

San Joaquin Valley **BUSINESS FORECAST**

**Emerging Trends in the
Valley's Economy**

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SAN JOAQUIN VALLEY BUSINESS FORECAST 2025

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EXECUTIVE SUMMARY

Consistent with our forecasts, the economic slowdown is becoming more evident and is expected to intensify through the first half of 2026. Tariffs and the retaliatory measures they have prompted have already reduced trade volumes, signaling a deterioration in overall economic health. These protectionist measures continue to create uncertainty in the region, discouraging investment as firms are unable to clearly anticipate future conditions and plan accordingly.

This wait-and-see approach on the part of investors keeps businesses from investing, which in turn slows future economic growth, leading to an overall slowdown in economic activity. To improve the current investment sentiment and create a positive business environment, the Federal Reserve, with the dual mandate of full employment and price stability, has now chosen to focus on worsening employment numbers by announcing a series of rate cuts set to take effect in fall 2025. The stimulative effects on the economy will take some time, since existing contracts must expire and new ones must be signed at lower borrowing costs. Considering will take a year for the federal funds rate to come down to the intended rate of 3.5 percent, the earliest improvement in the economy is expected to take place in the second half of 2026. Core inflation is not likely to fall further due to cost-push effects coming from the tariffs and may rise from the demand-pull effect associated with the rate cuts. The price of crude oil will likely come down further, mainly because of decelerating regional conflicts around the world and lower demand from the slowing economy. Declines will likely continue into the second half of 2026 until anticipated rate cuts begin to take their full effect on the Valley economy.

Valley retail trade employment declined by about the same amount in 2025 as in 2024, and the rate cuts are not likely to improve retail trade employment significantly until the second half of 2026. Other categories of employment that displayed declining or stagnant performance in 2025 were Valley manufacturing, financial activities, information, leisure and hospitality services and construction. More categories of employment declined in 2025 than in 2024. The decline in Valley information employment registered the fastest pace in 2025, followed by financial activities employment. Conversely, Valley education and health services employment, a category comprised of a highly skilled workforce, grew at the fastest pace among all other categories of employment in 2025. The second-fastest pace of growth occurred in government employment. Construction employment growth, however, switched from positive to negative territory in the first half of 2025. Projections point to a worsening decline in employment levels in the first half of 2026 before rate cuts begin to take their full impact on the Valley economy.

Valley building permits declined in 2025 after a very strong year in 2024. Because of announced rate cuts in 2025 and 2026, building permits in the Valley are projected to begin growing but at rates slower than the historical average of the series. The Freddie Mac 30-year rate declined from the peak observed in the fourth quarter of 2023 and continued to decline along with the federal funds rate. It oscillated around 6.5 percent in 2024. Coupled with an inventory shortage on the supply side and the effect on demand coming from decreasing borrowing costs, home values are expected to rise at rates below the long-term benchmark rate during the two-year forecasting window.

Inflation continued its downward trajectory but did not fall to the Federal Reserve's target rate of 2 percent, due to tariffs and retaliatory impacts on the overall level of prices. Average weekly wages grew more than the rate of inflation in 2025. Projections point to a slower wage increase in the coming months, more in line with the inflation rate and a slowing economy. Valley consumers' purchasing power increased in 2025 after two consecutive years of decline. The yearly average real rate of increase in home values was higher after factoring in the effect of inflation in 2025.

Both Valley community bank total deposits and net loans and leases increased in 2025, but the increase in total deposits was less than the increase in net loans and leases. While the increase in total deposits was slower than the historical average of the series, the increase in net loans and leases occurred at a faster pace than the series' historical average. This imbalance is noteworthy, as it cannot be sustainable in the long run, particularly under falling lending rates. Community bank nonaccrual assets began displaying a well-defined rising trend in 2025, a warning sign for the economy. Such a rising pattern is consistent with rising delinquencies in general, and credit card debt is now at an all-time high.

In all, the odds of a recession are now as high as 50 percent, significantly higher than the normal rate of 15 percent. The effects of tariffs are becoming clear on the economy in the form of lower trade volume, consumption and investment all having a contracting effect on the real gross domestic product. Worries of a resurgence in the inflation rate have not gone away due to ongoing protectionist measures. The Valley, as an agricultural region, continues to be adversely affected by tariffs and other factors such as a farm worker shortage and bird flu, all decreasing agricultural revenue. Until interest rates fall to the targeted federal funds rate, which is likely to take place in the second half of 2026, we recommend staying a bit more in cash and maintaining a wait-and-see approach until the economic uncertainty disappears, renting a bit longer and delaying home purchases until rates come all the way down in line with long-term target rates. If finances permit, purchasing a home now and refinancing later is also an option, and buying bonds may allow households to benefit from the inverse relationship between rates and bond prices. Valley residents can defend against changing economic conditions by taking out flexible-rate loans, adjustable-rate mortgages and taking advantage of relatively cheap student loans to acquire skills if laid off from work. At a more macro level, worries over public and private credit being too high, stretched asset values and uncertainty from ongoing trade wars warrant being cash heavy and having the liquidity needed to reinvest and support businesses in case a systemic crisis unfolds.

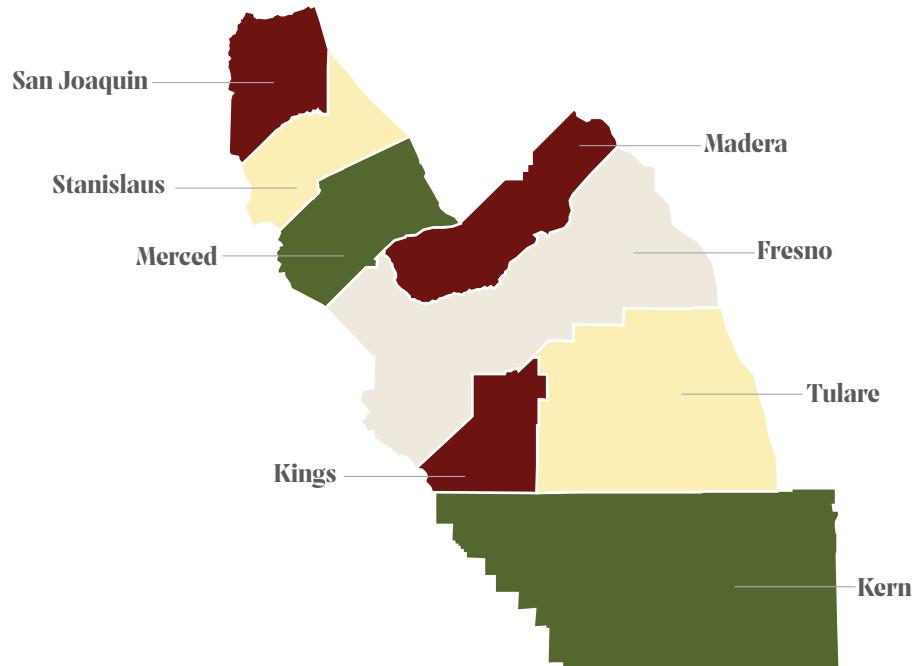
The effects of tariffs are becoming clear on the economy in the form of lower trade volume, consumption and investment all having a contracting effect on the real gross domestic product.



Time series data spans from January 2001 to October 2025. The two-year medium-term forecasts are from November 2025 to December 2027. Forecasting a range rather than a single point provides a more realistic assessment of future values. When actual numbers fall within the upper and lower forecast bands, the forecast is considered accurate.

The remainder of this report is structured as follows: The Employment Indicators section analyzes labor market conditions for the San Joaquin Valley; the region's real estate market, based on seven Metropolitan Statistical Areas (MSA), is examined in the Housing Sector section, followed by Inflation and Prices trends, then local Banking and Capital Markets. Concluding Remarks end the report.

San Joaquin Valley





EMPLOYMENT INDICATORS

Valley total employment grew at a slower pace in 2025 than in 2024. The slowing pace of growth is expected to intensify into the first half of 2026 as a result of tariffs and uncertainty, farm worker shortages, avian influenza adversely impacting farm revenue and a weakening labor market. Federal Reserve rate cuts are not expected to have any positive impact on the regional economy until the second half of 2026, as existing contracts expire and new contracts are signed at falling rates.▶

Several changes in data reporting were made by the Bureau of Labor Statistics that affect the San Joaquin Valley. Previously, data from eight counties and eight Metropolitan Statistical Areas (MSAs) were reported. In summer 2025, the Madera MSA was removed and the data from Madera were joined with Fresno under the heading "Fresno MSA." After this change, there are now eight counties and seven MSA headings belonging to the San Joaquin Valley. Employment numbers slightly declined in the Hanford-Corcoran MSA and showed little growth in the Visalia-Porterville and Bakersfield MSAs. The remaining MSAs — Stockton, Modesto, Merced and Fresno — reported growth in total employment at rates less than their long-term benchmark growth rates.

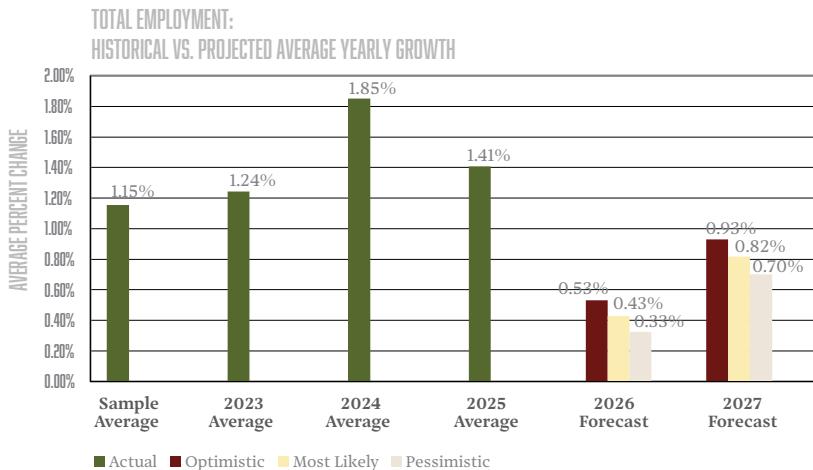
Valley total employment grew at an average annual rate of 0.56 percent in 2024, a slower pace than in the previous two years. Projections indicate that this sluggish growth is likely to continue through the second half of 2025 and possibly into the first half of 2026, depending on the duration of trade wars and the timing of Federal Reserve rate cuts. Forecasts suggest an initial employment decline of 0.44 percent in 2025, followed by growth of 0.97 percent from the second half of 2026 to the first half of 2027 — conditional on trade disputes resolving by mid-2026.

