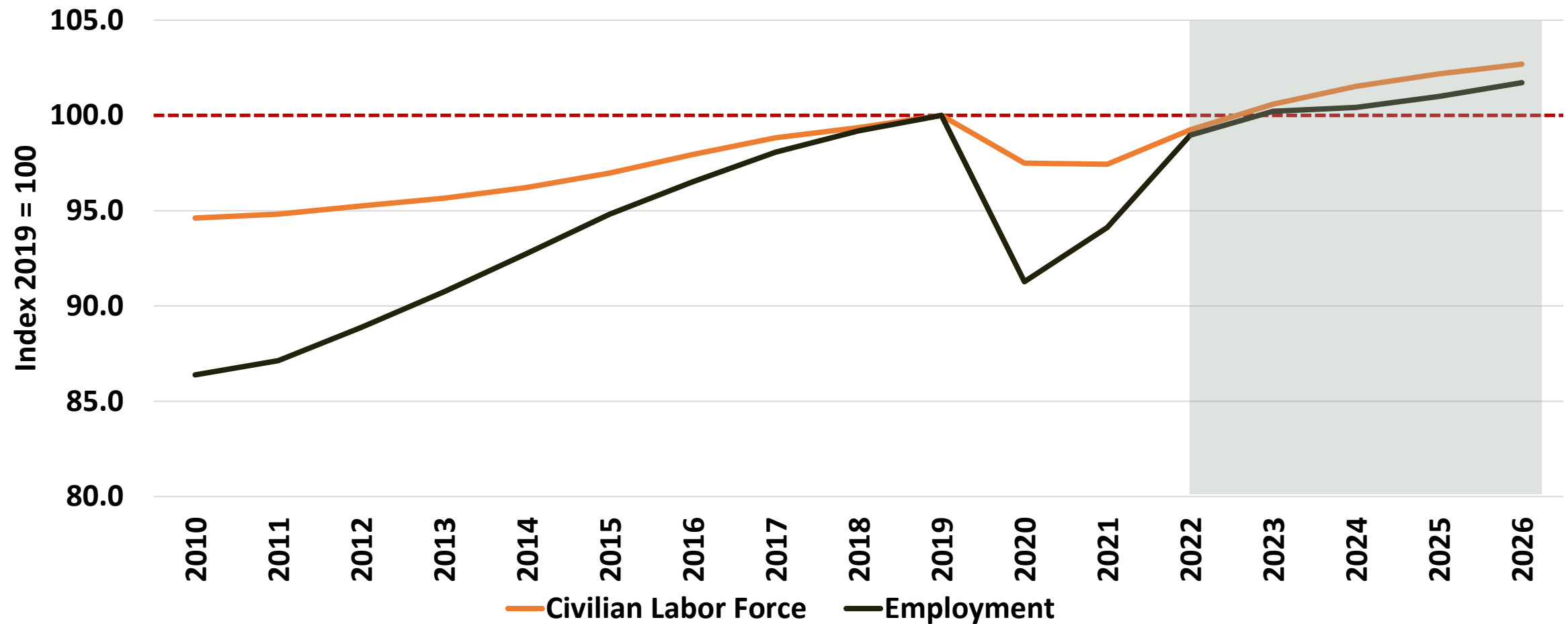
Population Change, July 2020 to June 2022, US States, Components by States, Census Dec 2022



