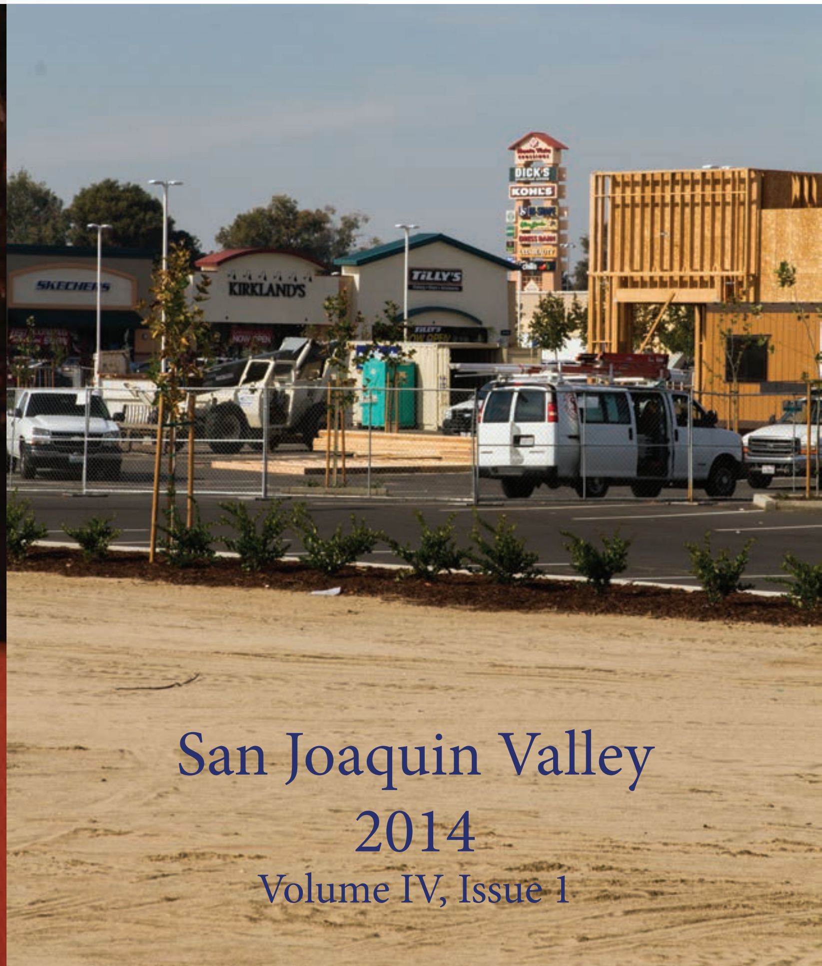
BUSINESS FORECAST REPORT



San Joaquin Valley

2014

Volume IV, Issue 1

BUSINESS
FORECAST REPORT

2014

San Joaquin Valley

California State University, Stanislaus
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Turlock, CA 95382

Volume IV, Issue 1

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Dr. Gökçe Soydemir joined California State University, Stanislaus as the inaugural Foster Farms Endowed Professor of Business Economics in August 2011. Dr. Soydemir brings strong expertise and experience in business analysis and forecasting and has published extensively on applied econometrics, regional economics, financial forecasting, market analysis and international finance.

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Back Cover	Boat-restraining barrier high and dry at Don Pedro Reservoir. Don Pedro is capable of storing 2,000,000 acre feet of water. It currently sits at 38% of capacity. Photo courtesy of Turlock Irrigation District


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Executive Summary

While total employment in the San Joaquin Valley grew in 2014, not every county posted an increase from the previous year. Employment in Merced and Fresno grew the fastest, at 2.47 and 1.42 percent, but Madera, Tulare and Kings posted employment declines at an average annual rate of -0.94, -0.30, and -0.14 percent, respectively. Undoubtedly, drought conditions had an adverse effect on employment. Despite the ongoing drought however, 2014 continued a trend of annual growth in Valley total employment since the end of the recession. Valley total employment grew at an average annual rate of 1.51 percent — above the 10-year benchmark rate of 1.12 percent, but below the previous year's growth of 2.21 percent. Projections now point to 1.65 percent average yearly growth for the next two years. If drought conditions persist, however, Valley total employment growth will probably fall well below the benchmark rate.

The uninterrupted growth in employment was most visible in construction. For the first time since the recession, leisure and hospitality services was the second fastest growing category of employment. In 2014, certain non-farm-related categories of employment such as retail, and leisure and hospitality services performed better than farm-related categories such as wholesale trade. Wholesale trade dropped from the second to the fifth fastest growing employment category in 2014. The weakest employment performance was displayed by manufacturing, information and financial services employment. With the decline halting in 2014, yearly growth in information employment is projected to switch from negative to positive in 2015. Manufacturing employment turned from positive to negative growth in the Valley in 2014 coinciding with a statewide decline that was even more severe. Nationwide, manufacturing employment increased in 2014.

In line with our projections, the average yearly change in home prices displayed a turning point in 2014, as quarterly price appreciations became more balanced than the previous year. A leading indicator in construction activity, housing permits also began posting more balanced growth in 2014. Our projections point to sustainable growth in 2015 and 2016, not leading to any potentially disruptive growth patterns.

The U.S. dollar appreciated in value against most currencies for the past 12 consecutive months. Despite the U.S. dollar's appreciation, the outlook for exports continued to remain positive. The reversal of the long-run business cycles continued in 2014, attracting capital flows back home from abroad and keeping international demand for the U.S. dollar strong.

After consistently remaining well below 2.0 percent for the past 14 months, the inflation rate rose above that mark in the third quarter of 2014. Given the continued expansion in the U.S. economy and the impact on demand-pull factors, prices are projected to increase above 2.3 percent in 2015 and 2016. Cost-push factors such as the price of oil are projected to remain insignificant, due to increased production in North America. Average weekly wages are projected to increase, but the rate of increase is not expected to be significantly different from the rate of inflation.

Valley total bank deposits increased in 2014 at their fastest pace since the end of the recession. Unlike in the previous years, net loans and leases also increased coincidentally with bank deposits, indicating that bank deposits are increasingly being channeled into loans and leases, helping to finance the Valley's economic growth.


Monte Vista
CROSSINGS
DICK'S
SPORTING GOODS
KOHL'S
IN-SHAPE
Olive Garden
DRESS BARN
SKECHERS
KIRKLAND'S
NOW OPEN
CASE
570LXT
4x4

Introduction

This report provides an assessment of past, current and future business trends in the San Joaquin Valley relative to the state and the nation. Time series data spans from January 2001 to August 2014. Two-year medium-term forecasts are from September 2014 to December 2016.

Our aim is to forecast a range rather than a point to provide a more realistic assessment of likely future values. The actual numbers are expected to fall within the upper and lower forecast bands. The yearly average figure for 2014 is from the first eight months of the year including preliminary values for August, whereas the figure for 2013 is from the full 12 months.

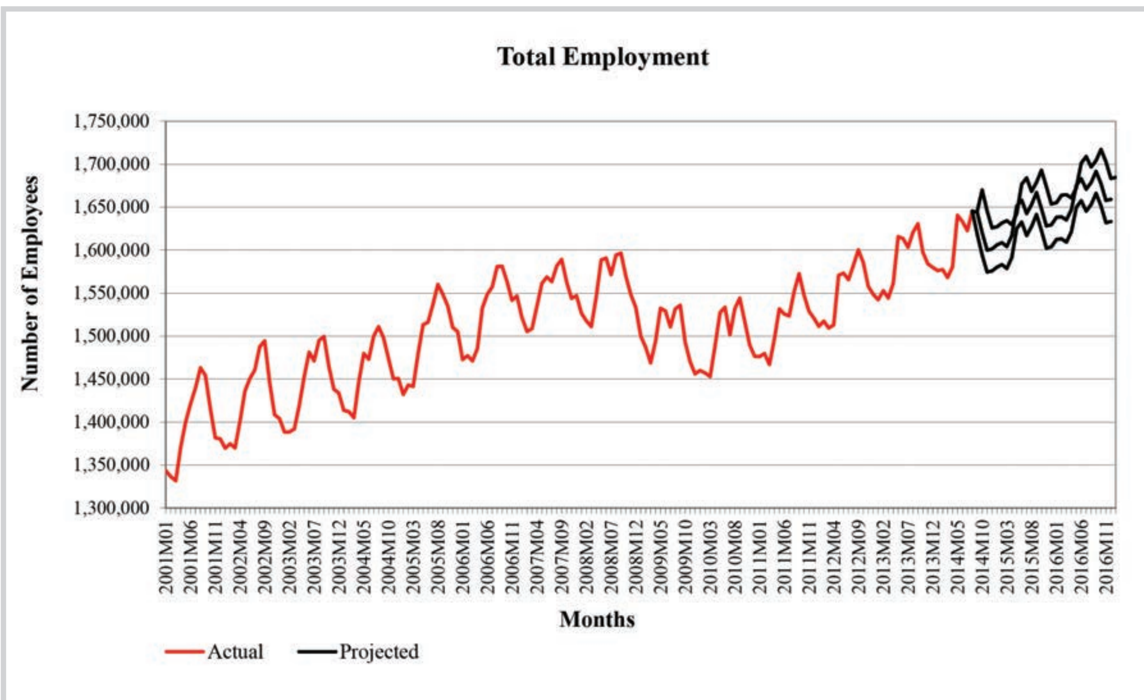
The remainder of this report is structured as follows: Section B provides a discussion of San Joaquin Valley labor market conditions; Section C reports on the region's real estate market; Section D reports on prices and inflation; and Section E reports on banking and capital market indicators.


STUFF
JOBS
ech/Skills/Trades
FRAMERS WANTED
Must have tools
transportation
ELECTRICIANS

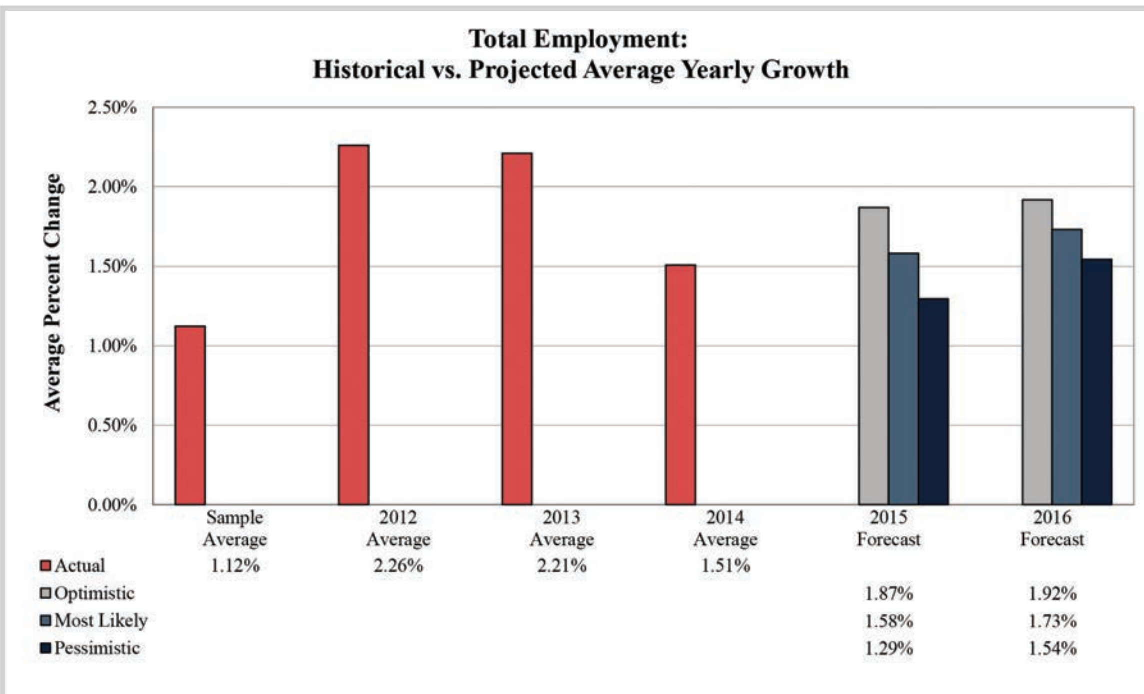
Employment Indicators

As monthly employment numbers for 2014 began to arrive, the impact of the drought became increasingly evident. Employment grew overall in the Valley, but certain counties such as Madera, Tulare and Kings reported declines over the previous year at an annual average rate of -0.94, -0.30 and -0.14 percent, respectively. The fastest-growing counties were Merced and Fresno. Merced employment grew by 2.47, and Fresno employment grew by 1.42 percent. Merced was the fastest-growing county in employment for the past two years.