Valley total employment grew at an average annual rate of 1.46 percent in 2025, slower than 2024 but slightly faster than the long-term benchmark rate of 1.15 percent.



The employment categories in which a decline was reported in the Valley were retail trade, leisure and hospitality services, information, construction, financial activities and manufacturing employment. Those categories in which growth was reported comprised education and health services, government, trade, transportation and utilities employment.

Valley total employment grew at an average annual rate of 1.46 percent in 2025, slower than 2024 but slightly faster than the long-term benchmark rate of 1.15 percent. A slower pace of growth is likely to intensify into the first half of 2026 depending on how long trade wars last. Projections point to 0.43 percent average yearly growth in 2026, followed by 0.82 percent in 2027, both below the long-term benchmark.



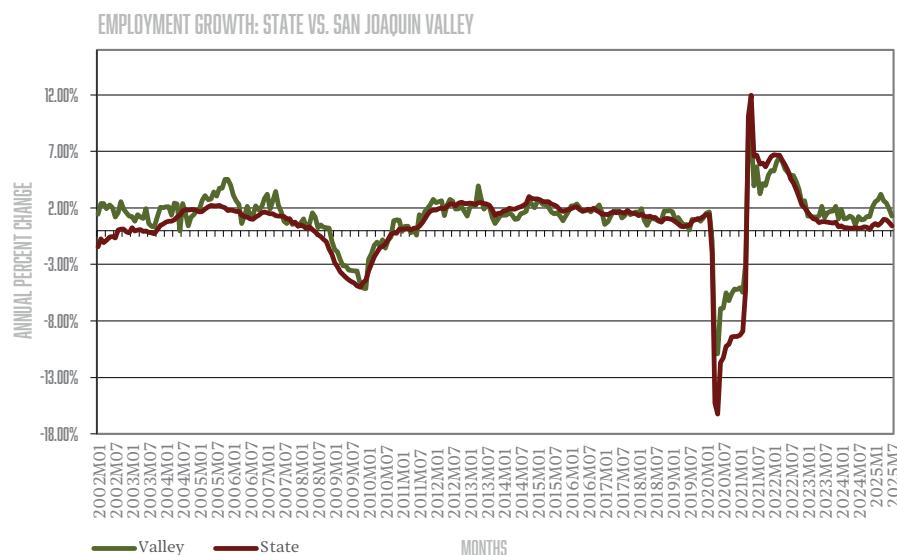
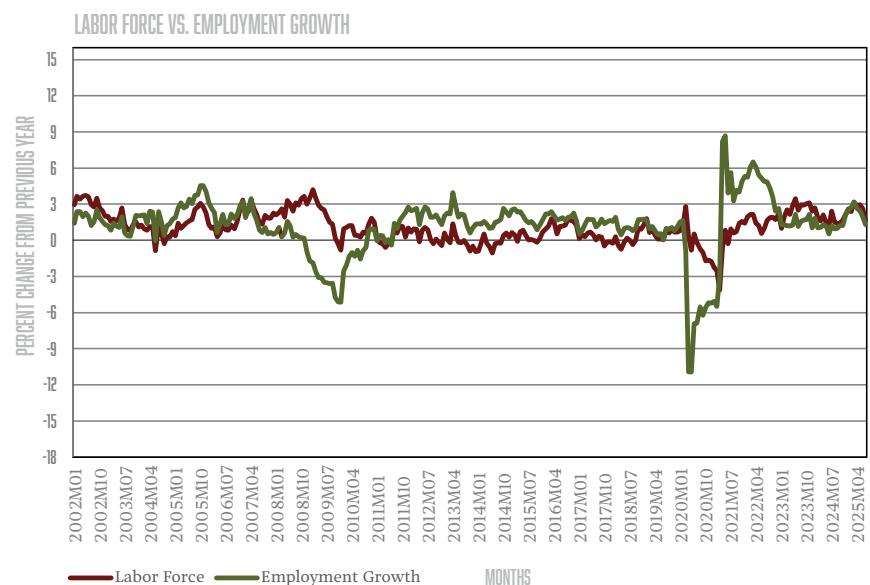
The Consumer Confidence Index, an important leading indicator of the future course of the economy, has consistently fallen below the benchmark index value of 100 points in the second half of 2025. The reading in August 2025 had the biggest decline since April 2025, implying a weakening assessment of labor market conditions and worsening expectations about future consumption activity in the next couple of months. The declining pattern of the Consumer Confidence Index is consistent with record-high credit card debt and rising delinquencies, putting pressure on consumers to cut back on their consumption expenditures.►

Both employment and labor force growth numbers in the Valley began displaying a declining pattern beginning from the second quarter of 2025. These two series will likely exhibit a crossing pattern after which labor force growth will exceed employment growth, pointing to a continuing increase in unemployment numbers. The current unemployment rate, being slightly less than 8 percent in the Valley, means the unemployment rate will climb above 10 percent in the coming months, bringing back worries of a recession.►

Both employment and labor force growth numbers in the Valley began displaying a declining pattern beginning from the second quarter of 2025.

Total employment growth in the state and the Valley also began to decline in the second quarter of 2025. However, total employment growth in the state continued to remain significantly below total employment growth in the Valley. At this pace of decline, both series are likely to switch from positive to negative territory in the coming months, pointing to declining employment numbers.►

The odds of a recession are now as high as 50 percent, significantly higher than the normal rate of 15 percent, and are likely to increase in the coming months with rising unemployment numbers. Projections point to slowing economic activity in the Valley in the first half of 2026, which may extend to the second half of 2026 depending on the accumulating effect of tariffs and how fast the rate cuts begin to have an effect on the economy. If a recession occurs, it would most likely happen during the first quarter of 2026, given the contractionary pattern observed from the previous year.





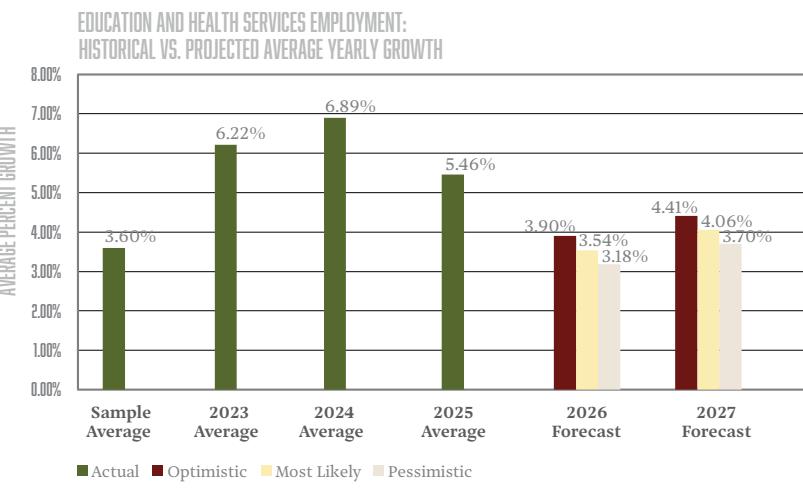
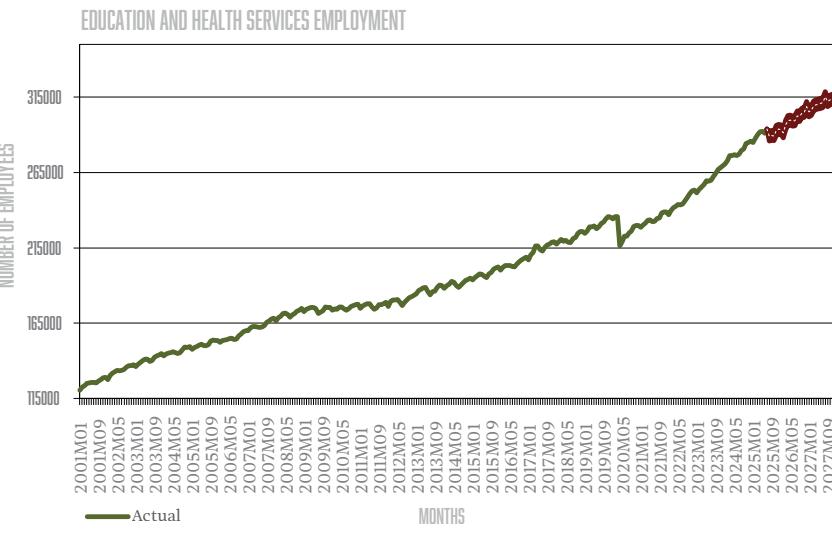
EMPLOYMENT INDICATORS

One of the few categories of employment that posted growth in the Valley was education and health services. Growth in education and health services employment was faster in 2025 than in any other category of employment in the Valley. However, employment in this category grew 5.46 percent in 2025, less than the previous year's growth of 6.89 percent, pointing to a slowdown in this high-skills category. Such highly skilled jobs are least likely to be affected by a recession, since the higher the skill, the harder it is to be displaced from work. Growth in education and health services employment will likely continue to increase, but at a slowing pace in the coming months.►

Growth in education and health services employment was faster in 2025 than in any other category of employment in the Valley.

Employment levels in education and health services are projected to stay slightly below 315,000 by the second half of 2027. The linear trend-like pattern in this series reflects the relatively recession-proof nature of this category relative to other categories of employment in the Valley. Projections point to growth at an average yearly rate of 3.54 percent in 2026, below the long-term benchmark rate of 3.6 percent and the average growth rate of the past two years, with growth rising to 4.76 percent in 2027.►

Such highly skilled jobs are least likely to be affected by a recession, since the higher the skill, the harder it is to be displaced from work.