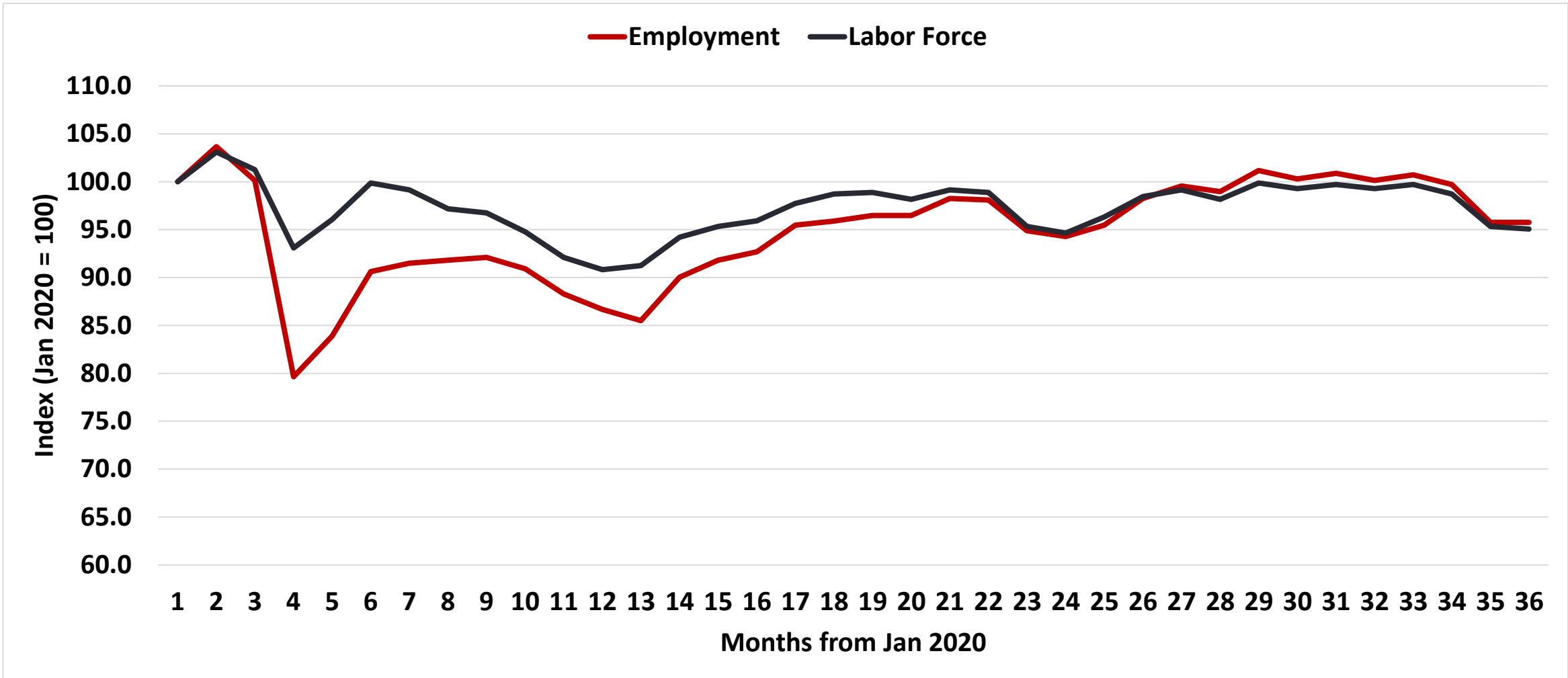
Changes in Jobs (% Change from Jan 2020), Seas Adj, California, April 2020 to December 2022