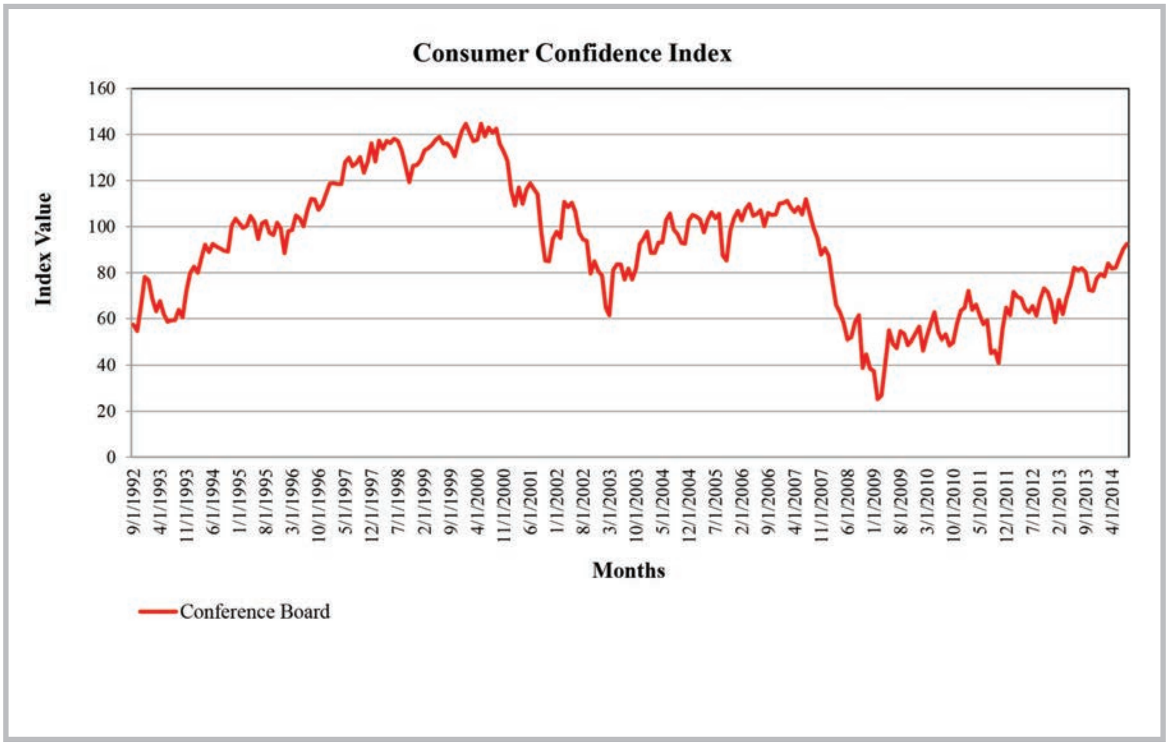
In 2014, seasonal upswings occasionally reached above pre-recession levels, while trend growth stayed consistently below. The more permanent trend growth is projected to reach above pre-recession levels in the latter part of 2015. Total employment in the Valley grew 1.51 percent as of August 2014.



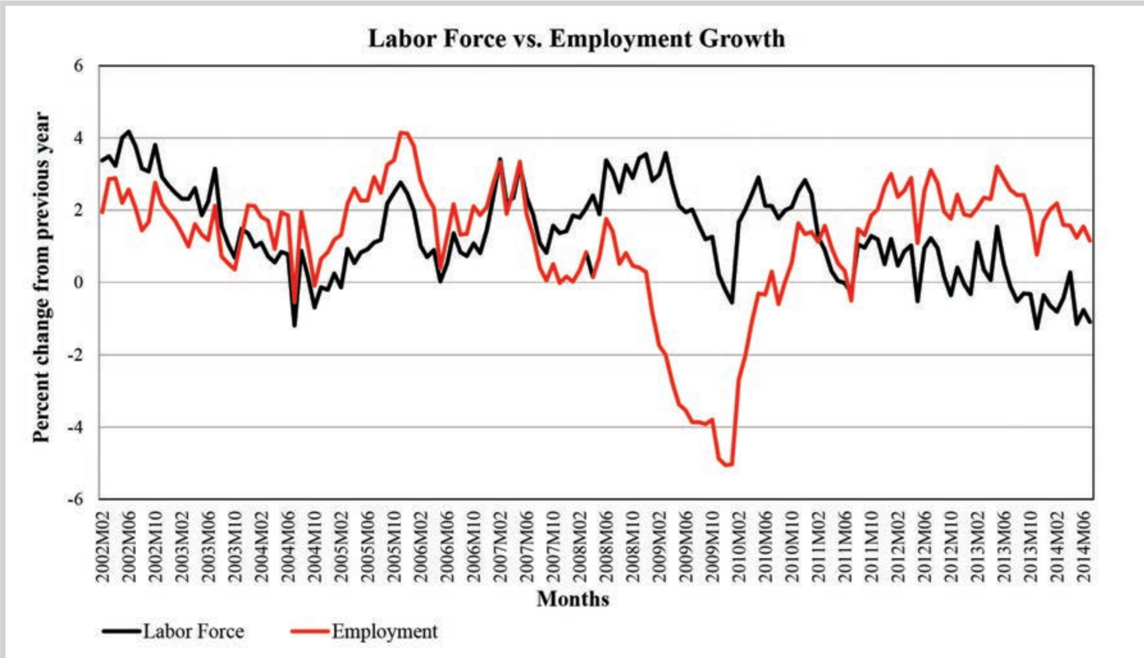
Construction was the sector in which employment grew the most, at 6.80 percent. The sector in which employment performed the worst was financial activities, declining at an average annual rate of -0.88 percent. Information employment, which had performed the worst in the previous year, began improving. Total employment in the Valley is projected to grow at an average annual rate of 1.65 percent in the next two years. If the drought persists in the coming year, the forecasts will fall close to the pessimistic expectation. Other than the ongoing drought, several nationwide factors were also at play. These were weak and uneven growth abroad and an uncertain business environment resulting from the fear of interest rate hikes and tapering that Federal Reserve might undertake



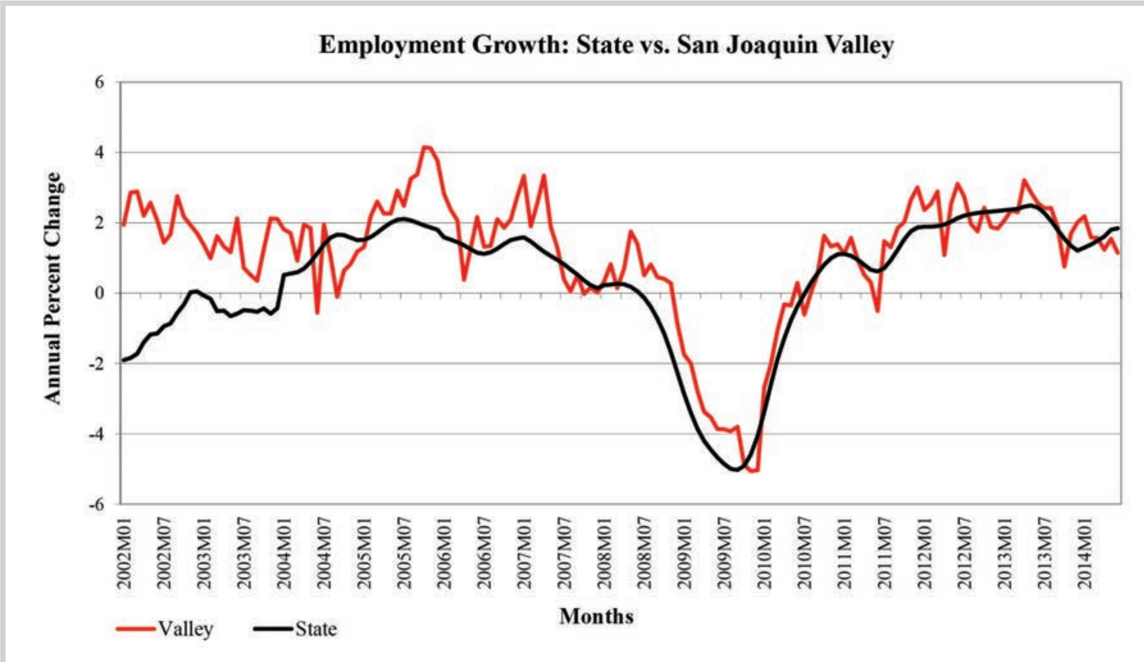
The Conference Board's Consumer Confidence Index has surpassed 80 points and is now approaching 100 points for the first time in six years. In particular, the positive trend became steeper following the first quarter of 2014. Consumers are feeling more confident about the future than in the past couple of years. Increased confidence positively impacts consumption expenditure, which constitutes two-thirds of the national economy.



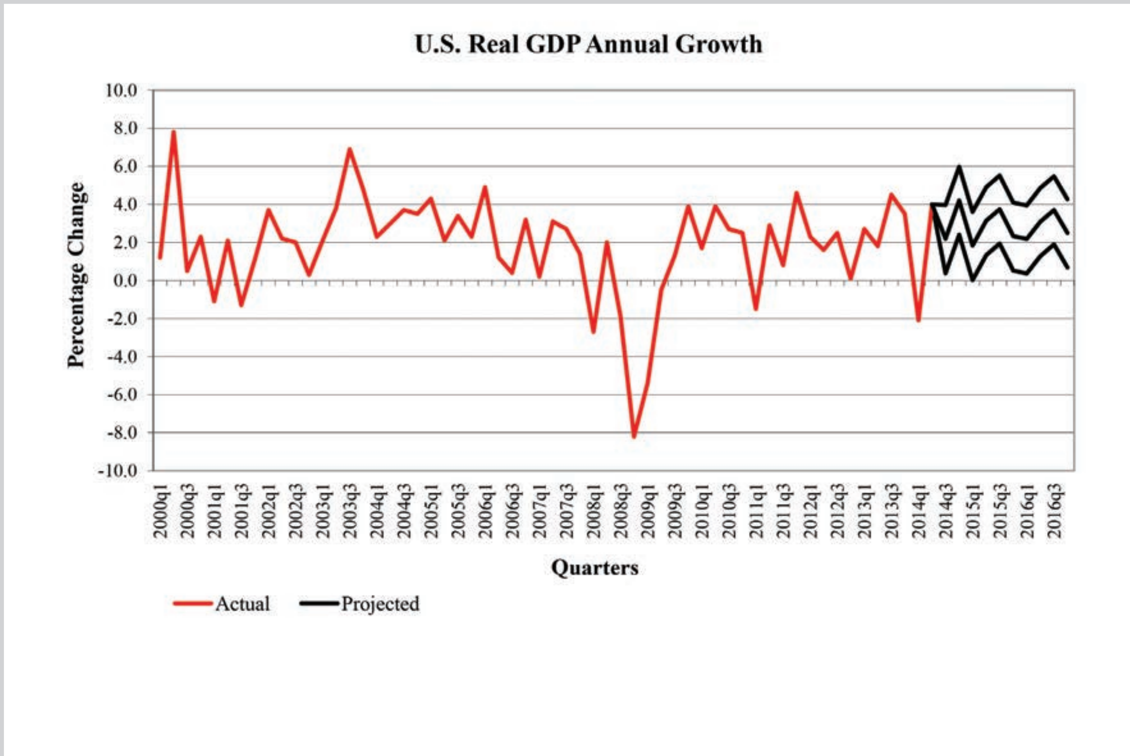
Employment growth in the Valley continued to remain significantly above the labor force growth. Growth in both employment and the labor force began falling in the first half of 2013 and has continued to fall since then. Typical growth of employment in the Valley is about 1.12 percent. The current picture reflects ongoing drought conditions. Further decline in employment growth below 1.5 percent will be of serious concern, particularly when the national economy is expanding.



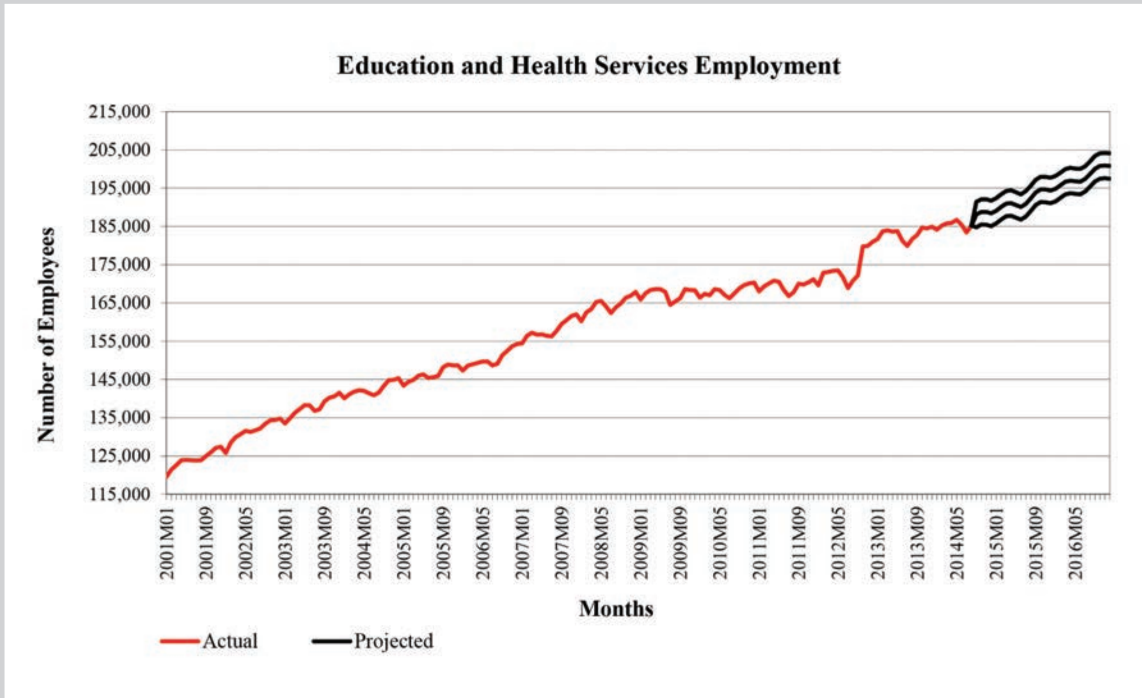
In areas where there is an abundance of land, labor and capital like there is in the San Joaquin Valley, growth should surpass that of the state. This has not yet materialized, and very recently the Valley's employment growth fell slightly below California's employment growth. Given the ongoing recovery of the national economy, employment growth in the region should normally be above the state's. Besides the persistent drought, other structural issues have contributed to the relatively low employment growth in the Valley. These include the prevalence of unskilled labor intensity relative to skilled, as well as the shifting demand for skilled work in the Valley and the nation.