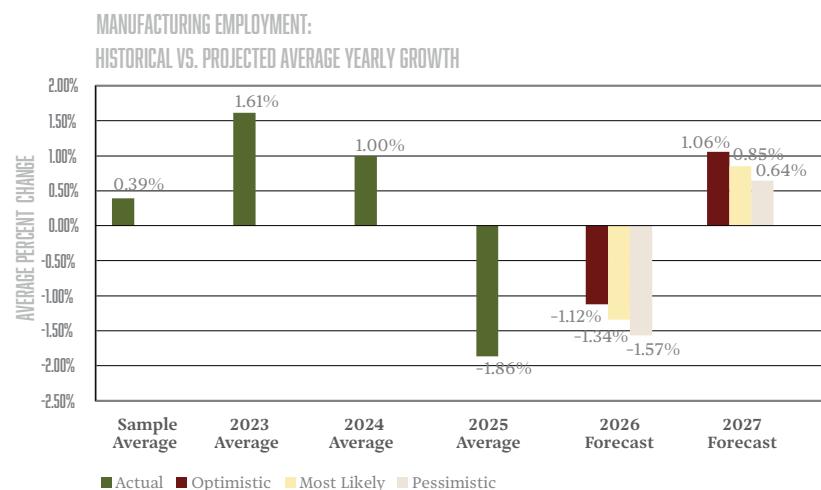
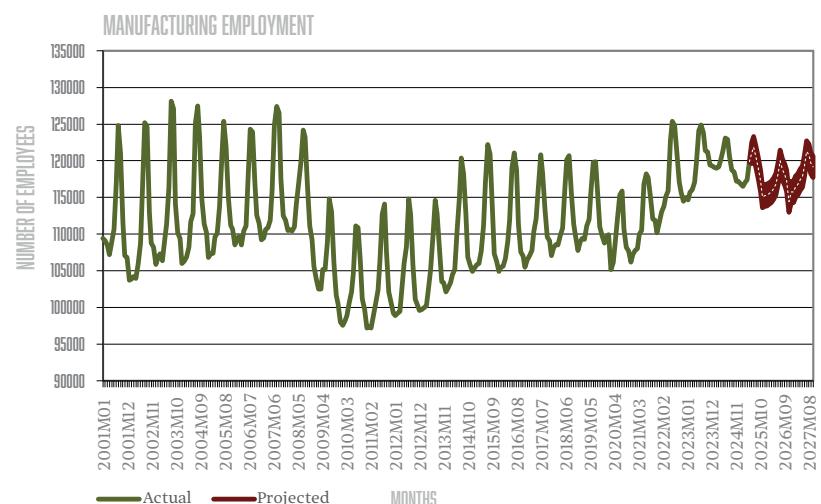


At a yearly average rate of negative 1.86 percent, Valley manufacturing employment declined at a relatively fast pace in 2025, given the past two consecutive years of growth.

At a yearly average rate of negative 1.86 percent, Valley manufacturing employment declined at a relatively fast pace in 2025, given the past two consecutive years of growth. The declines observed in this category of employment are consistent with the trend observed nationwide, though occurring at a faster rate. Employment levels in this category will likely stay below 122,500 by the end of 2027.

With the accumulating effects of tariffs and retaliation from trading partners, employment in this category is expected to continue declining in the coming months at a slightly slower pace and then switch from negative to positive territory in 2027. Projections point to an average yearly decline of 1.34 percent in the first 12-month forecasting interval, followed by 0.85 percent growth in 2027.▶

The Institute of Supply Management's (ISM) Purchasing Managers Index is a fairly accurate leading indicator closely followed by policymakers and investors. The index fell below 50 points in February 2025 and has since remained below that level, reflecting worries of an oncoming recession. A value below 50 points indicates that an economy is likely to contract. The index has been contracting for seven consecutive months since February 2025, pointing to worsening expectations of manufacturing activity.▶





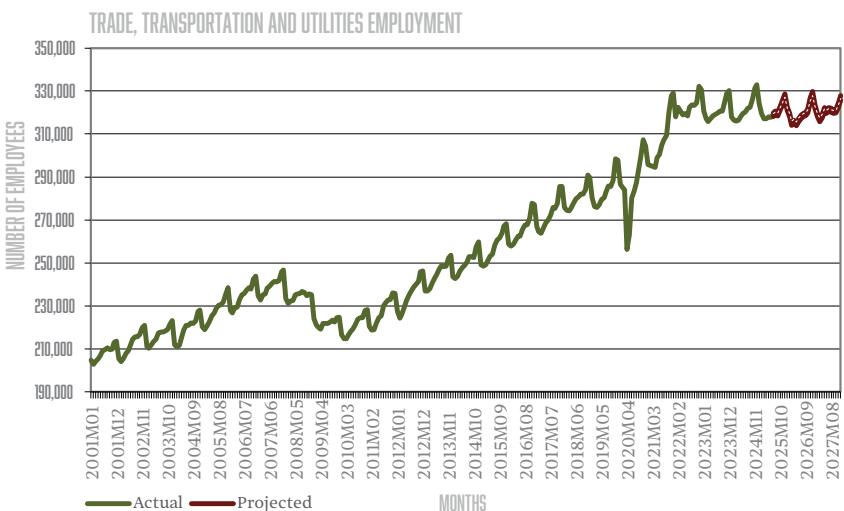
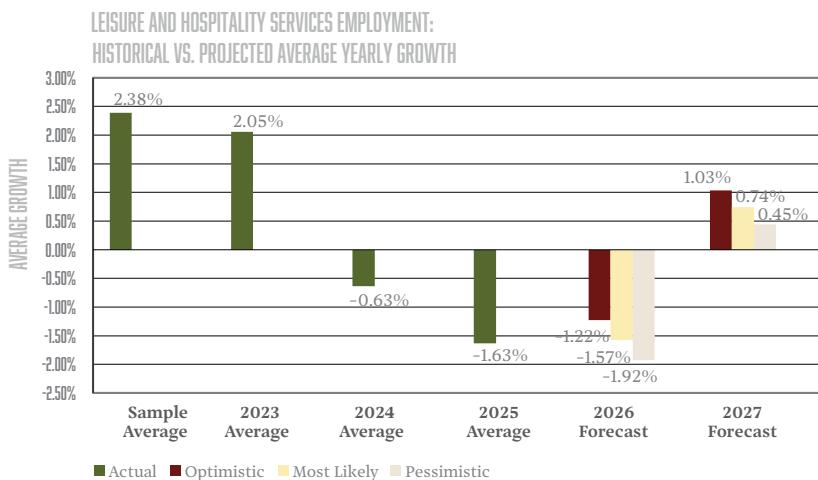
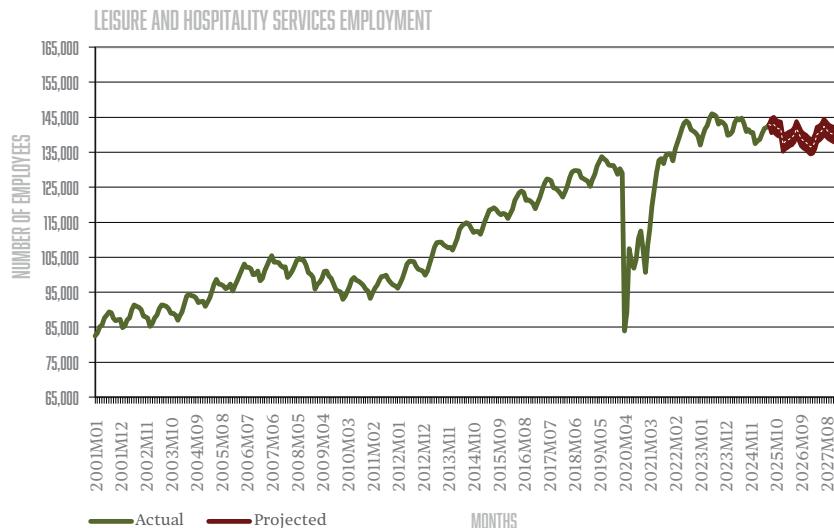
EMPLOYMENT INDICATORS

Valley leisure and hospitality services employment registered two consecutive years of decline. In line with our expectations, the decline in 2025 occurred at a faster rate, 1.63 percent, more than twice the rate observed in 2024. Record high credit card debt and rising consumer delinquencies, along with inflation and rising costs, contributed to the employment decline in this category. Employment levels in this category are expected to stay below 145,000 by the end of 2027. ▶

The categories of employment that are most vulnerable to downturns in business cycles are Valley leisure and hospitality services and retail trade employment. These categories require the lowest skills. Unlike the education and health services category, workers in these categories are among the first to be displaced during a downturn. Projections point to a 1.57 percent average yearly decline in 2026 followed by an improvement of 0.74 percent in 2027 when the rate cuts begin to take their full effect on the economy. ▶

The categories of employment that are most vulnerable to downturns in business cycles are Valley leisure and hospitality services and retail trade employment.

After a decline in 2023, Valley trade, transportation and utilities employment posted two consecutive years of growth, at 0.17 percent and 0.38 percent, in 2024 and 2025. Employment levels in this category have been hovering around 327,000 since the fourth quarter of 2021 and are expected to remain below 330,000 by the end of 2027. Valley trade, transportation and utilities employment is another category that is expected to worsen from the effect of tariffs and retaliation as the trade volume continues to shrink, further adversely affecting farm revenue in the Valley. ▶



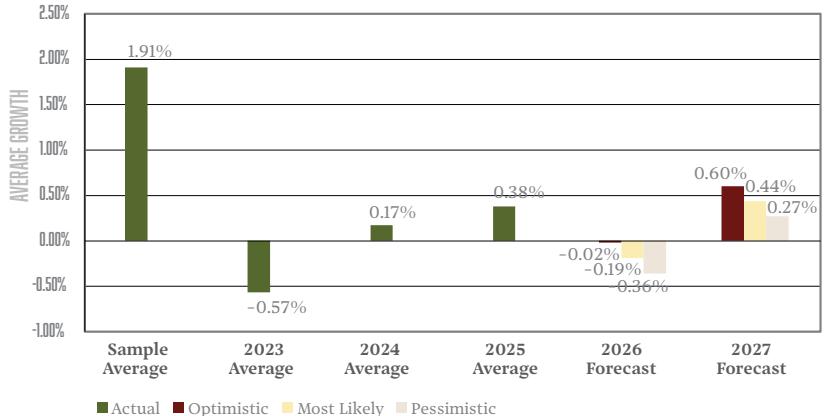
Projections point to a decline in 2026 before improving in 2027. The improvement in Valley trade, transportation and utilities employment in 2027 will likely result from the positive impact of rate cuts beginning in the third quarter of 2025 and lasting through the end of 2026. Projections point to a 0.19 percent average yearly decline in 2026 followed by 0.44 percent growth in 2027.►

Valley retail trade employment posted another year of decline in 2025. The decline was roughly the same pace as the previous two consecutive years. In addition to online competition, which presented itself as a structural problem in retail trade employment, consumers are facing two thirds of the costs coming from tariffs, while the remaining one third is borne by companies whose margins are declining from absorbing the cost of tariffs. Since most of the tariff cost will be passed on to consumers, retail employment is expected to take a hit from decreased consumption on the part of the Valley consumer. Employment levels in this category are expected to stay below 155,000 until the end of 2027.►

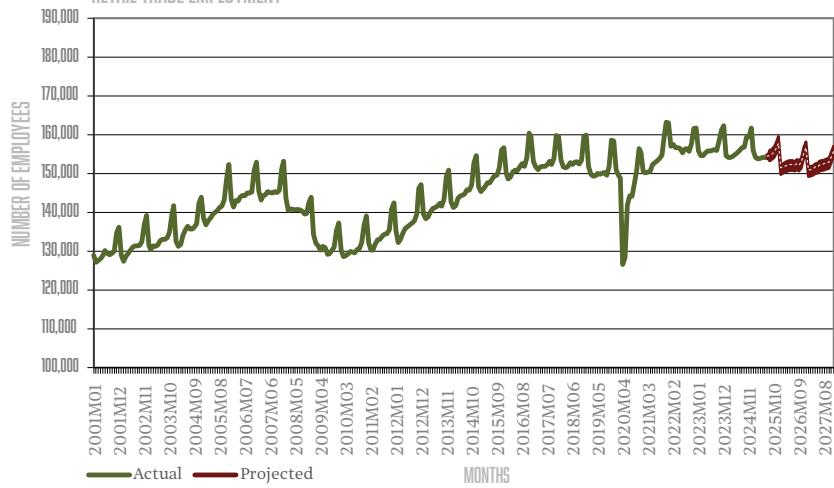
Since most of the tariff cost will be passed on to consumers, retail employment is expected to take a hit from decreased consumption on the part of the Valley consumer.