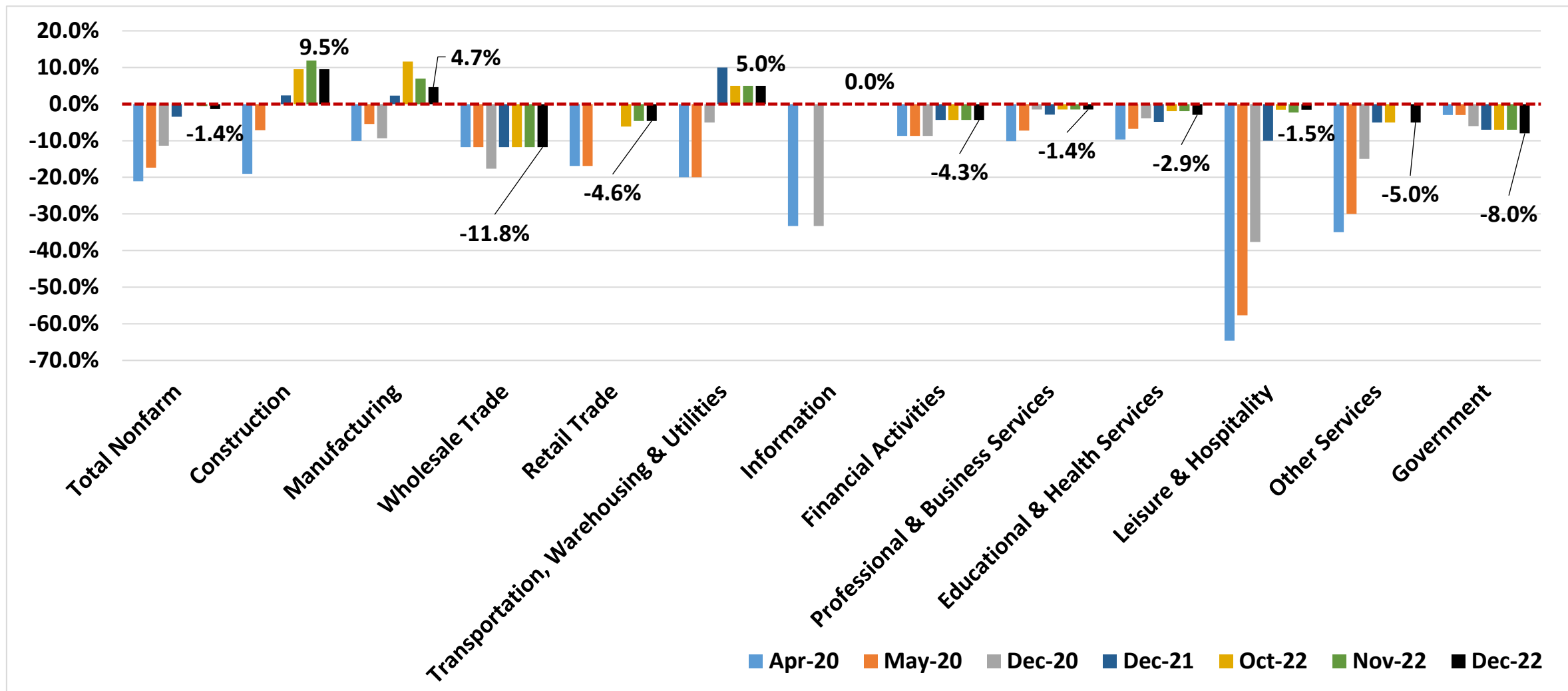
California: Labor Force and Employment, Index 2019 = 100, 2010 – 2026 Forecasted, Number of Workers



Employment and Labor Force Recovery Comparison, Napa County, Index Jan 2020 = 100 to Dec 2022



Employment Changes by Industry % Change from January 2020, Napa County, to December 2022