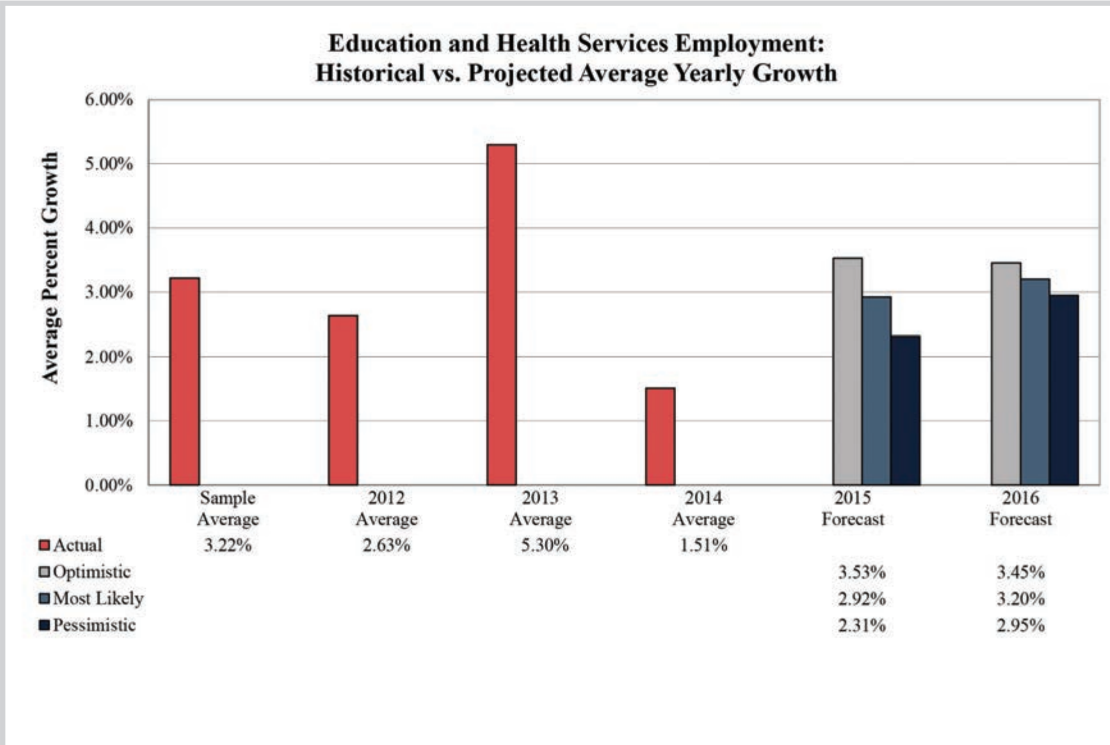
The U.S. and European economies have diverged, as the former clearly entered into the recovery phase a few years back while the latter still struggled with high unemployment and a stagnant economy. Different macroeconomic policies implemented in the two regions certainly played a role. The United States followed a policy of low interest rates and injected liquidity into the system. Those policies came to fruition as the U.S. economy pulled out of the recession. In 2014, real gross domestic product (RGDP) consensus growth rate projections were revised upward. The projections now point to an average annual real economic growth of 3.1 percent.



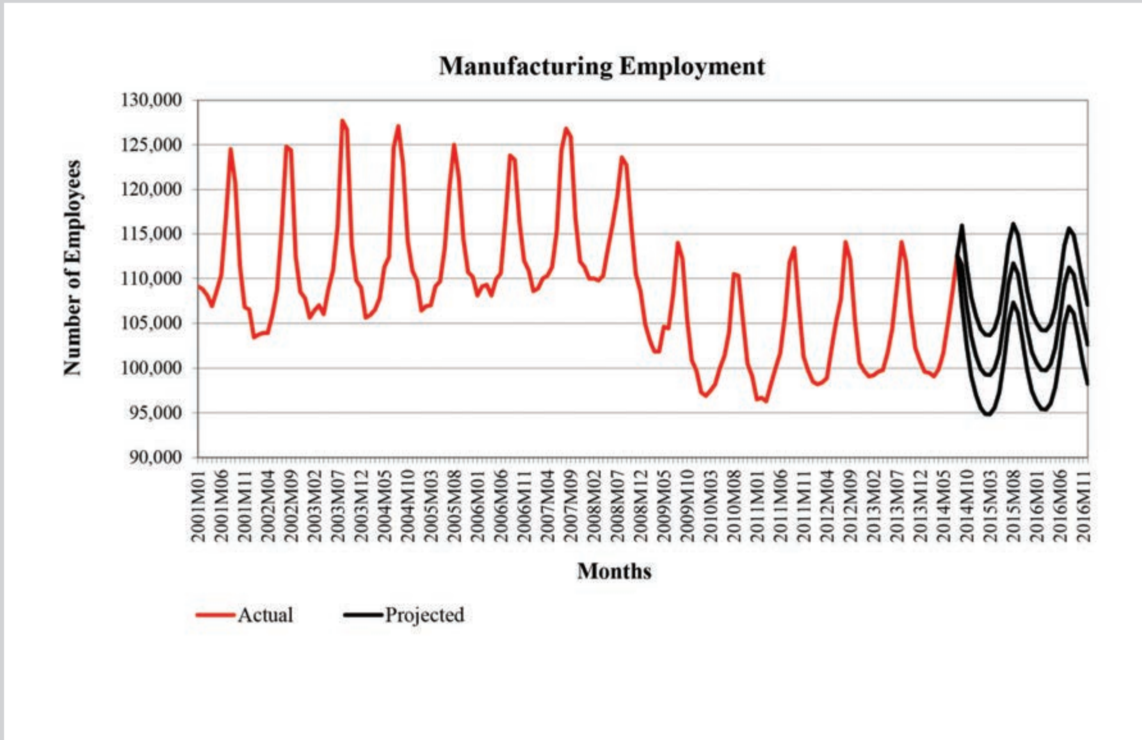
With the new 2014 numbers, the concave pattern that existed in previous years for education and health services employment ended. The series now exhibits a steeper positive trend than in pre-recession years and will likely continue along that trend in 2015 and 2016. Employment in education and health services is projected to exceed 195,000 by the end of 2016.



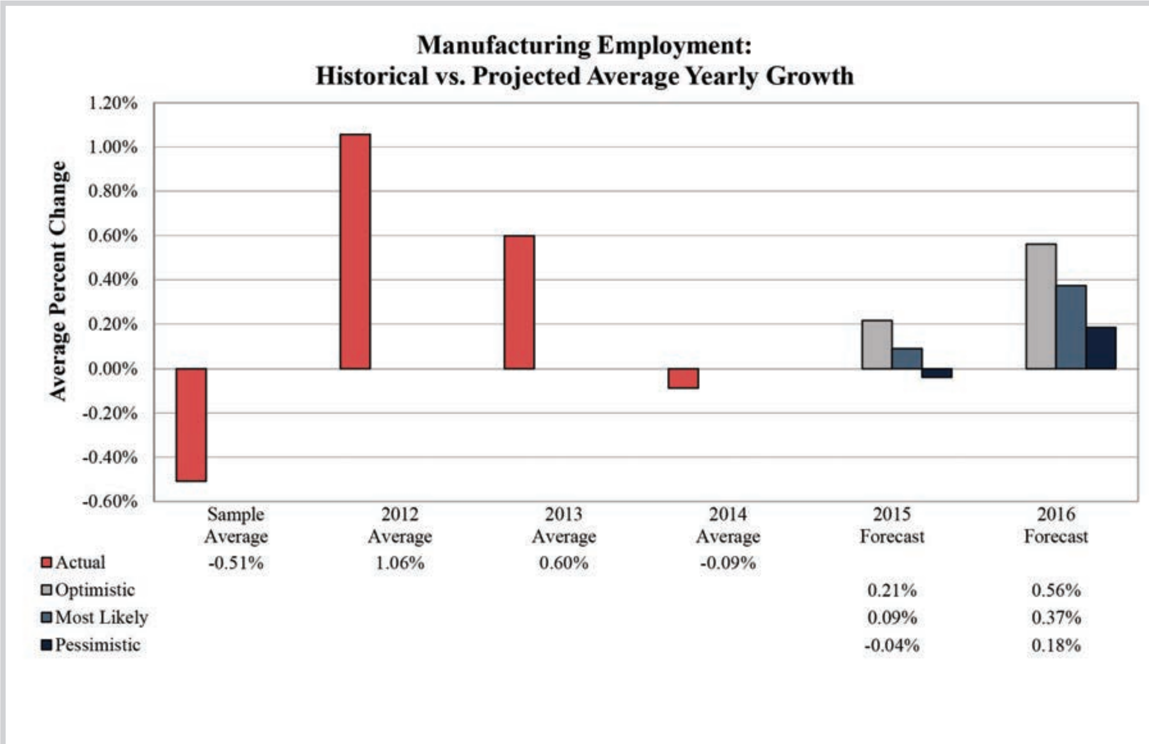
In education and health services employment, the 2014 percentage increase over the previous year was less than the 10-year benchmark rate of 3.22 percent. However, improvement in state and local government budgets is expected to have further positive impact on education employment. Health services employment is expected to increase in the coming years because of the increased demand resulting from the Affordable Care Act. Projections point to a 3.06 percent average annual growth in 2015 and 2016.



Seasonal spikes in Valley manufacturing employment reflect the region's agricultural composition. The trend line formed post-recession continues to remain quite flat when compared with pre-recession performance. As a farm-related category, manufacturing employment appears to be negatively affected by the ongoing drought in the Valley. Employment in this category declined by -0.09 percent in 2014, but this decline was less than the state manufacturing employment decline of -0.11 percent. Manufacturing employment at the national level, however, improved in 2014.



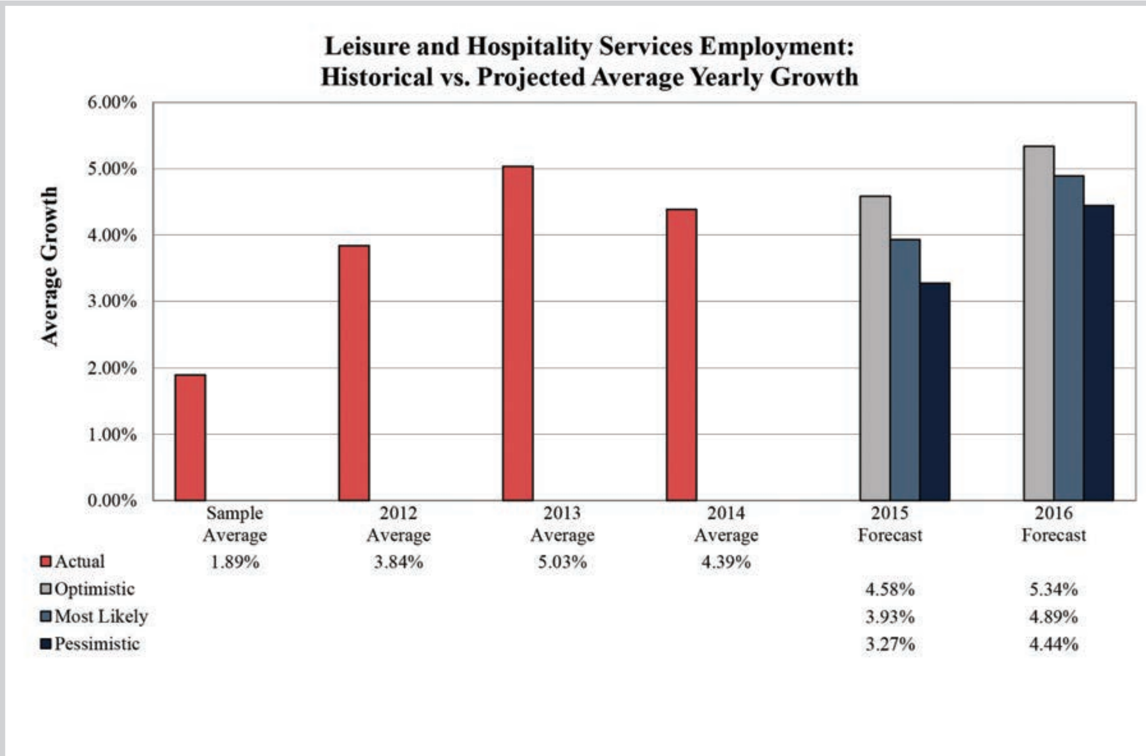
Valley manufacturing employment declined over a 10-year period at an annual average rate of -0.51 percent. Growth increments became smaller and smaller in 2012 and 2013. In 2014, employment in this sector continued to worsen and switched from positive to negative growth for the first time since the recession ended. Projections point to no growth or very negligible growth of 0.09 percent in 2015 and a small improvement of 0.37 percent in 2016.