Given the back-to-back yearly declines, the long-term benchmark growth in retail trade employment decreased in 2025. The Federal Reserve's rate cuts are expected to help the sector recover but not to the extent of switching growth from negative to positive territory, given the slowing economy. Projections point to an accelerated decline of 1.39 percent in 2026 followed by a slower decline of 0.26 in 2027.►

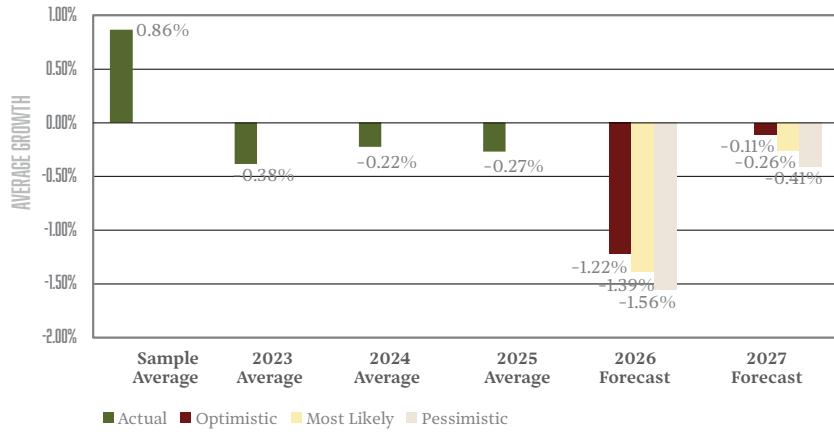
TRADE, TRANSPORTATION AND UTILITIES EMPLOYMENT:
HISTORICAL VS. PROJECTED AVERAGE YEARLY GROWTH



RETAIL TRADE EMPLOYMENT



RETAIL TRADE EMPLOYMENT:
HISTORICAL VS. PROJECTED AVERAGE YEARLY GROWTH





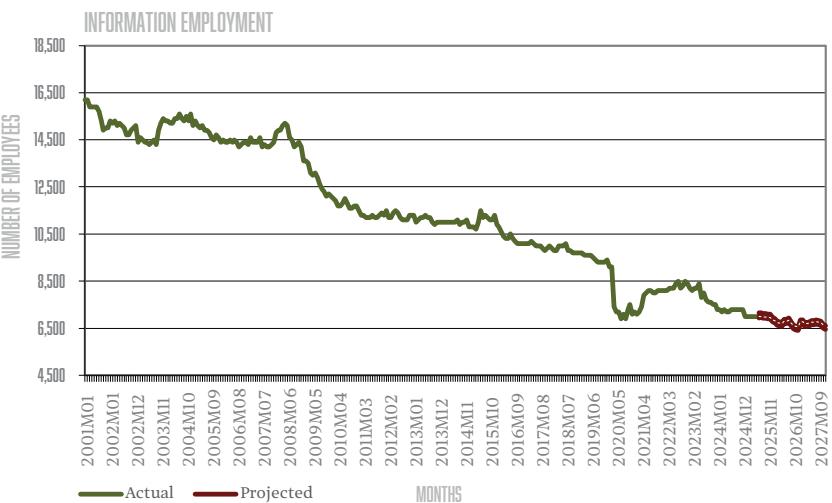
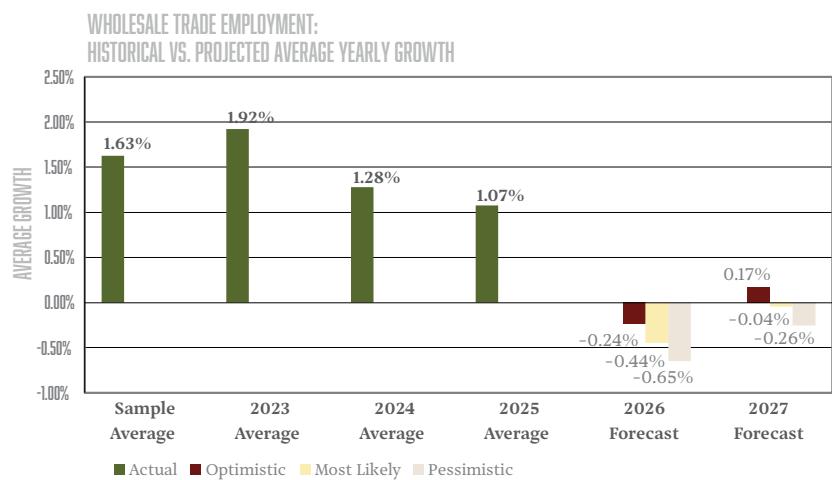
EMPLOYMENT INDICATORS

Wholesale trade employment in the Valley declined for the first time since the pandemic. The decline, at 0.5 percent, was indicative of growth in warehouse distribution centers coming to a standstill in the Valley. With the delay in rate cuts, Valley wholesale trade employment is expected to continue this decline at a faster pace in the months ahead. ▶

Unlike retail trade employment, wholesale employment grew in 2025 but at a pace slower than 2023 and 2024. Distribution centers scattered around the Valley undoubtedly had a positive impact on the wholesale employment numbers. Employment numbers in this category will likely stay below 52,500 until the end of 2027. The slowing growth is expected to switch to a decline in 2026 with stagnant activity in 2027. Projections point to an average yearly decline of 0.44 percent in 2026 followed by a very small decline of 0.04 percent, basically showing no change in 2027. ▶

Distribution centers scattered around the Valley undoubtedly had a positive impact on the wholesale employment numbers. Employment numbers in this category will likely stay below 52,500 until the end of 2027.

Valley information employment has been steadily declining every single year since 2008, mainly due to digitalization and social media changing the way individuals stay informed and get their news. Consequently, job creation in this category of employment is suffering regionally and nationwide. Continuing this declining path, information employment numbers will likely fall below 6,500 in the Valley as improvements in artificial intelligence further lower the time and cost of finding and accessing information. ▶



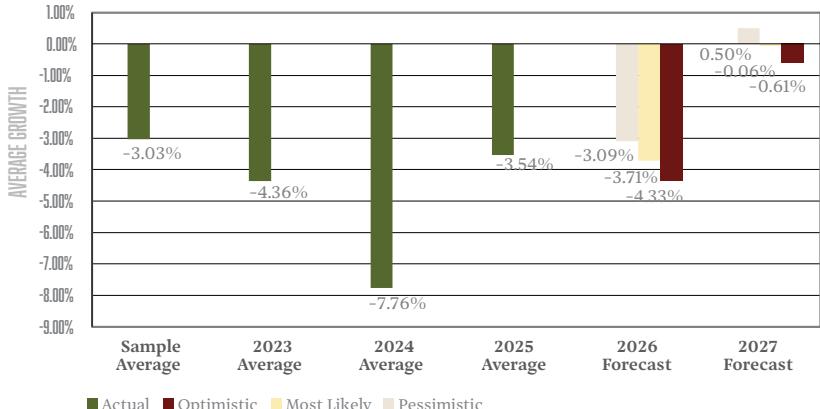
Valley information employment was the category that declined the fastest among all other categories in 2025. The decline in 2025 was significantly less than the decline in 2024, pointing to a flattening downward trend. Projections point to a 3.71 percent decline, roughly the same pace as 2024, then to a very flat downward trend in 2027, posting a trivial 0.61 percent average yearly decline, a behavior consistent with the series' at times flattening dynamics.►

Construction employment declined 0.8 percent in 2025 but kept the industry resilient against the backdrop of generationally high interest rates. Rising costs of lumber and other materials from inflation and tariffs adversely affected construction activity in the Valley. The rate cuts should help employment grow along with the inventory shortage in the Valley. Employment levels in this category are expected to remain below 80,500 during the two-year interval ahead.►

Rising costs of lumber and other materials from inflation and tariffs adversely affected construction activity in the Valley.