Source: California EDD and EFA

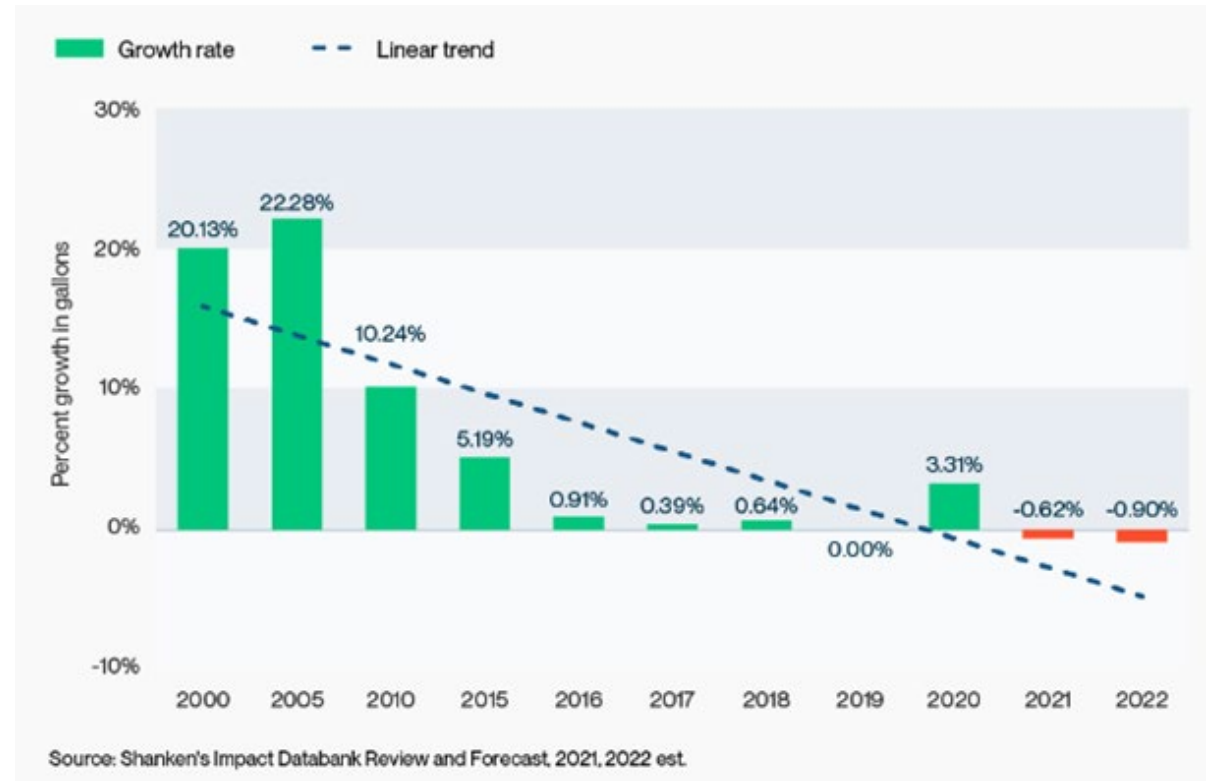
Wine Industry Performance and Forecast

SVB Forecast as the Basis: Jan 2023

For Napa County, the nexus of agriculture, manufacturing, warehousing and tourism