The Institute for Supply Management's Purchasing Managers Index (PMI) has now reached 60 points for the first time in the past four years. As an important leading indicator with considerable predictive power, PMI suggests manufacturing activity is to slowly improve nationwide. Nationwide manufacturing employment in 2014 continued to improve from the year before, at an average rate of 1.02 percent. If the steepening of the positive trend since the first quarter of 2014 is sustained, manufacturing employment growth may pick up speed in the coming months. The Valley's manufacturing employment, however, together with the entire state of California, worsened in 2014. National manufacturing employment dynamics differ from the region mainly due to the impact of the ongoing drought, which acts as a regional negative supply shock.

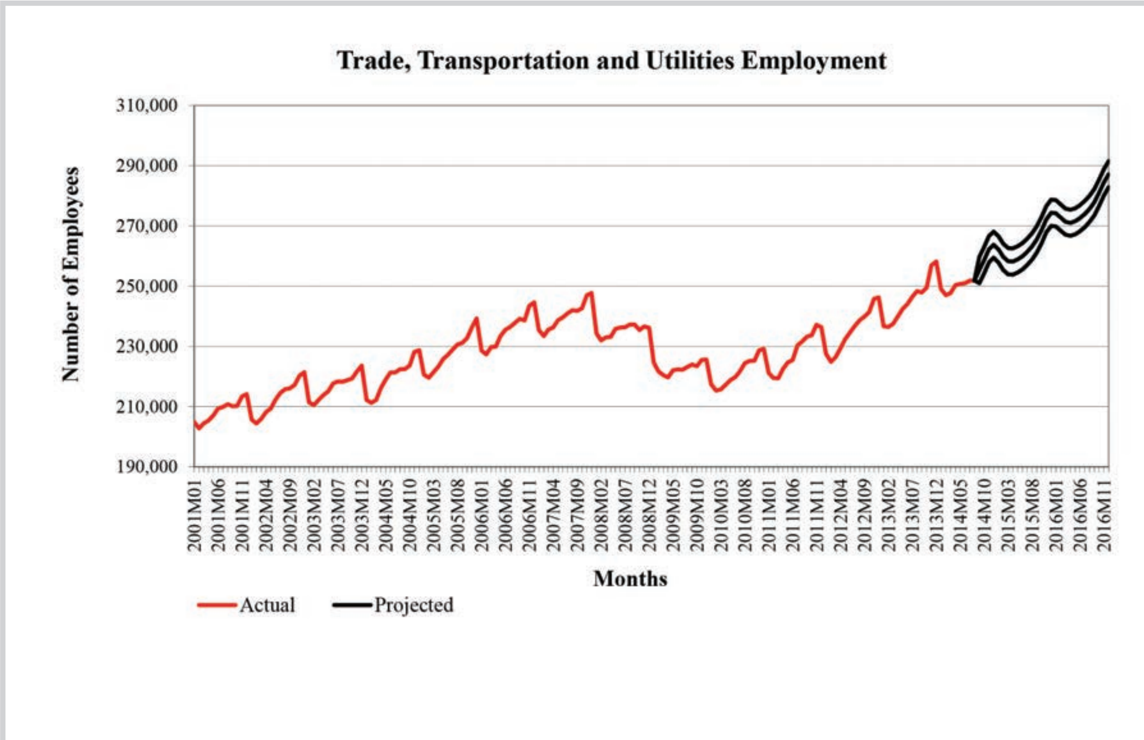
Seasonal variations in leisure and hospitality services employment have become more pronounced and longer lasting since 2012. The positive post-recession trend continues to be steeper than pre-recession, which is quite encouraging and points to further employment growth in this sector. Relatively strong performance in leisure and hospitality services employment suggests this sector is poised to become another pillar of employment in which the Valley has a competitive advantage.

Leisure and hospitality services employment in the Valley has been performing well above the 10-year benchmark rate since 2012, making leisure and hospitality services the second-fastest-growing category of employment in the Valley in 2014. Employment numbers in this sector are to significantly increase for some time to come.

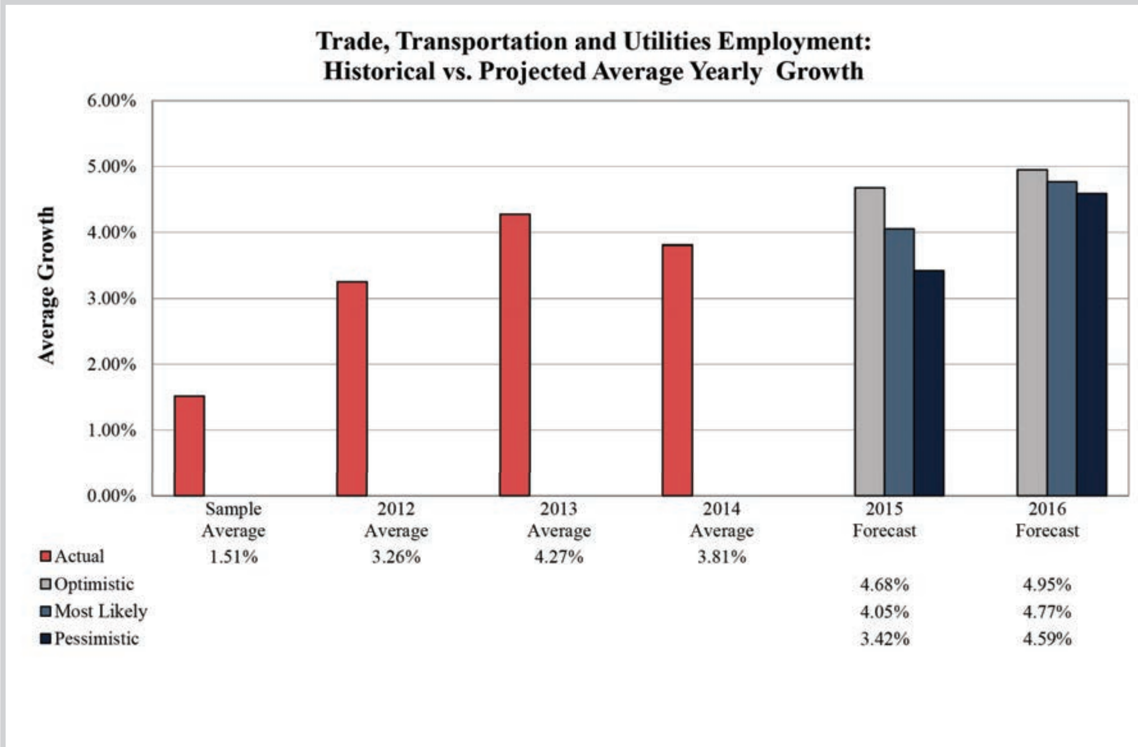


Average yearly growth in leisure and hospitality services employment in 2014 was 4.39 percent — significantly above the 10-year benchmark rate of 1.89 percent. Projections point to similar growth in 2015 and 2016, at an average rate of 4.41 percent.

Trade, transportation and utilities employment continued to be the third-best-performing category of employment in 2014. Employment growth in this category also displayed a steeper trend post-recession. The seasonal peak is projected to reach 270,000 by the first half of 2015.



Growth in trade, transportation and utilities employment has steadily remained above 3.0 percent with little yearly fluctuation since 2012, pointing to robust employment growth in this category. A farm-related sector, trade, transportation and utilities employment grew 3.81 percent in 2014. Average annual growth in 2015 and 2016 is projected to stay strong at 4.42 percent.



Retail trade employment is now the fourth-strongest-performing category of employment in the Valley as of 2014. Employment in this category is projected to reach 160,000 by the end of 2015. Retail trade is increasingly becoming more vibrant in the Valley, showing a steeper rise post-recession along with strong year-over-year employment numbers. The Valley's unskilled workforce is a good match for sectors such as retail, which require relatively less skill than other sectors such as manufacturing, financial activities, education and health services.

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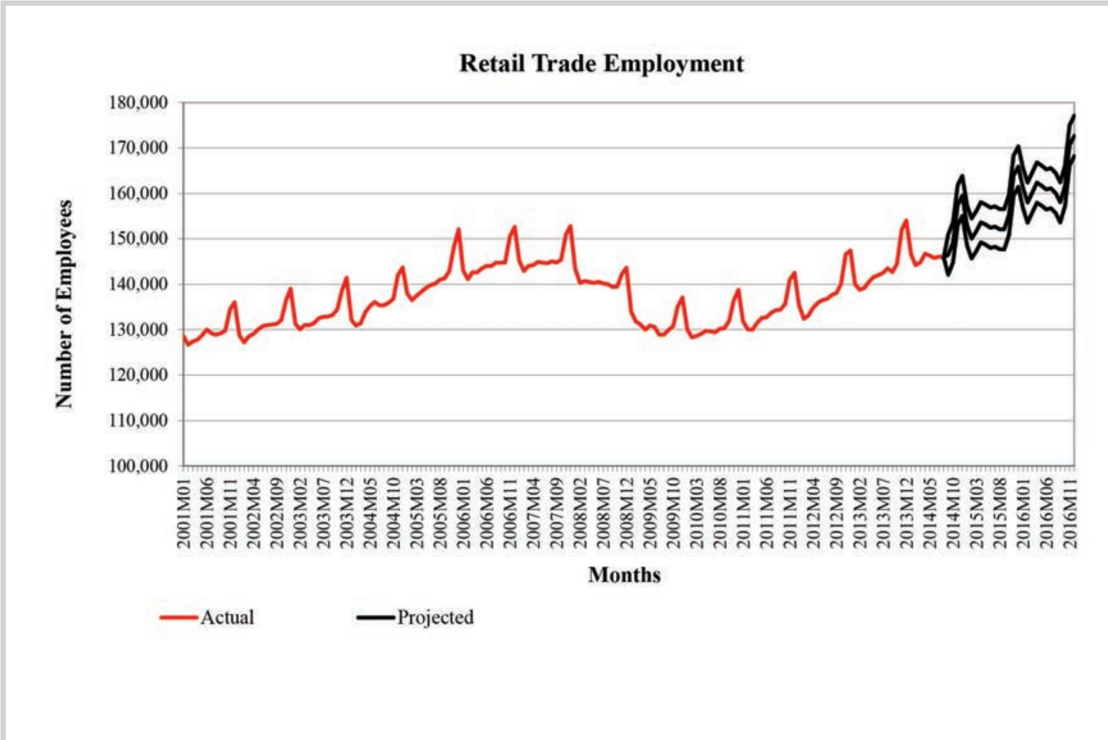
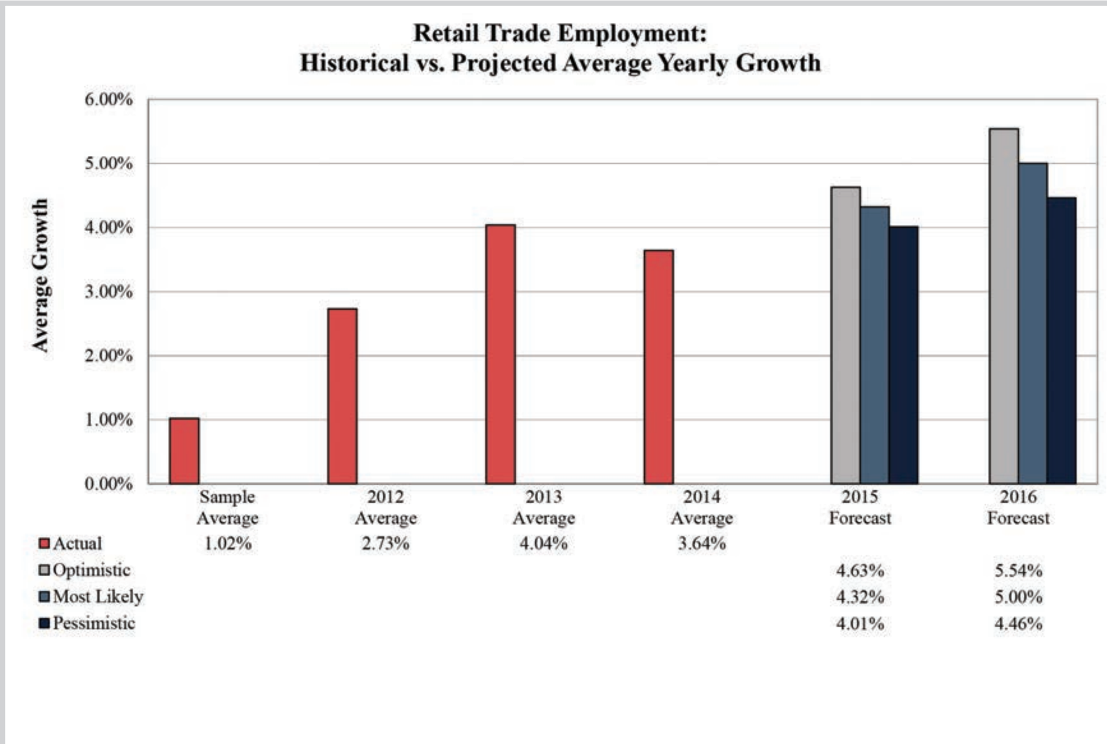
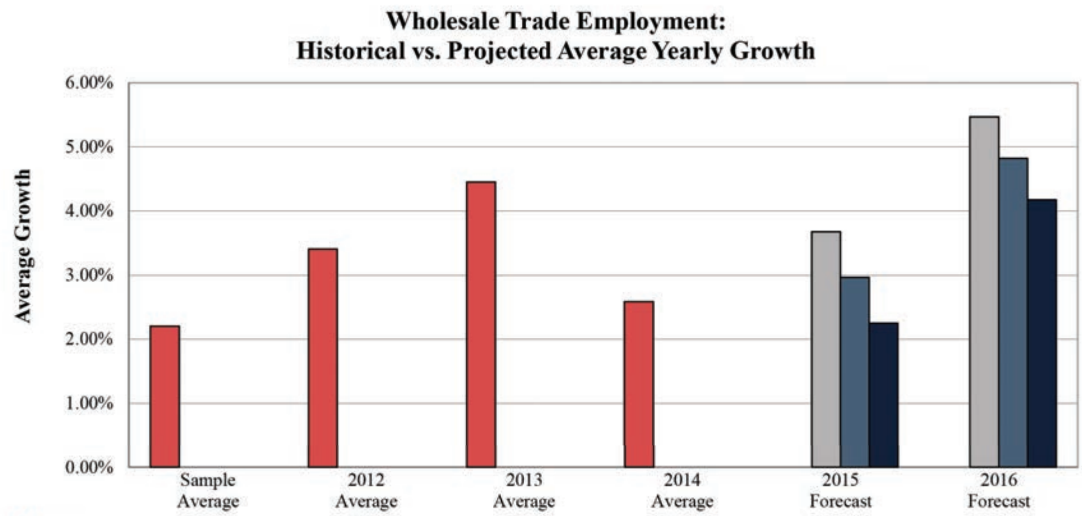