Given the slowing economy and rising unemployment numbers, a housing market downturn on the scale of the 2008 housing market crisis is not expected in the coming months. Loose lending standards do not exist as they did in the 2008 crisis, and there has been a persistent housing market shortage, minimizing expectations of a crash even though localized corrections may occur in some areas. Projections point to slower growth of 0.33 percent in 2026 followed by faster growth of 1.19 percent growth in 2027 as falling rates begin to take their effect more readily on the real estate market.►

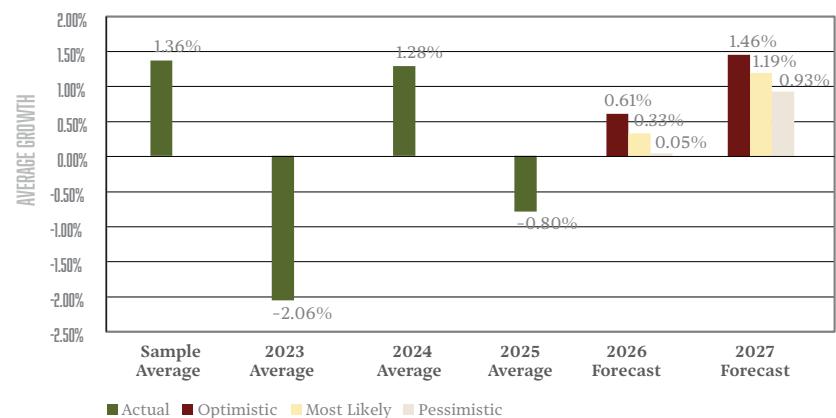
INFORMATION EMPLOYMENT:
HISTORICAL VS. PROJECTED AVERAGE YEARLY GROWTH



CONSTRUCTION EMPLOYMENT



CONSTRUCTION EMPLOYMENT:
HISTORICAL VS. PROJECTED AVERAGE YEARLY GROWTH





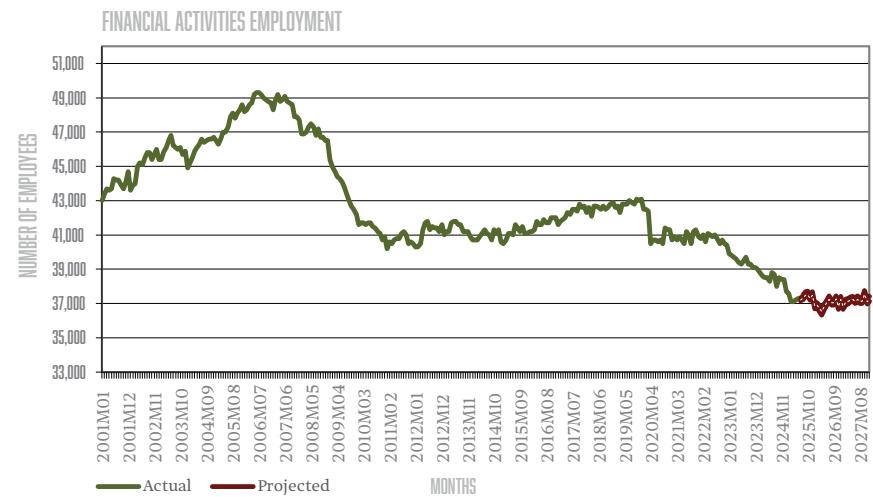
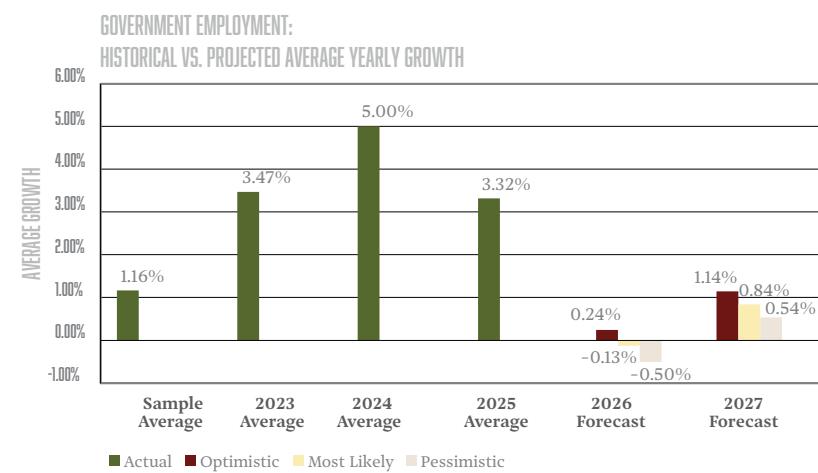
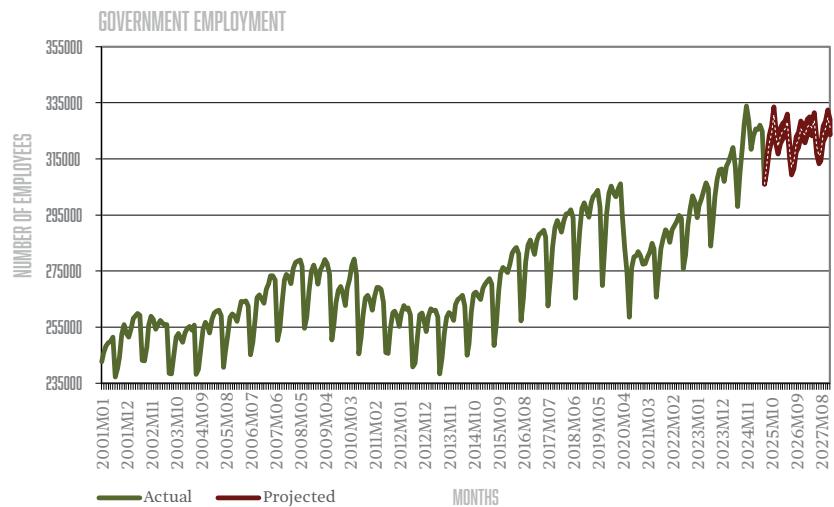
EMPLOYMENT INDICATORS

Valley government employment constitutes about 22 percent of total employment and is a significant economic driver. Government employment was one of the few categories of employment that posted three consecutive years of growth. Employment in this category lags all other categories in terms of responding to business cycles. The expectation is therefore for government employment to show a lagged response and decline in the coming months. Since government employment is a strong driver in the Valley, the decline may amplify activity in other categories through induced effects. ▶

Valley government employment grew 3.32 percent in 2025, slower than the 5 percent growth in 2024, in line with lagged behavior. Employment in this category recovered in 2025, restoring all the jobs lost from the pandemic. Government employment is likely to stay below 330,000 by the end of 2027. It is worth noting that even though government employment slowed in 2025, growth was still twice the 1.16 percent long-term benchmark rate. Projections point to 0.13 percent average yearly decline in 2026 followed by 0.84 percent growth in 2027. ▶

Financial activities employment declined at a sharply faster pace in 2025, perhaps pointing to financial difficulties experienced by several community banks resulting from extending bad loans.

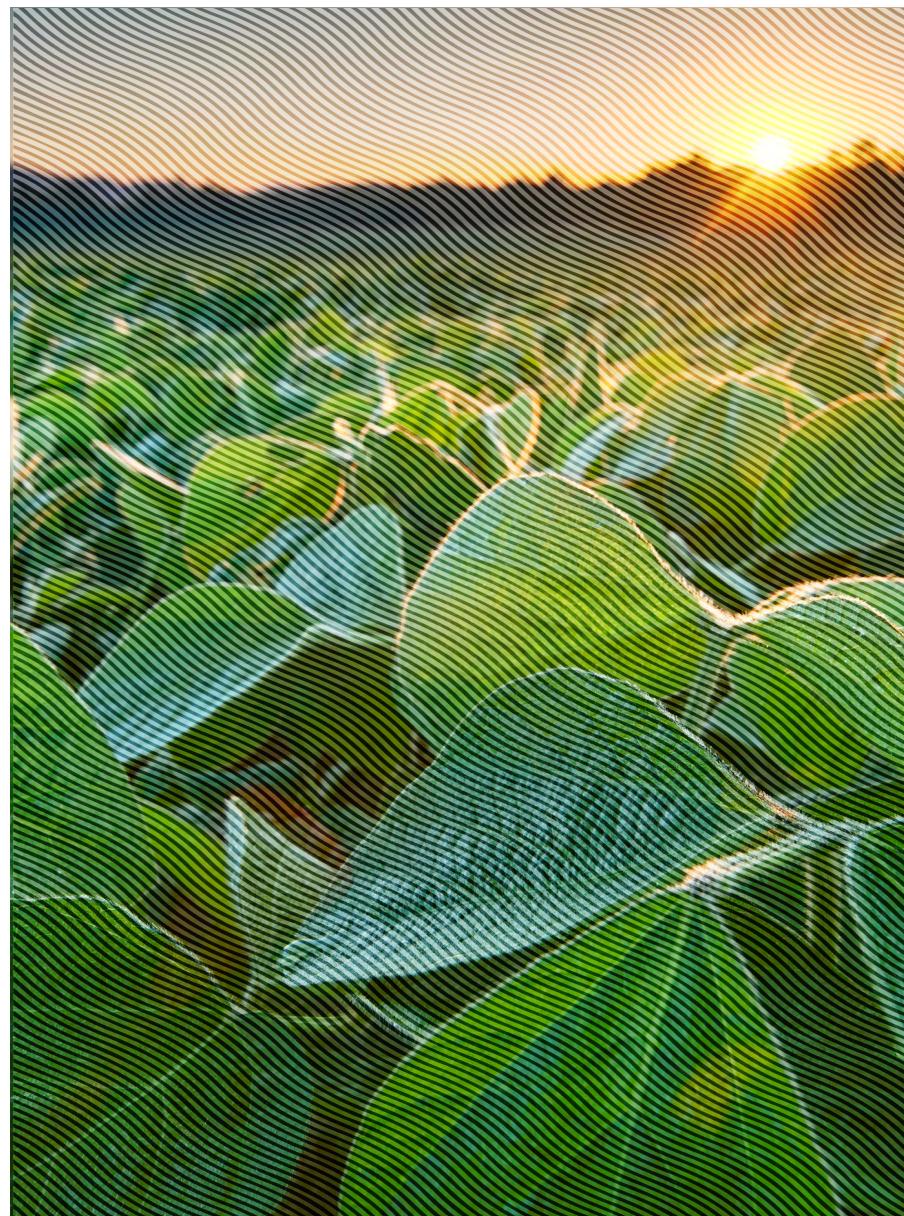
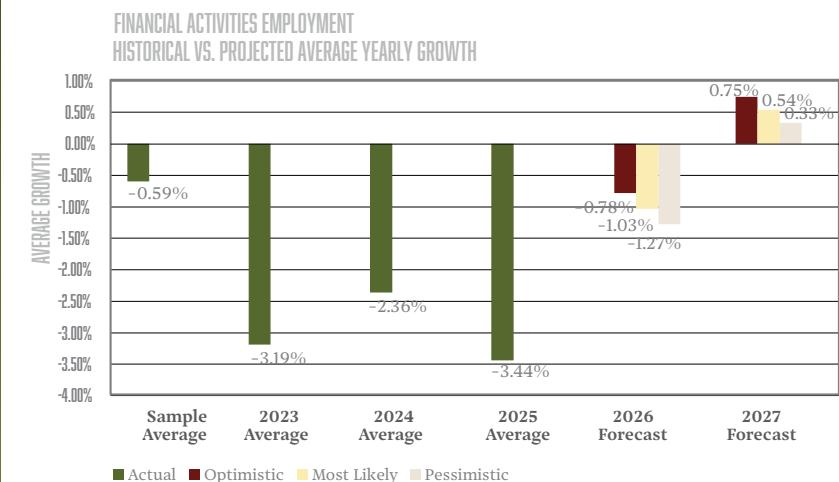
Financial activities employment declined at a sharply faster pace in 2025, perhaps pointing to financial difficulties experienced by several community banks resulting from extending bad loans. Online banking has also continued to negatively affect employment numbers in this category. Employment numbers have been consistently declining for the past three years in a row and at multiple times the long-term benchmark rate. Some leveling off is expected as the rate cuts gradually increase the demand for loans and refinancing. ▶



The level of financial activities employment in the Valley is projected to decline to 37,000 by the end of 2027. There appears to be a flattening declining pattern beginning to form as of the first quarter of 2025. Financial activities employment is projected to post a slower decline of 1.03 percent decline in 2026, followed by a marginal growth of 0.54 percent in 2027, mainly due to falling rates helping demand for home loans and refinancing. ▶

The Valley economy is expected to slow further and perform below par with higher odds of a recession from the adverse effects of tariffs, a shortage of farm workers and rising unemployment. Increased uncertainty about which goods will be affected by tariffs, as witnessed in soybean and other crop production nationwide and to some extent in California, is creating anxiety and depressing prices of agricultural goods as retaliatory tariffs affect Valley farmers, an occurrence witnessed in the first trade wars that began in 2018.