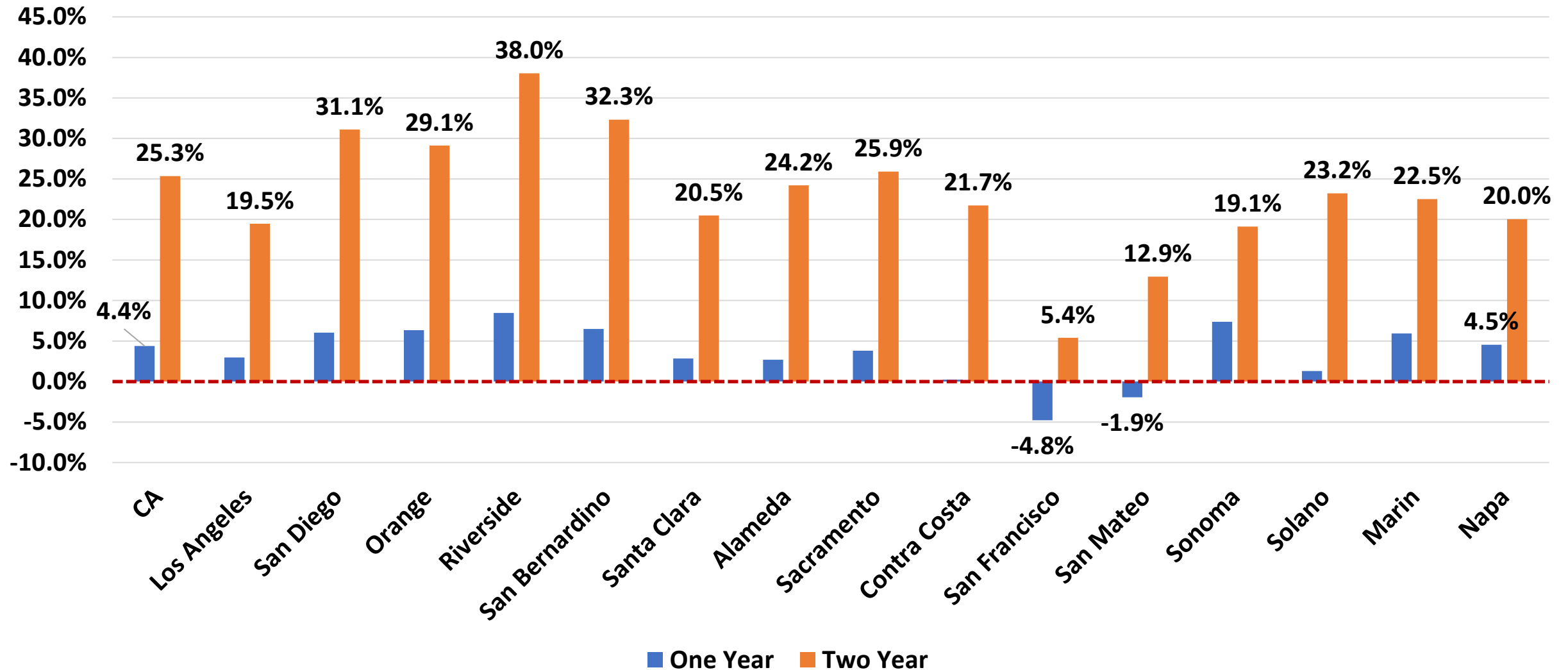
1. Premium wines continue to sell well
2. Inventory levels are low
3. Harvest quality good past two years
4. Easier than ever to buy wine
5. Boomers have cash
6. More competition
7. Wineries still attracting buyers