Retail trade employment grew by 3.64 percent in 2014. Yearly growth in this sector was more than three times the 10-year benchmark rate and has maintained growth of at least 2.5 times the benchmark rate since 2012. Projections show that retail trade employment will grow by 4.66 percent on average in 2015 and 2016.



Another farm-related category, wholesale trade employment, dropped from the Valley's second-fastest-growing employment category to the fifth after posting an average yearly growth of 2.59 percent in 2014, nearly low enough to match the 10-year benchmark growth. The drop in the growth rate of this farm-related employment is an indirect reflection of the ongoing drought in the Valley, particularly for those counties in the more heavily affected region including Madera, Tulare and Kings.

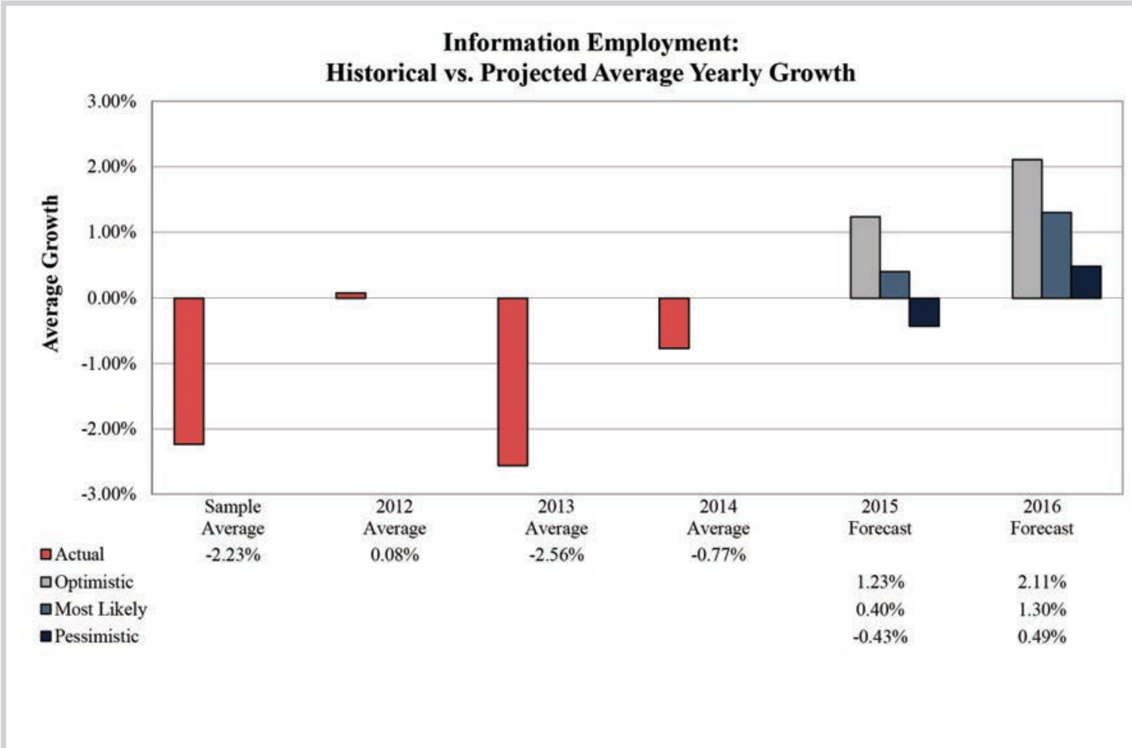
The average annual growth in wholesale trade employment fell from 4.45 percent in 2013 to 2.59 percent in 2014. Due to the drought, growth projections point to lower growth than previous years for 2015, at 2.96 percent. A higher growth projection of 4.82 percent in 2016 assumes drought conditions will be less severe in two years.



	Sample Average	2012 Average	2013 Average	2014 Average	2015 Forecast	2016 Forecast
Actual	2.21%	3.41%	4.45%	2.59%		
Optimistic					3.68%	5.47%
Most Likely					2.96%	4.82%
Pessimistic					2.25%	4.17%

Valley information employment did not recover and instead kept worsening following the end of recessionary years. As a category of employment that is not farm-related, information employment continues to suffer structurally in the Valley. Several apparent turning points displayed in the past did not turn out to be permanent. However, the yearly decline in 2014 was significantly less than in 2013, suggesting that the turning point that occurred in the second half of 2014 will likely be permanent this time around.

Information employment growth worsened by -2.56 percent in 2013, but the 2014 decline was much less at -0.77 percent. The projections point to continuation of this trend into 2015 and 2016. The expectation is that the growth rate in information employment will enter into positive territory by 2015 and post a growth rate above 1.0 percent by 2016. Demand for information technology personnel is expected to be driven by the health care industry in the Valley, as a result of the Affordable Care Act.



For the third year in a row, construction employment was the fastest growing category of employment in the Valley, projected to reach 45,000 before the first half of 2015. Most of the workers who were displaced during the recession are now back at work in the construction industry. When compared with pre-recession activity, construction employment is now displaying more balanced post-recession growth, as can be observed by the newly forming trend.

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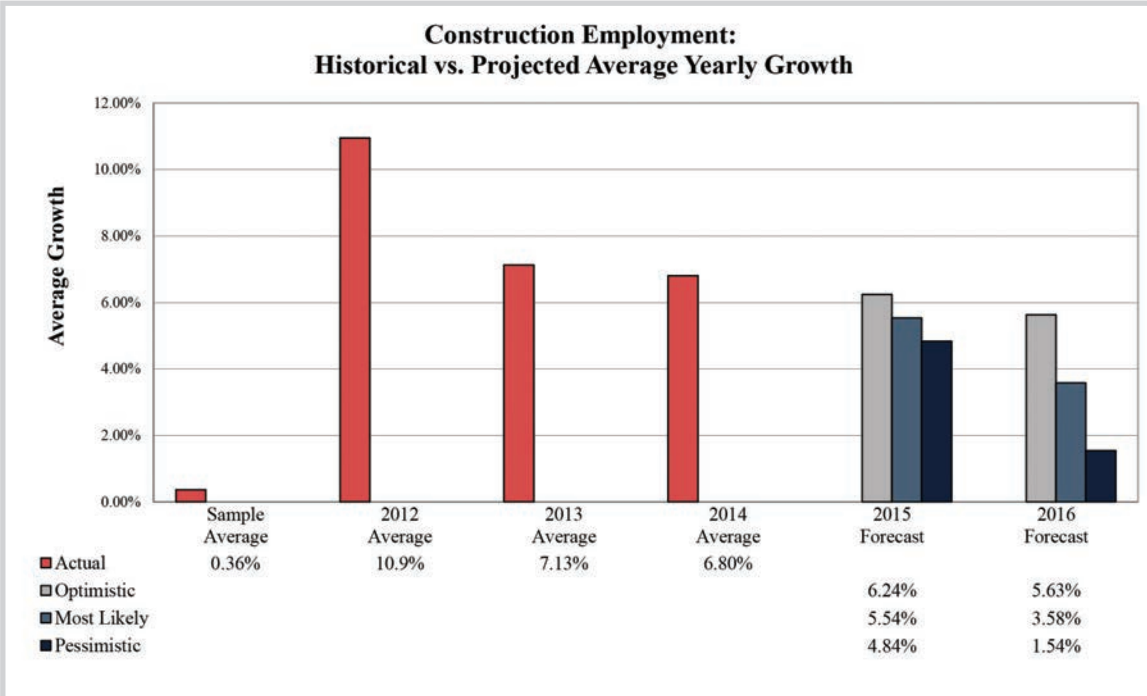
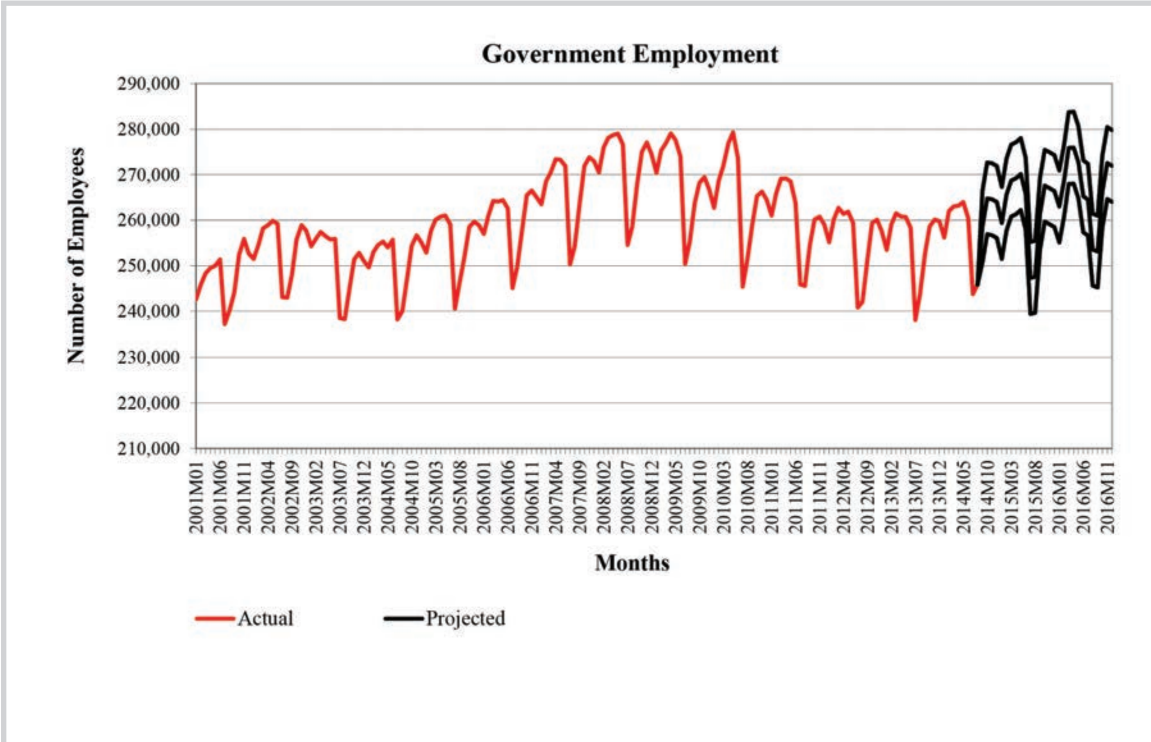
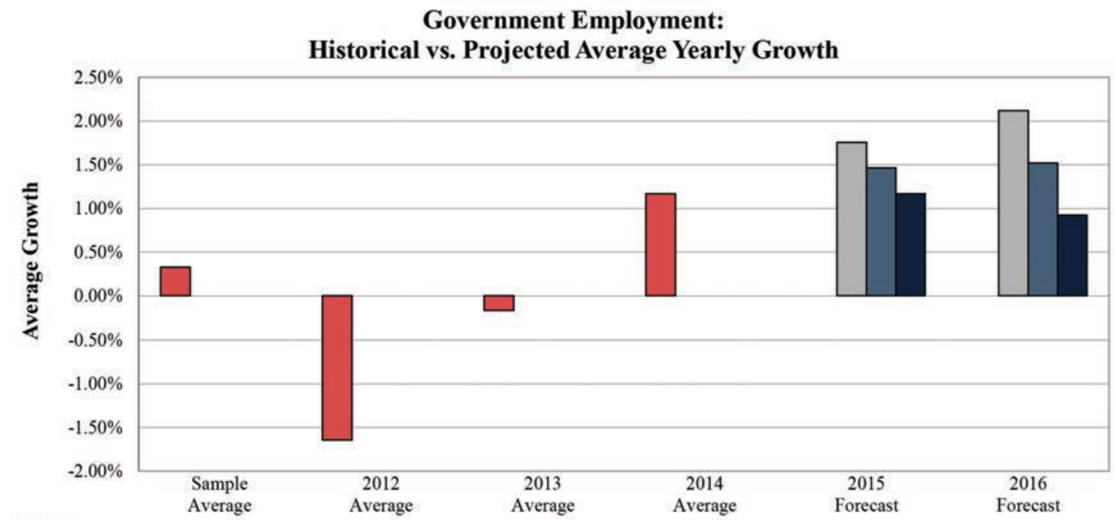
Construction employment grew at an average annual rate of 6.80 percent in 2014. The decline from double-digit to single-digit growth reflects sustainable growth in this category of employment. Projections point to further adjustment before settling into steady-state average annual growth of 4.56 percent in 2015 and 2016. Construction employment will continue to remain one of the fastest-growing categories of employment in the Valley.