Increased uncertainty about which goods will be affected by tariffs, as witnessed in soybean and other crop production nationwide and to some extent in California, is creating anxiety and depressing prices of agricultural goods as retaliatory tariffs affect Valley farmers, an occurrence witnessed in the first trade wars that began in 2018.



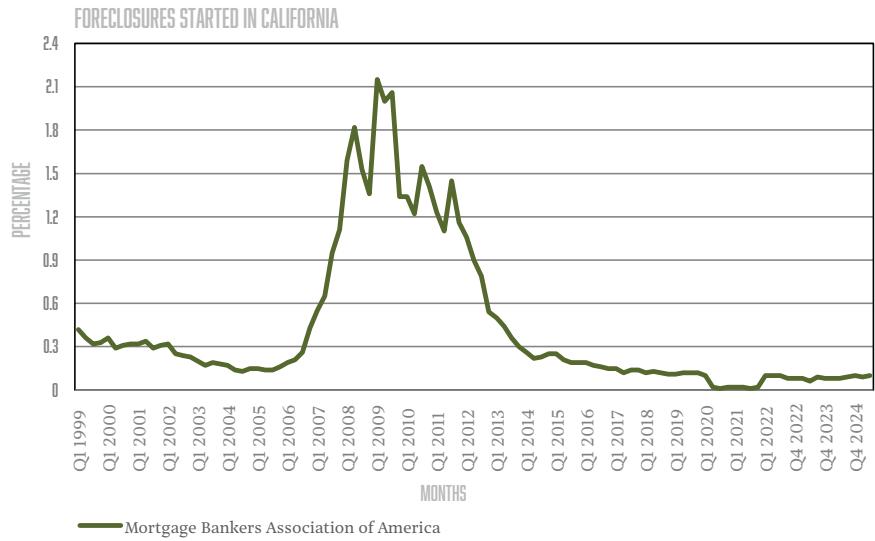
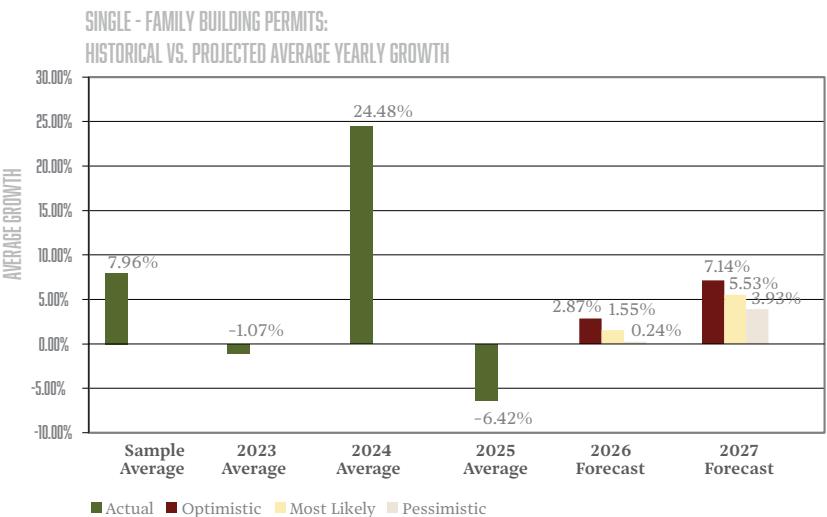
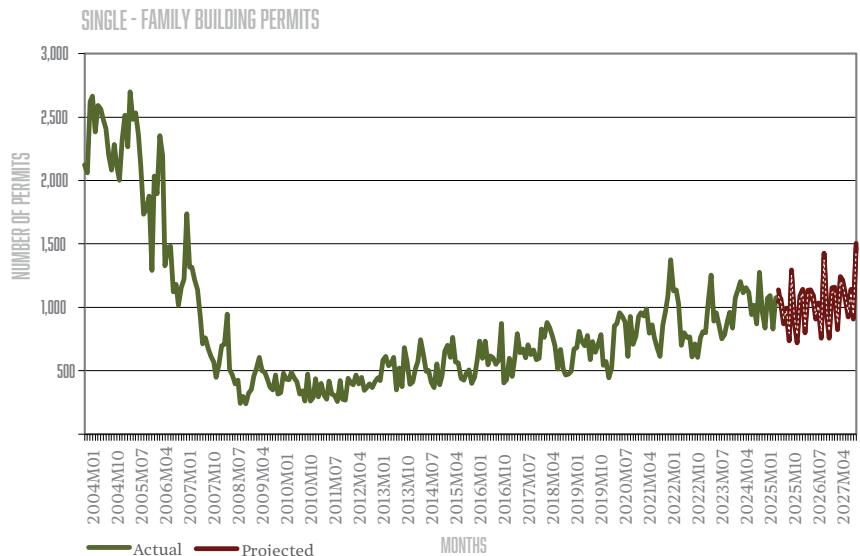
The Bureau of Labor Statistics now lists seven Metropolitan Statistical Areas (MSAs) of the San Joaquin Valley. These MSAs are Fresno, Bakersfield-Delano, Hanford-Corcoran, Merced, Modesto, Stockton and Visalia-Porterville, excluding Madera, which has been merged with Fresno under the heading "Fresno MSA." The total value from the seven MSA headings makes up the total single-family building permits in the Valley. ▶

Single-family housing permits in the Valley grew at a very impressive rate of 24.48 percent in 2024, more than three times the 7.96 percent long-term benchmark rate of growth. In 2025, the growth gave way to a 6.42 percent decline. Valley building permits are on track to exceed 1,250 per month by the end of 2027.

Single-family housing permits in the Valley grew at a very impressive rate of 24.48 percent in 2024, more than three times the 7.96 percent long-term benchmark rate of growth.

Fresno took the lead with 2,283 building permits, ▶ while Bakersfield came second with 2,013 permits in 2025. Stockton fell from first to third in 2025 with 1,818 single-family building permits. A total of 1,197 building permits were issued in Visalia, the fourth fastest growing housing market in 2025. Modesto and Merced took fifth and sixth place with 580 and 471 housing permits respectively. Hanford had 342 building permits issued in 2025. With the rate cuts on their way, projections point to a switch from negative to positive territory at 1.55 percent in 2026 and a faster pace of 5.53 percent in 2027.

Foreclosures-started series data increased about 7 percent in California during 2025. While the increase was significant in terms of the rate of change, the level of foreclosures-started activity is still too low to be concerning. As the slowdown intensifies and more workers lose their jobs, the trend will likely become significantly steeper, as is currently being observed in community bank assets in nonaccrual as well as delinquencies. ▶



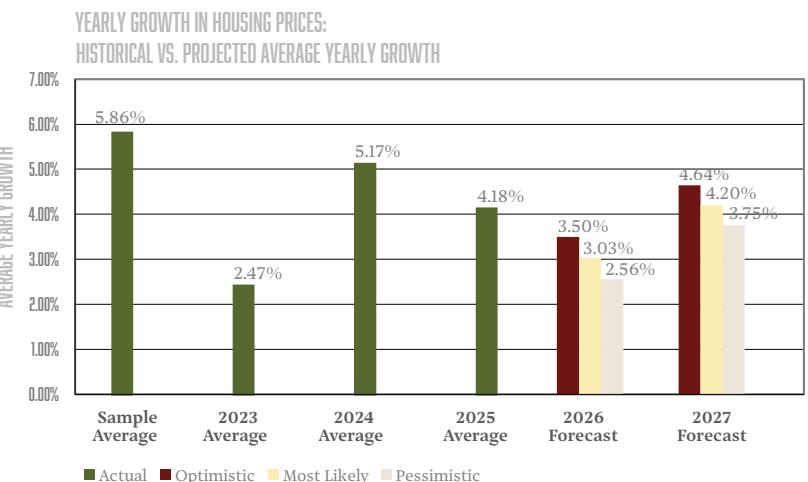
With the Federal Reserve's rate cuts underway, 30-year rates are expected to display a more pronounced falling trend together with the federal funds rate. Lower rates should help more households obtain loans to purchase a home or refinance their existing loans. Falling rates should also help the housing market stay active during an economic downturn. Underwriters have already begun reaching out to households to start refinancing their debt in the second half of 2025.►

Valley single-family home values rose at an average annual rate of 4.18 percent in 2025, slower than the 5.17 percent growth rate in 2024, indicative of a cooling housing market. Despite very high interest rates in the first half of 2025, the existing inventory shortage continued to push home values up in 2025, as homeowners were refraining from putting their homes on the market to avoid facing high rates when applying for loans. After factoring in the average yearly inflation of 2.58 percent in 2025, the real appreciation in home values was 1.6 percent.

The yearly increase in home values both in 2024 and 2025 was remarkable in that they were roughly the same as the long-term benchmark growth rate of 5.86 percent at a time when rates were very high. The dilemma faced by potential homeowners is that with high interest rates, if they buy a home, their mortgage payments will be high. If they wait for lower rates, their mortgage payments will be lower, but home values will be higher, since home values have the same dynamics as the 30-year bond, with rates being inversely related to price. As a partial solution, home buyers can borrow at adjustable rates to lock in the price of the home and make lower monthly payments when rates fall.►

While some regions may report a decline in home values, at the aggregate level, Valley home values are expected to increase at a rate less than the 5.86 percent long-term benchmark rate. Projections point to growth of 3.03 percent in 2026 followed by a 4.2 percent increase in 2027. The faster increase in 2027 will likely occur after the full effect of the decrease in rates begins to be felt in the Valley economy.