Strategic threat: younger consumers

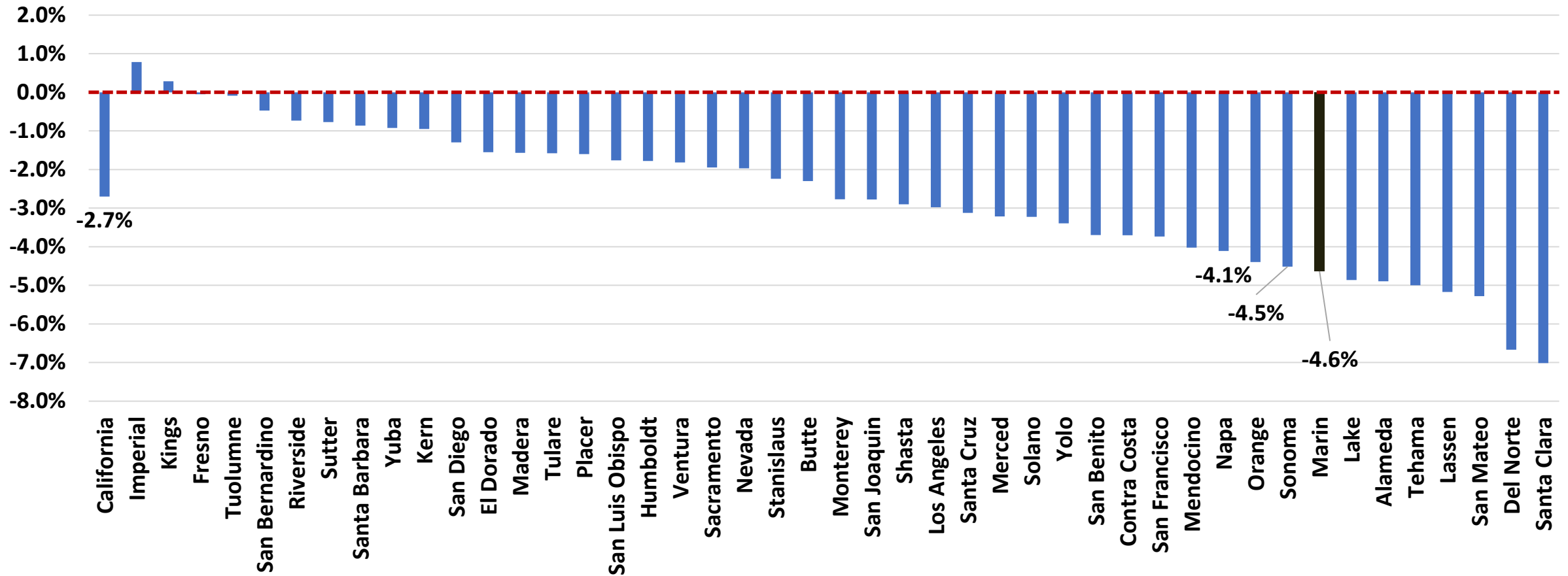


Median Home Prices, Sept 2020 and Sept 2021 to Sept 2022

% Change, CA and Selected Counties

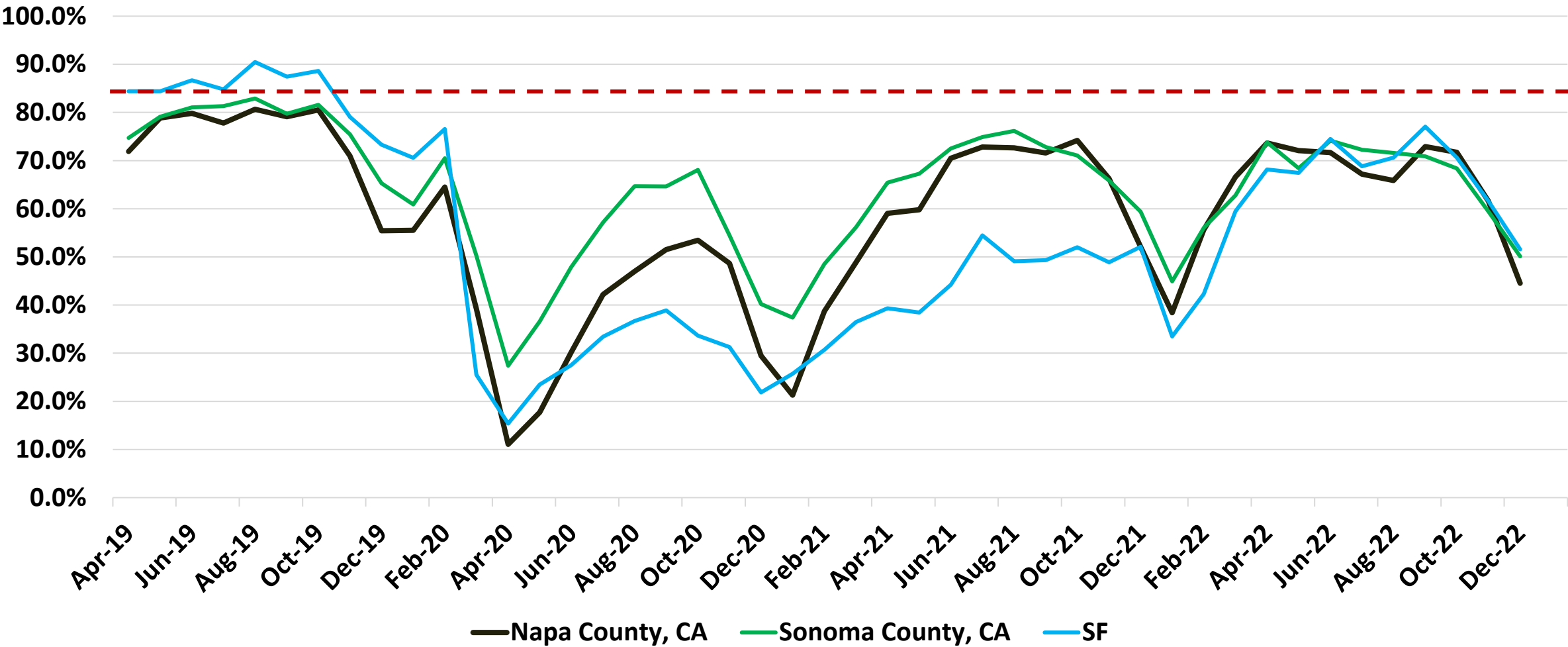


Forecasted Median Housing Price Growth, Nov 2022 to Nov 2023, % Change, CA and Selected Counties