In line with the past year's projection of a turning point, the government employment growth rate switched from negative to positive in 2014. Recovery in the government sector lagged economic recovery. Growth in government employment will improve further in the coming months as the regional economy continues to recover.

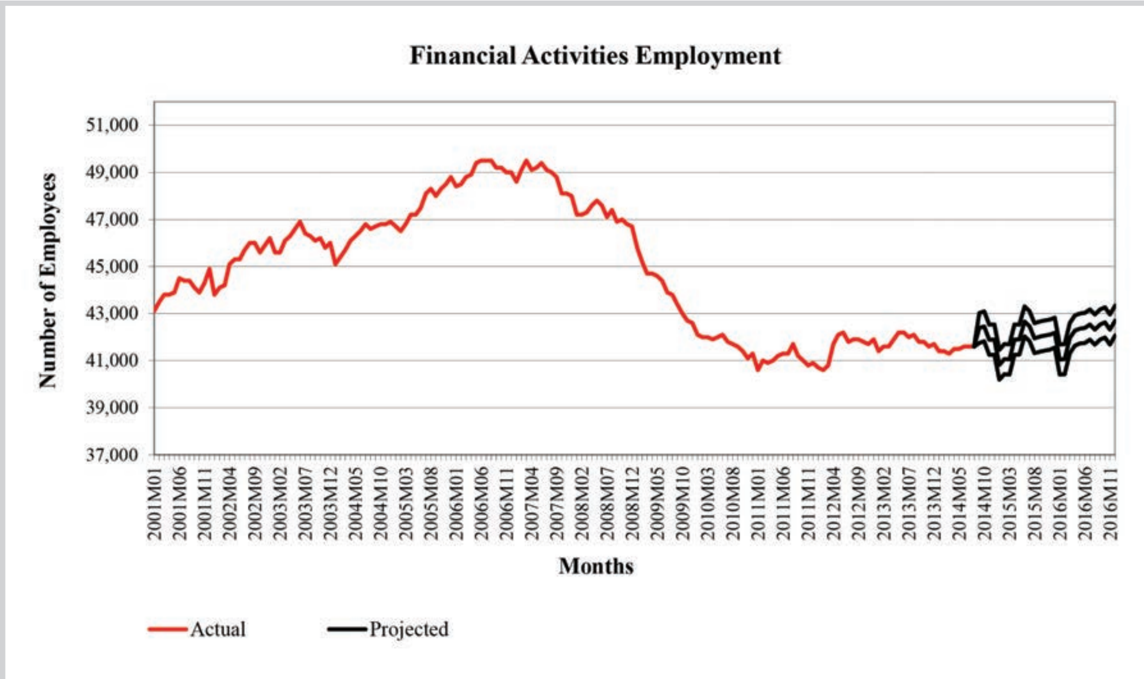


Government employment finally began to increase in proportion to the overall economic activity, following a long lag. It will still take time, however, to catch the trend growth displayed before the recession. Government employment growth is projected to improve at an average annual rate of 1.49 percent in the next two-year period.

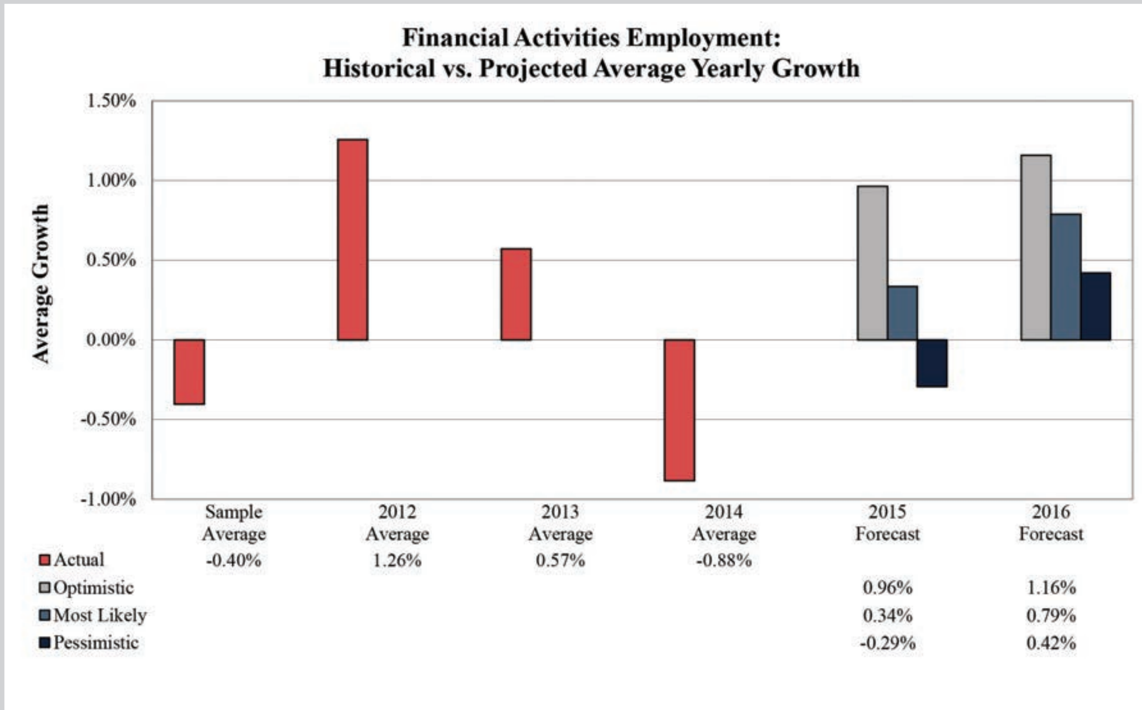


	Sample Average	2012 Average	2013 Average	2014 Average	2015 Forecast	2016 Forecast
Actual	0.33%	-1.64%	-0.17%	1.17%		
Optimistic					1.76%	2.12%
Most Likely					1.46%	1.52%
Pessimistic					1.17%	0.92%

Financial activities employment continued to exhibit a flat trend of around 41,000. As another category of employment that suffers structurally in the Valley, financial activities employment is not likely to reach pre-recession levels in the near future. In fact, the annual growth rate in this category turned from positive to negative in 2014.



Financial activities employment declined by -0.88 percent over the previous year in 2014, worsening by twice the 10-year benchmark rate of -0.40 percent. Employment in this category is not projected to accelerate in improvement over the next two-year interval. Projections point to stagnant activity, with negligible average annual growth of 0.56 percent in 2015 and 2016.

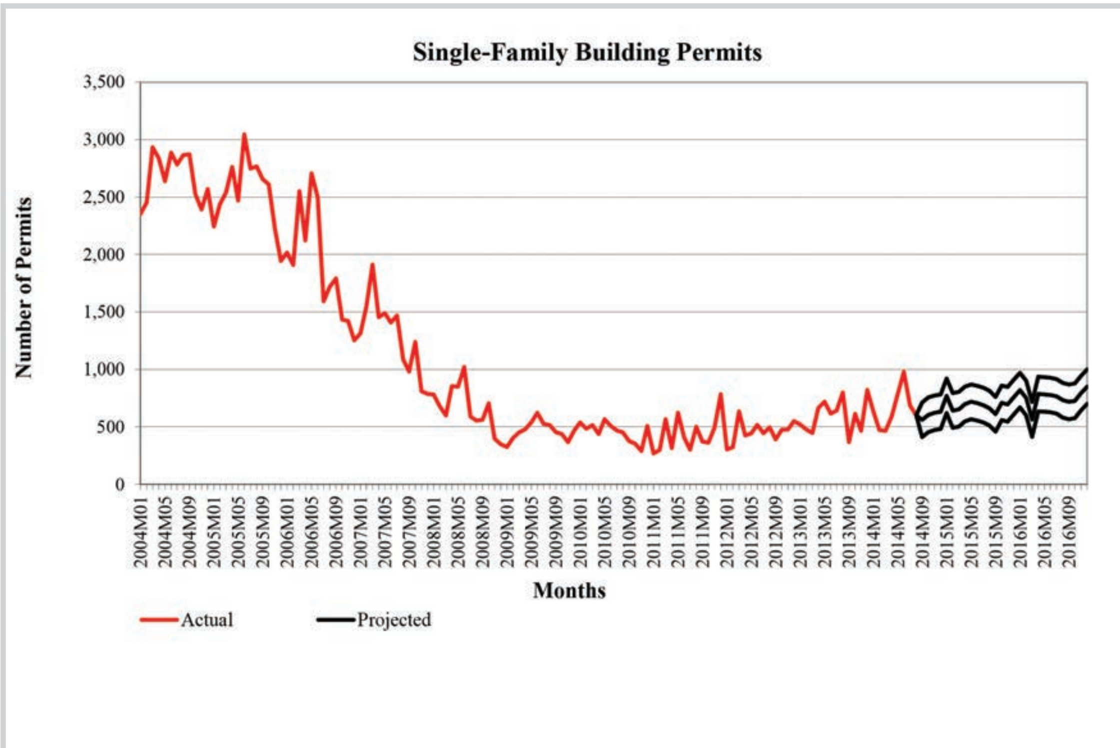


While total employment grew in the Valley, growth in 2014 was less than 2013. Unlike 2013, not all counties grew in 2014. While employment in Fresno and Merced grew the fastest, employment in Madera, Tulare and Kings declined over the previous year. The drought had a heavier impact on the latter three counties. Valley construction, and leisure and hospitality services employment grew the most while information and financial activities employment continued to suffer in 2014, rendering them unlikely to reach pre-recession levels in the foreseeable future.