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INFLATION AND PRICES

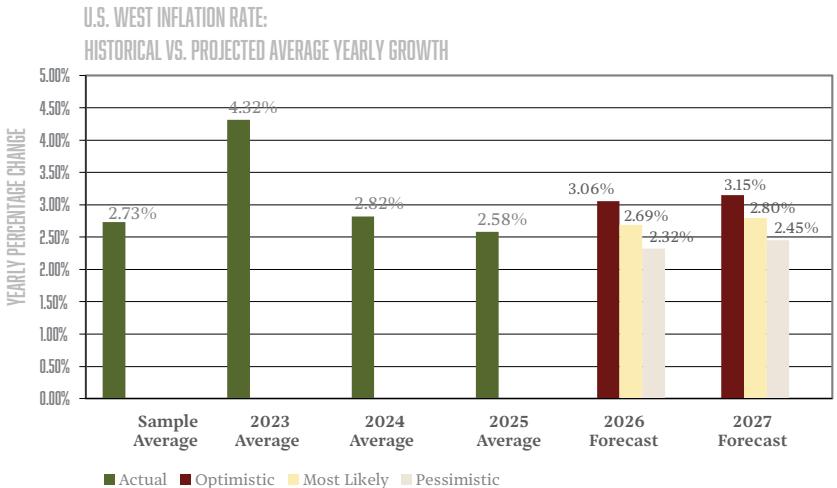
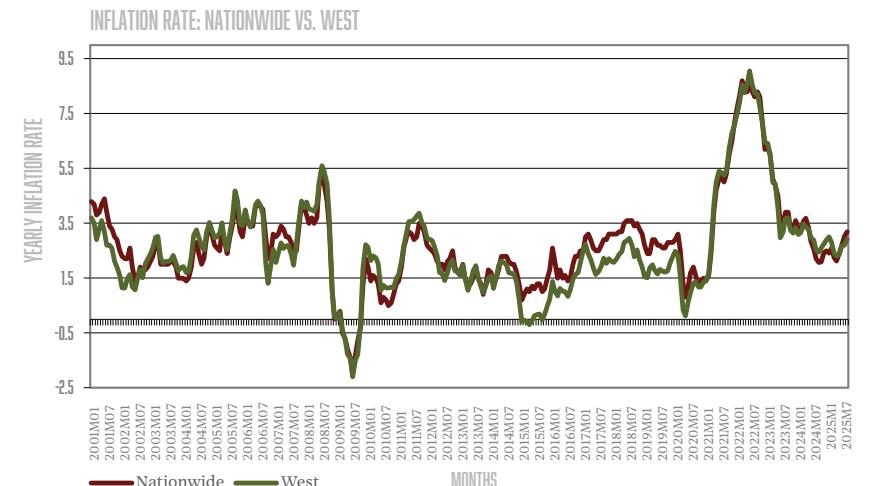
As the impact from tariffs on the economy became clearer, inflation did not fall to the Federal Reserve's target rate of 2 percent but remained close to 3 percent instead. The main cause of inflation continues to be the price of oil, which has simultaneously fallen during the same period and is likely to fall further with a slowing economy.

The inflation rate in the West and nationwide appears to follow a converging path in the third quarter of 2025, a familiar pattern observed before contractions such as the 2008 recession and the pandemic years. This converging pattern serves, to some extent, as a leading indicator of further slowing activity in the economy. As the Federal Reserve's focus is now on the unemployment rate rather than inflation targeting, any fall in the rate of inflation will likely come from slowing aggregate demand or a falling price of oil.

Although not as significant as the price of oil, wage growth was another cost-push factor putting upward pressure on the overall level of prices. Cost-push factors had a greater impact on inflation than demand-pull factors, such as changes in the federal funds rate intended to decrease aggregate demand. Because of the impact of tariffs on the overall price level, the yearly rate of inflation is not likely to come down to the targeted rate of 2 percent, given that two thirds of the tariff cost is being borne by consumers.

The rate of inflation is likely to hover around 2.7 percent in the coming months, facing upward pressure from tariffs and downward pressure from the falling price of oil. Projections of the inflation rate for the Western region point to an average yearly increase of 2.69 percent in 2026 and, as the rate cuts begin to impact aggregate demand in the coming months, a slightly higher increase at 2.8 percent in 2027.▶

Cost-push factors had a greater impact on inflation than demand-pull factors such as changes in the federal funds rate intended to decrease aggregate demand.

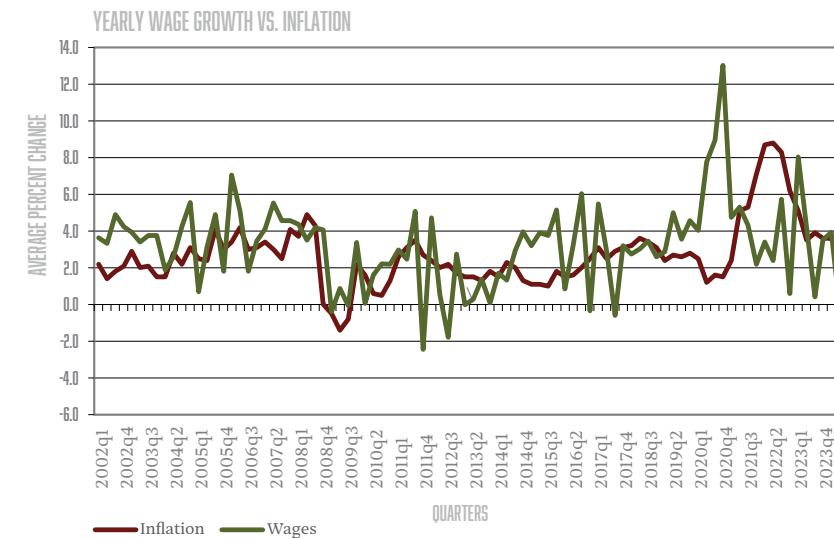
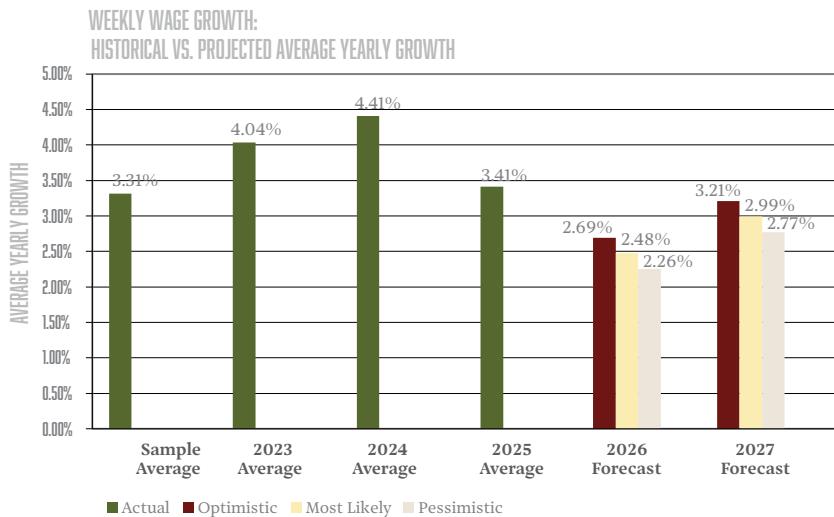
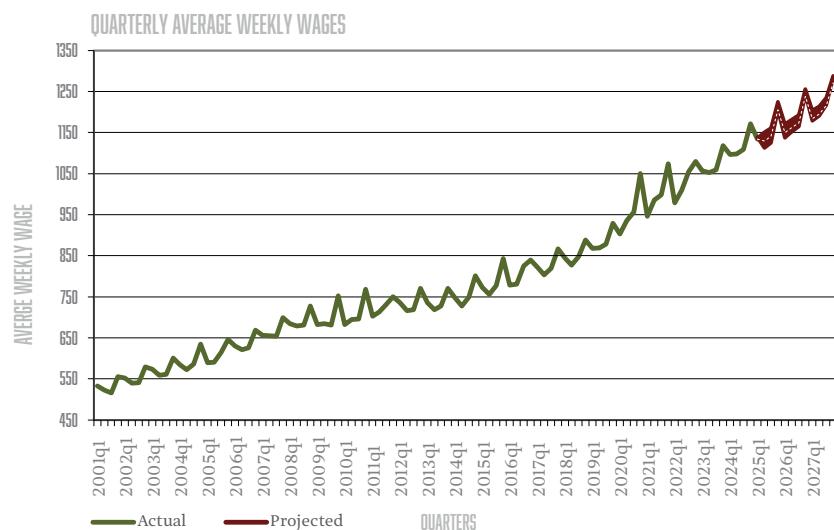


Valley average weekly wages rose 3.41 percent in 2025, a slower pace than the 4.41 percent in 2024. The trend is expected to become flatter and more consistent with the rate of inflation in the months ahead. Average weekly wages will likely stay below \$1,300 by the end of 2027, as wage increases tend to slow during economic downturns. However, shortages observed in farm labor may put some upward pressure on wages, which could be passed on to consumers in the form of higher prices in the grocery market. ▶

Considering that wage growth usually falls below the rate of inflation, 2025 was a remarkable year from the standpoint of real wage appreciation.

Despite the slower rate of increase in 2025 compared with the 2023 and 2024 increases, average weekly wages remained slightly above the long-term benchmark rate of 3.31 percent. The reservation wage of a representative worker continued to be relatively high, reflecting a higher cost of living. Projections point to an average yearly increase of 2.48 percent in 2026 and 2.99 percent in 2027.

During 2025, the average yearly rate of inflation was 2.58 percent. During the same time, average weekly wages increased 3.41 percent, corresponding to an increase in real wages and a rise in purchasing power of 0.83 percent. Considering that wage growth usually falls below the rate of inflation, 2025 was a remarkable year from the standpoint of real wage appreciation. ▶



Valley community bank total deposits grew more than net loans and leases both in 2023 and 2024. This pattern was reversed in 2025, during which net loans and leases grew more than total deposits. However, over the full three-year period, the rate of increase in total deposits was slightly higher than the rate of increase in net loans and leases.