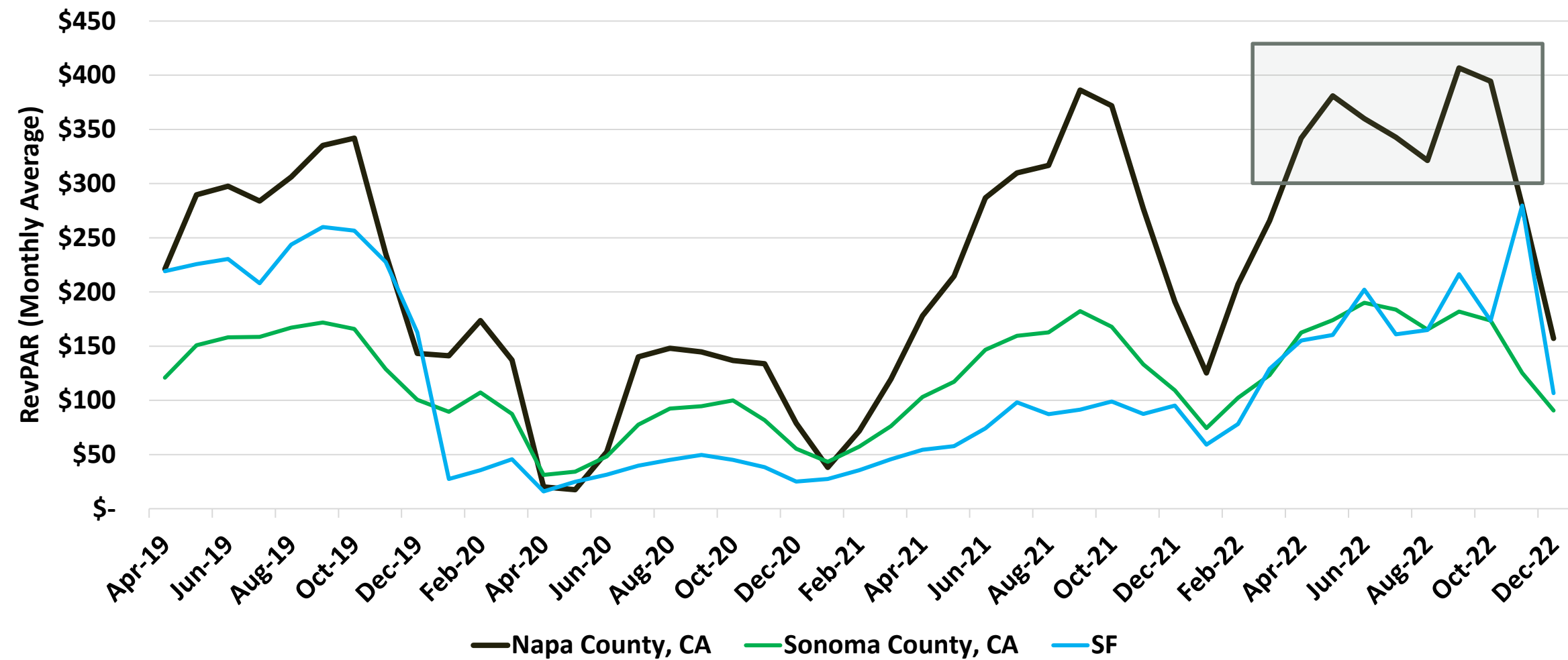
Continued fade of housing price forecasts: assume -10% to -15% in CA and NV for 2023
CA forecast in April 2022 to April 2023 was +15%

Occupancy Rates (%), Selected Counties (Dash at 85%) April 2019 to Dec 2022, Monthly Averages