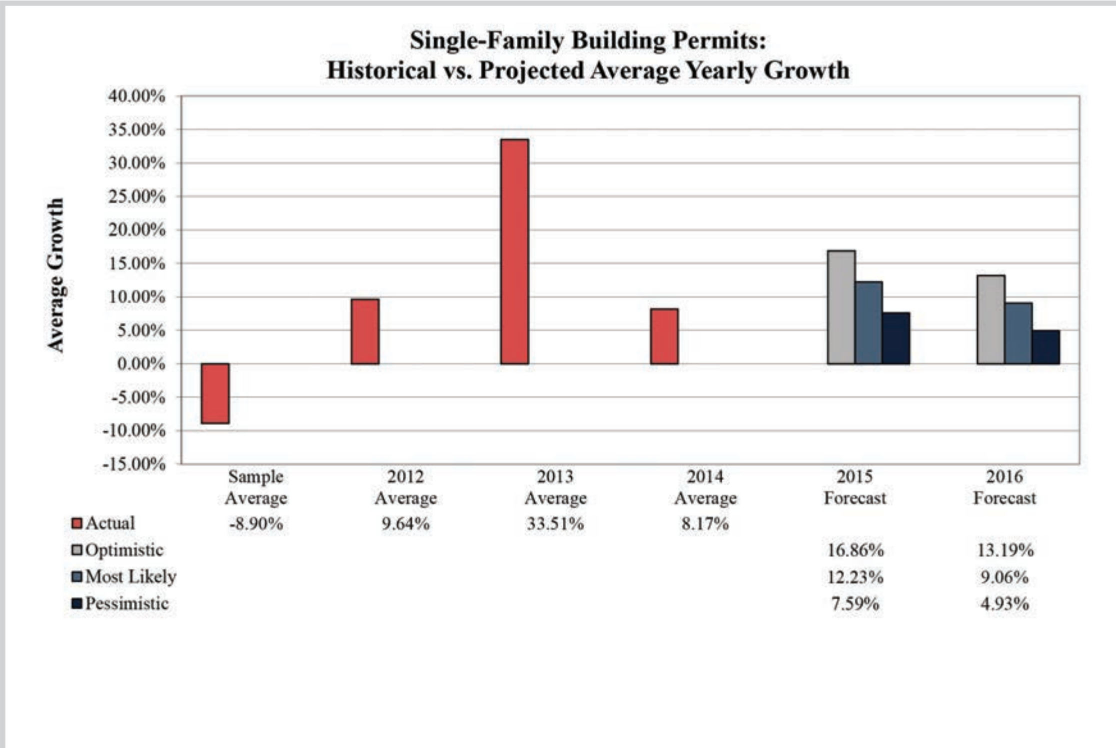
Housing Sector

Housing data is collected from the eight major Metropolitan Statistical Areas (MSAs) of the San Joaquin Valley. These MSAs are Fresno, Bakersfield-Delano, Hanford-Corcoran, Madera-Chowchilla, Merced, Modesto, Stockton and Visalia-Porterville. This data is tracked by the U.S. Census Bureau and the Bureau of Labor Statistics. The aggregate of the eight MSAs make up a representative sample of the single-family building permits in the Valley.

After rebounding from very low values, single-family building permits began to display more balanced growth in 2014. Growth in 2013 was phenomenal, at a yearly rate of 33.51 percent.

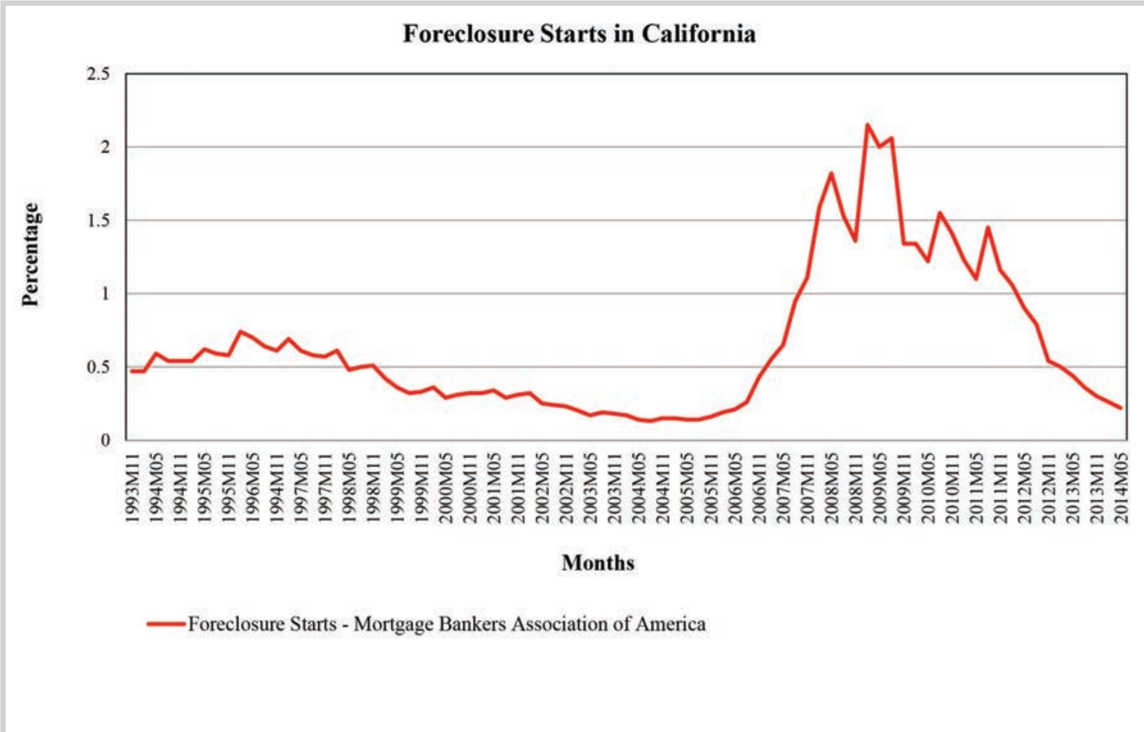


In 2014, growth in single-family building permits settled to sustainable single-digit rates and posted average yearly growth of 8.17 percent — in line with the previous year's projections of more realistic growth rates for single-family building permits.

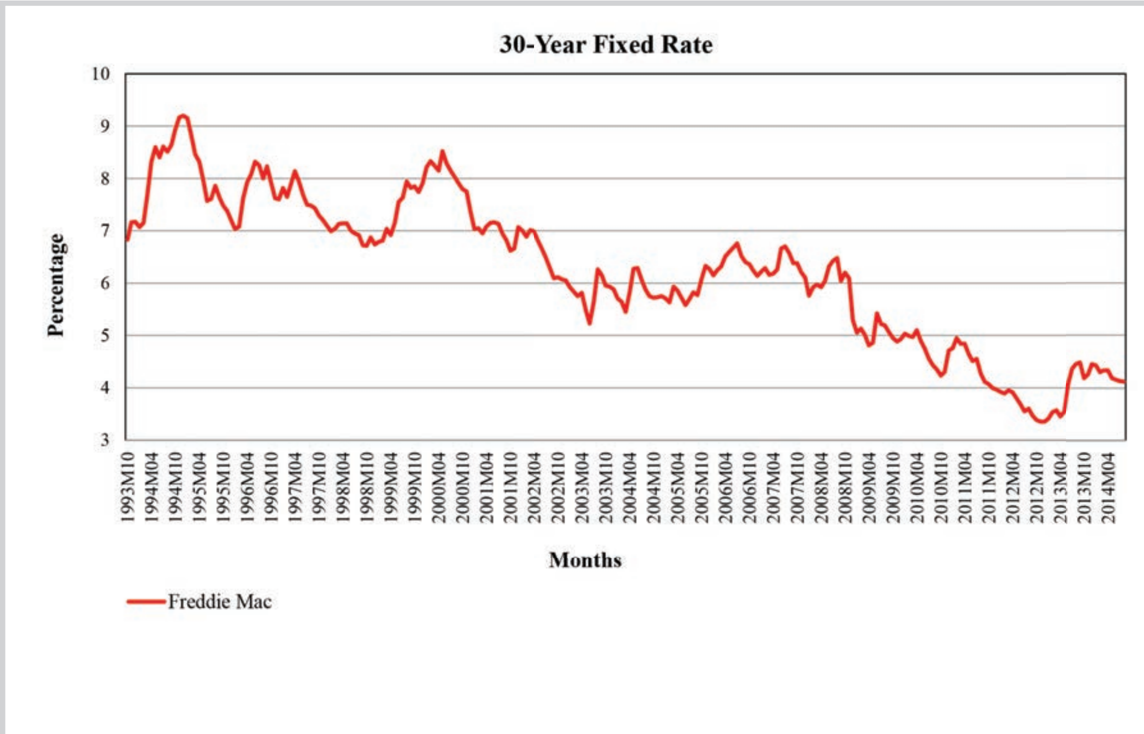


Because single-family building permits grew very fast in 2013, the following year's growth rates naturally came in lower. The reverse process is projected for 2015 and 2016 where growth rates are projected to be higher. Projections point to average annual growth of 10.64 percent in 2015 and 2016.

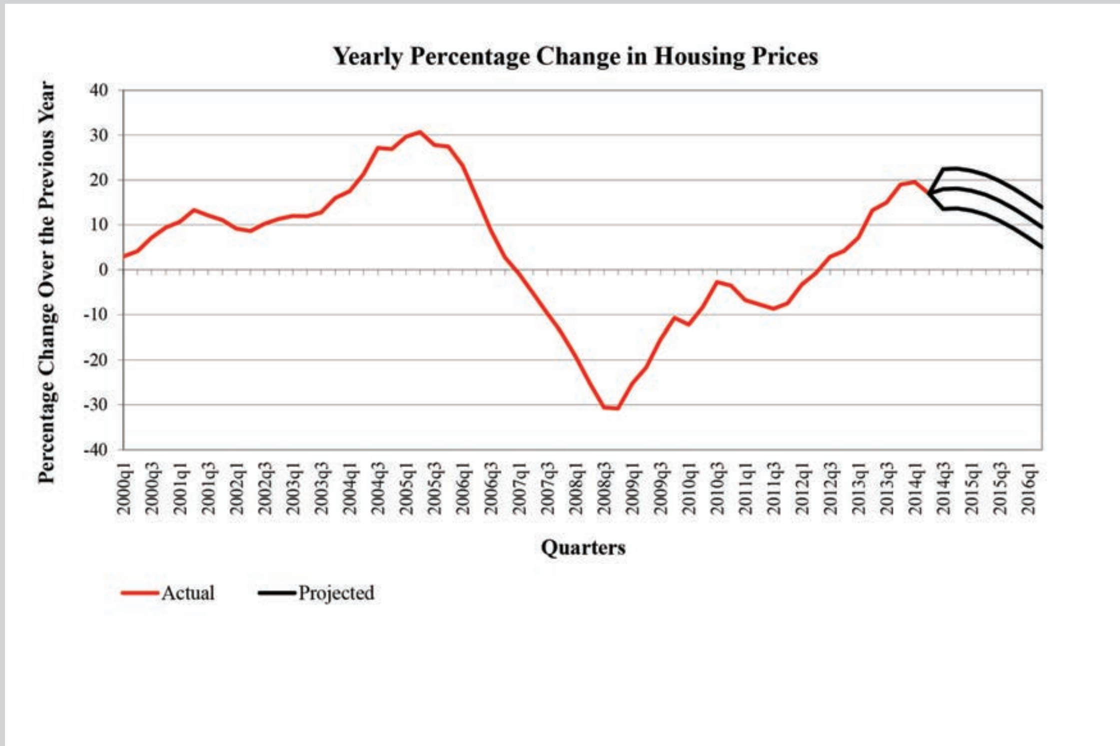
Foreclosure starts continued to fall in 2014, and are now at the lowest level in the past eight years. In the summer of 2014, foreclosure starts rose a bit indicating that foreclosure activities are not entirely over. The flattening trend indicates that foreclosure starts will fall little from here on, becoming hyperbolic to the x-axis as before 2005, and settle into a steady-state level with little oscillation in the coming years.



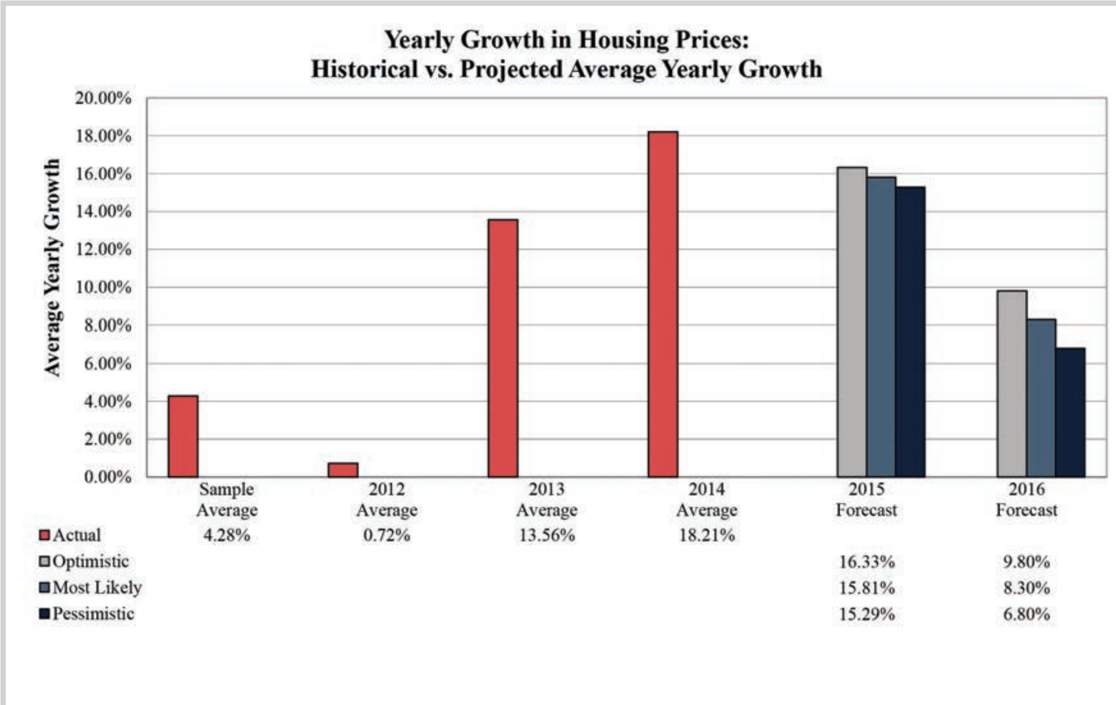
After rising above 4.0 percent in 2013, the Freddie Mac 30-year fixed rate began to fall again in 2014, helping the U.S. economy to further expand. The Federal Reserve's change in stance implied that it was still too early to raise interest rates, and it appears the Fed decided to keep interest rates low to help stimulate the economy. However, inflation is under close watch by the Federal Reserve, whose ultimate goal is price stability to maximize economic growth. If the inflation rate rises above the long-term rate of 2.32, the Federal Reserve will most likely consider raising interest rates once again.