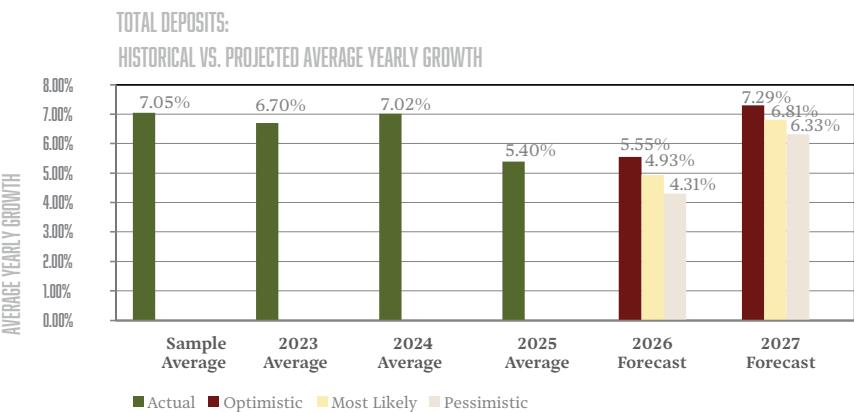
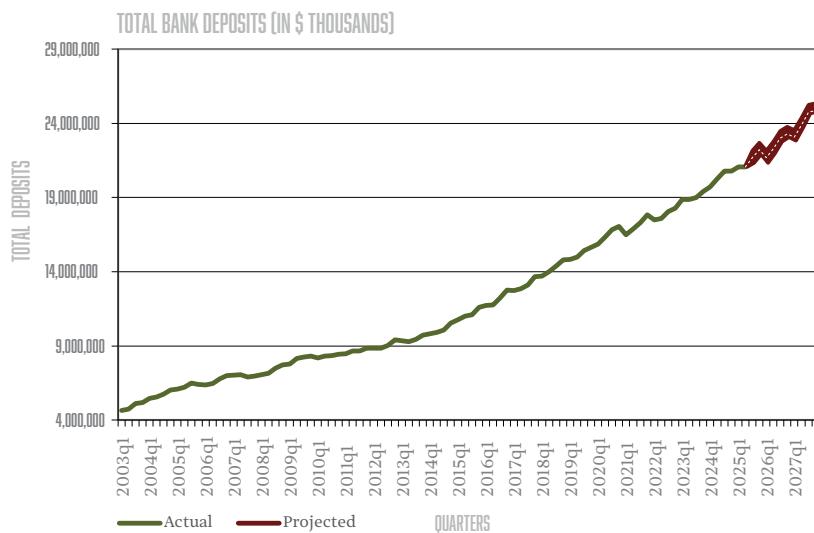
The pace of growth in 2025 was also slower than the 7.05 percent long-term benchmark rate.

Valley total bank deposits grew 5.4 percent in 2025, slower than the 7.02 percent growth in 2024 and 6.7 percent growth in 2023. The pace of growth in 2025 was also slower than the 7.05 percent long-term benchmark rate. Projections point to below-benchmark growth of 4.93 percent in 2026 and faster 6.81 percent growth in 2027. ▶

The level of nonaccruals is rapidly increasing, becoming a concern for the Valley economy.

Valley community bank assets in nonaccrual continued to trend up sharply in 2025, consistent with rising delinquencies and record-high credit card debt, reflective of the Valley consumer being tapped out. The level of nonaccruals is rapidly increasing, becoming a concern for the Valley economy. This pattern will likely continue into the first half of 2026 and then slow but continue to increase thereafter.

Community banks nationwide appear to have more bad loans than expected, and this appears to be true for some Valley community banks. On the other hand, some banks in places like Fresno have brought their accruals under control, causing the picture to differ for assets in default 30 to 89 days and 90-plus days. Unlike nonaccruals, bank assets in default therefore displayed a falling trend beginning in the first quarter of 2025. However, the expectation is for both assets in default 30 to 89 days and 90-plus days to display a rising trend like nonaccruals. ▶

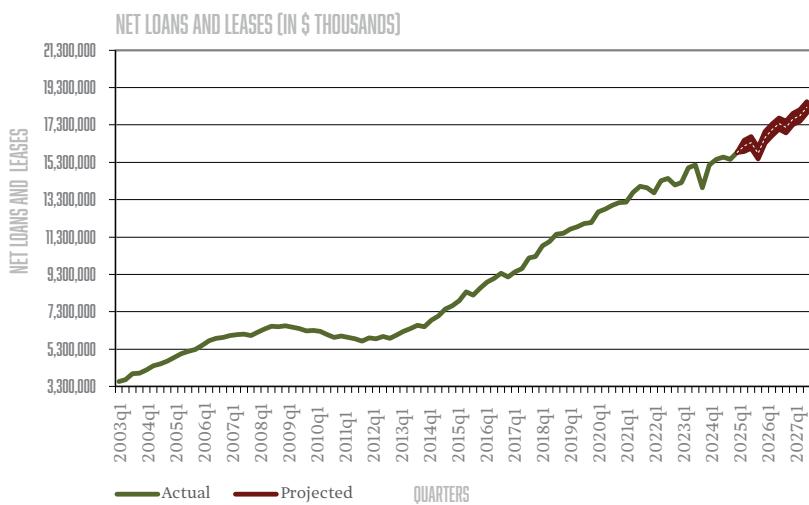
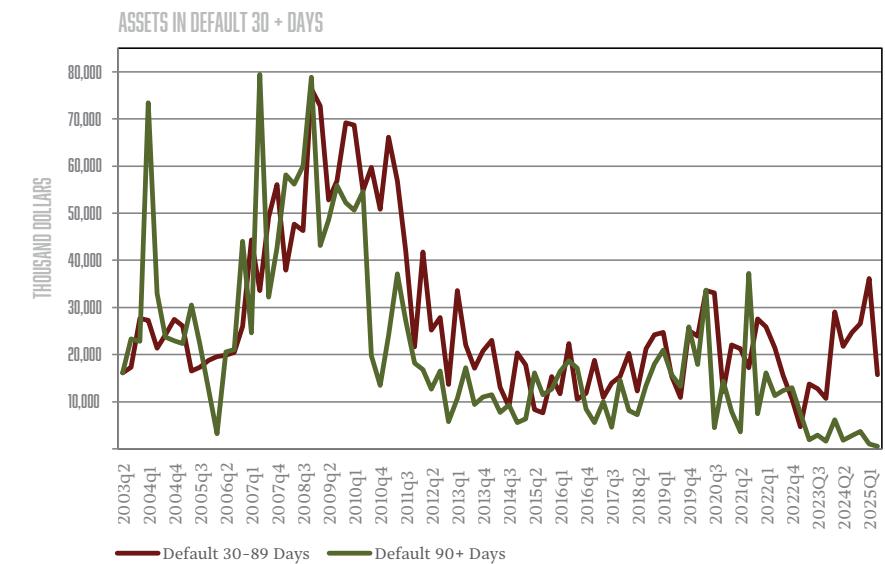


Valley net loans and leases grew at a faster pace than total bank deposits during 2025. Growth in net loans and leases came in at 7.68 percent in 2025, slightly less than the series' long-term benchmark growth of 6.97 percent but significantly higher than 2024 growth of 2.82 percent and 2023 growth of 3.75 percent, given the faster dynamics observed in total bank deposits, which allowed banks to extend more loans. ▶

Projections point to net loans and leases increasing at an average yearly rate of 4.68 percent in 2026 followed by a slightly faster 6.08 percent in 2027.

In the coming months, both net loans ▶ and leases and total deposits will initially perform below par due to a cooling economy. Net loans and leases will likely stay below 19,300,000 while total deposits will stay below the 25,000,000 level during the upcoming two-year interval. Projections point to net loans and leases increasing at an average yearly rate of 4.68 percent in 2026 followed by a slightly faster 6.08 percent in 2027.

Falling interest rates will likely help the struggling car market to some extent, even though some subprime car lenders around the nation, such as Tricolor Holdings, Automotive Credit Corporation and others, have gone under, putting the banks that work with them in a difficult financial position. As these troubled lenders show, the series of rate cuts announced by the Federal Reserve in the third quarter of 2025 may not come in time to have an effect on the economy before an economic contraction occurs.



CONCLUDING REMARKS

As we pointed out in our previous reports, the Valley economy has been extremely resilient. Ongoing trade wars in the form of tariffs and retaliation have generated uncertainty to the extent that farmers do not know what to expect in the future from potential new tariffs and retaliation, creating widespread anxiety. The Valley, being an agricultural economy, is disproportionately affected by the resulting impact of trade wars.

Total employment grew in all counties except the Hanford-Corcoran MSA, where a slight decline was reported, and there was essentially no change in Visalia-Porterville MSA. Valley employment categories that reported a decline were retail trade, information, financial activities, construction, leisure and hospitality services and manufacturing. Categories that reported growth in 2025 were education and health, wholesale trade, government, trade, transportation and utilities.

Home values increased at a slower pace in 2025 than in 2024 despite generationally high interest rates. Homeowners continued to hold on to their homes to avoid facing higher interest rates, resulting in a growing inventory shortage in 2025 and putting further upward pressure on home values. There was a smaller real gain in home values when the inflation rate is factored in during 2025. With the resumption of rate cuts announced in the third quarter of 2025, home values will likely rise but at rates slightly less than the long-term benchmark rate, in line with a cooling economy.

The Valley economy slowed at a relatively accelerated pace in 2025, a trend likely to extend into the first half of 2026, driven by tariffs, retaliation and increased uncertainty about the future path of the economy.

The main driver of inflation appears to be the price of oil, which continues to trend downward with the slowing economy. Valley average weekly wages rose in 2025 at a faster rate than in 2024 and are expected to rise at rates below the long-term benchmark. There was a gain in purchasing power in 2025 when wage growth exceeded the inflation rate.

Valley net loans and leases grew at a faster pace than total bank deposits, reflecting the utilization of gains in total deposits above the net loans and leases in the prior two years. The increase in net loans and leases now appears to be consistent with the increase in total deposits over the full three-year period. Valley community bank assets in nonaccrual trended sharply upward, bringing back economic worries of a contraction. Community bank assets in default 30 to 89 and 90-plus days differed from nonaccruals and displayed a downward trend. The expectation in the coming months is for these two series to display behavior similar to nonaccruals.

At a more macro level, worries over private credit being too high, an overvalued stock market and uncertainty from ongoing trade wars warrant being cash-heavy and maintaining liquidity to support businesses in case a systemic crisis unfolds.

The Valley economy slowed at a relatively accelerated pace in 2025, a trend likely to extend into the first half of 2026, driven by tariffs, retaliation and increased uncertainty about the future path of the economy. Valley residents can avoid being locked into high mortgage payments by borrowing at adjustable mortgage rates (ARM) to decrease interest payments when rates fall. If finances permit, purchasing a home now is an option with the strategy to refinance when rates come down. If not urgent, residents can avoid high borrowing costs by delaying purchases until the end of 2026.



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