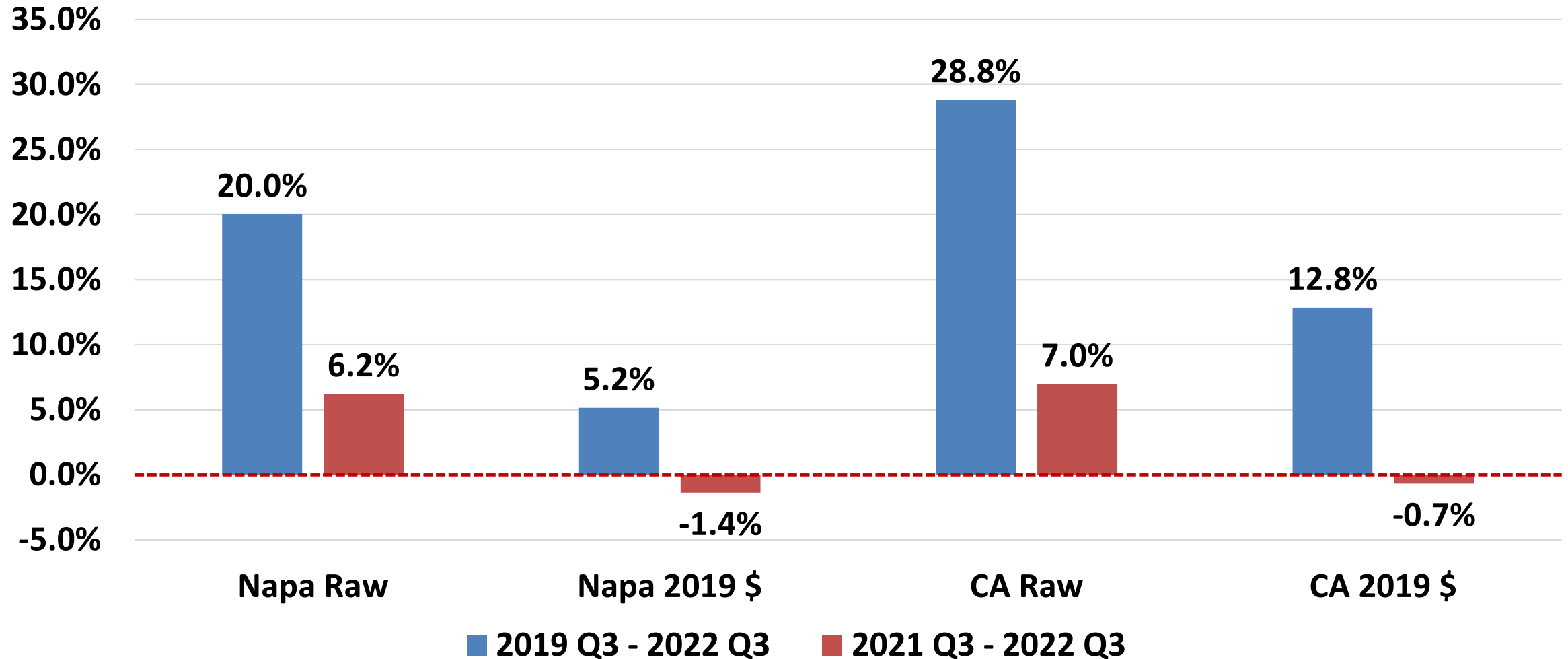


Sources: Smith Travel Research and EFA

RevPAR (Revenue Per Available Room), Napa and Sonoma and SF Counties, April 2019 to Dec 2022, Monthly Averages



Taxable Sales: Comparing 2022 Q3 to 2021 Q3 and 2019 Q3, % Change, Raw and Inflation-Adjusted (2019 \$)



Travel Forecast and Caveats, California

Index = 100 in 2019	2020	2021	2022	2023	2024	2025	2026
Total visits	49	75	91	98	102	105	108
Business	32	49	79	88	98	104	106
Leisure	53	80	93	101	103	105	108

Index = 100 in 2019	2020	2021	2022	2023	2024	2025	2026
Domestic	51	78	93	100	102	105	108
International	21	29	63	81	94	102	107

Caveats

- Will regional demand remain in 2023 and 2024?
- How has airline prices, continued inflation and local costs shifted demand?
- Will international travel get a boost from East Asia re-opening?

Napa County toward 2025

- Slower moving economy in 2023, Napa County may not see much change in terms of visitor flow or recovery
 - Geopolitical issues not going away, 2024 presidential election looming
- Wine industry likely to see some more consolidation and slowdown versus 2020-2022
- Regional changes coming: fate of San Francisco's core as a place to do business should become final in 2023 or 2024
- Housing to continue as the hot economic and political topic, then water
- Opportunities
 - Economic development: diversity of industry (may already be here in some ways)
 - Workforce development: preparing a workforce with a shrinking population of K-12
 - Energy tech: can incentives emerge for general resilience and science
 - Regional diversity and cooperation: Up Valley and Down Valley, planning as one

Thanks!
Questions?
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