In line with our predictions, the yearly percentage change in home prices in the Valley registered a turning point during the first quarter of 2014, as price appreciations reverted to more sustainable rates. The increase in home prices was 19.49 percent in the first quarter of 2014, followed by 16.92 percent in the second quarter.



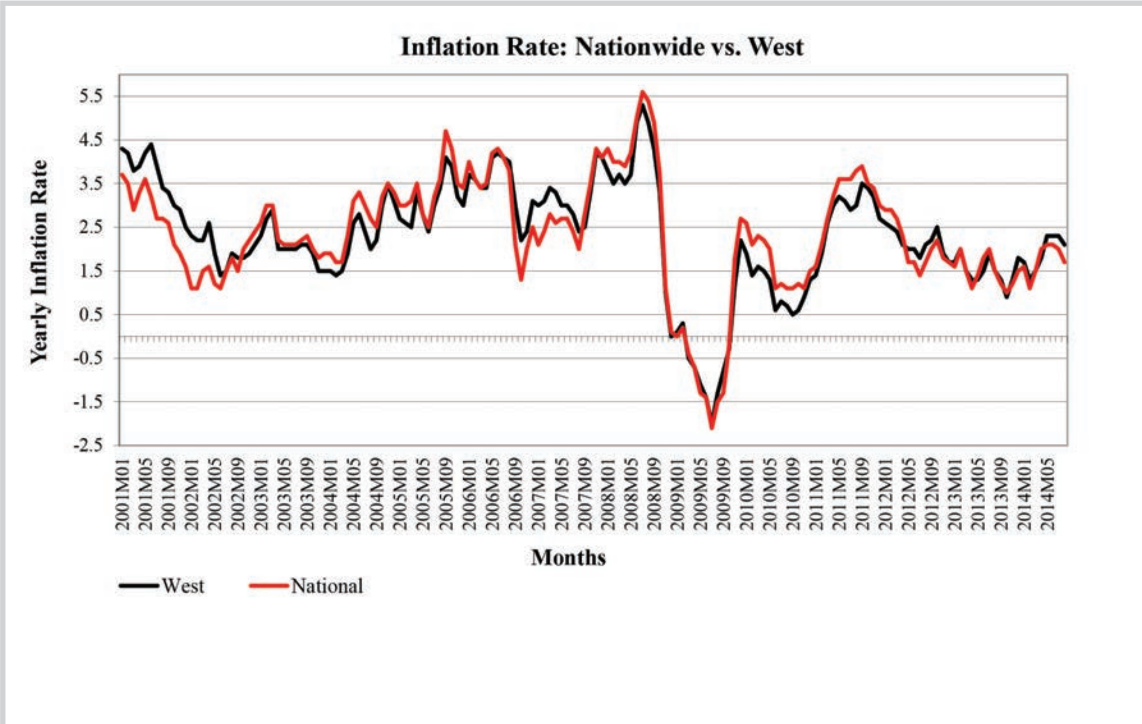
Valley home values are projected to increase at an average annual rate of 15.81 percent in 2015 and 8.30 percent in 2016. The reversion to more realistic rates will continue until growth in single digits is attained consistent with the series' long run growth of 4.28 percent.



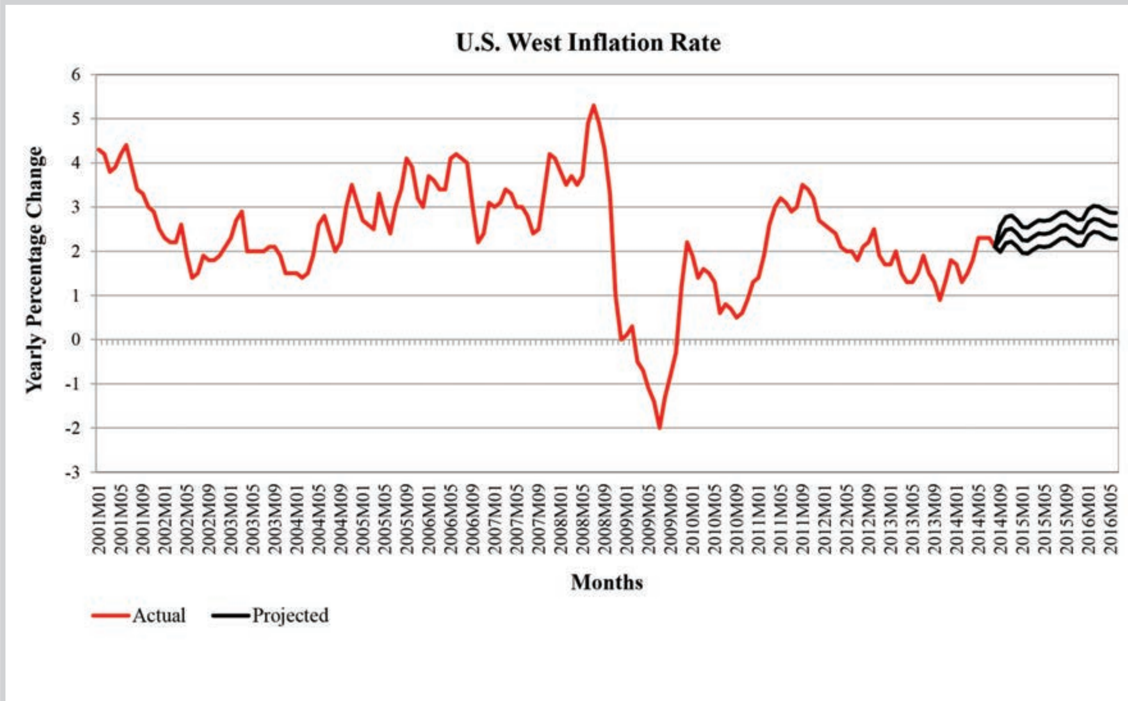
The Federal Reserve's policy of low interest rates is expected to continue for some time to come. An environment of low interest rates will help keep the housing market active. Appreciation of home values at more balanced rates will prevent the formation of destructive bubbles.

Inflation and Prices

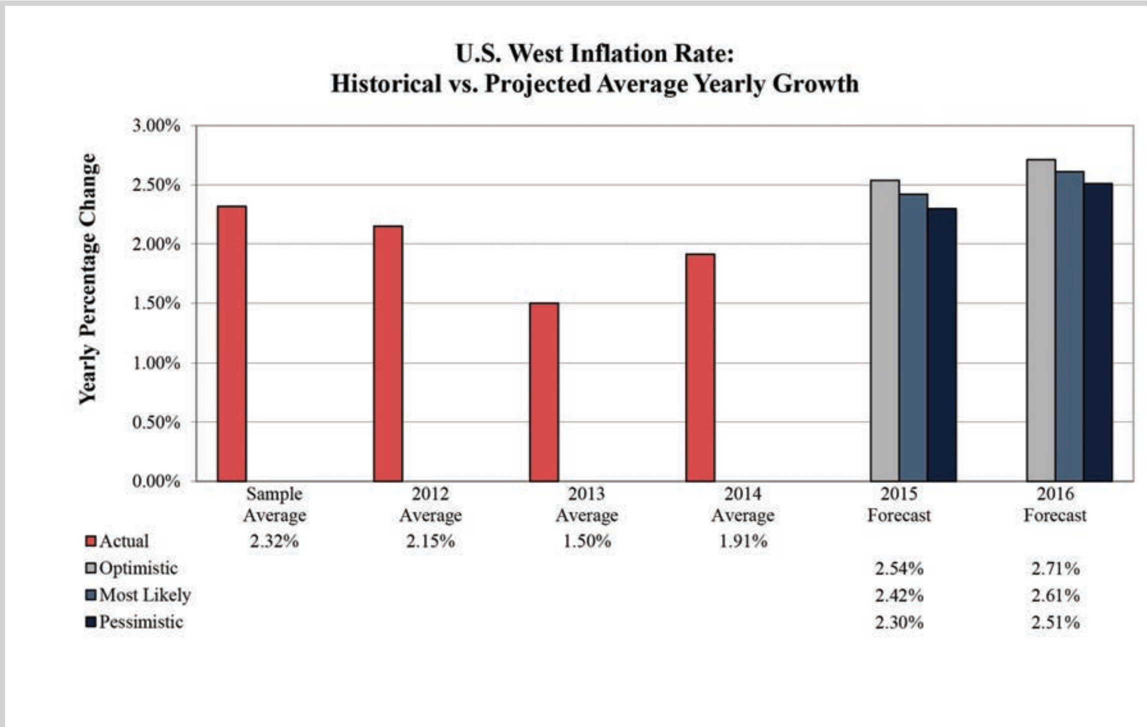
Inflation remained under 2.0 percent for 14 consecutive months, rising to 2.3 percent in July and August of 2014. Further inflation increases are likely to prompt rate hikes by the Federal Reserve. There were no cost-push pressures on prices, as oil prices remained low and are likely to stay low in the coming months. The low price of oil is attributed to supply rather than demand conditions. Shale oil production in North America has increased the supply of oil relative to the existing demand. There are some worries, however, that if the price of oil falls below $80 per barrel, deflationary pressures will prevail.



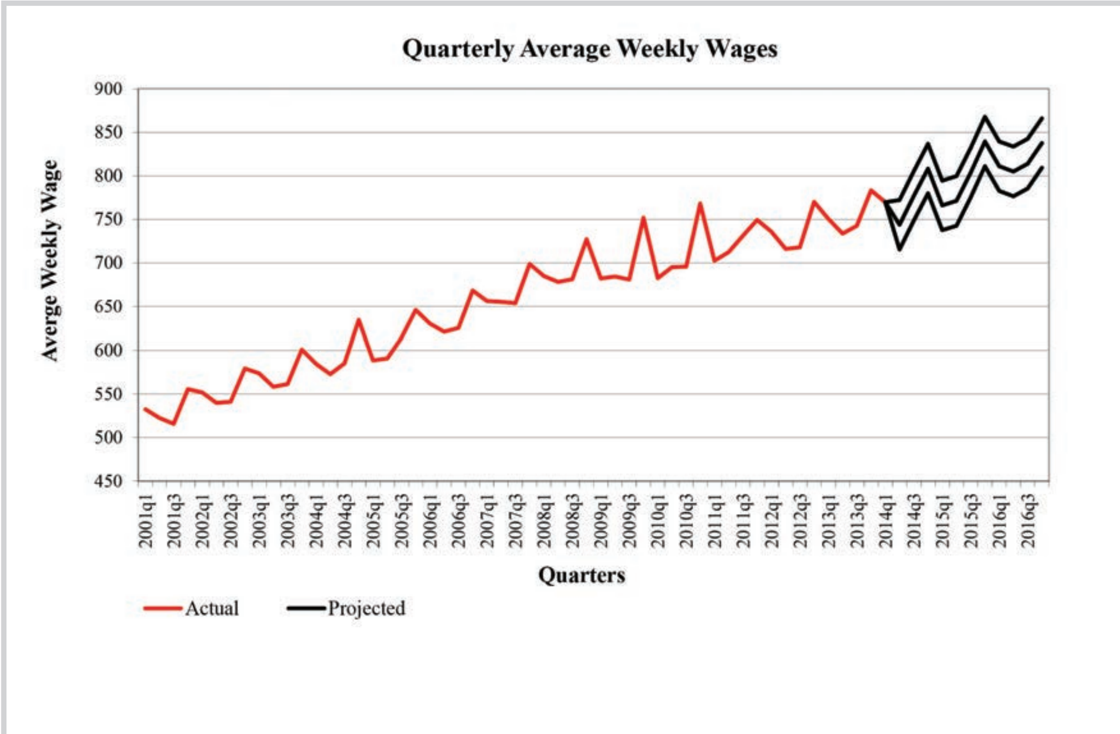
In the second half of 2014, prices in general rose faster on the West Coast than the national average, indicating a faster rising aggregate demand in the western region. Further appreciation of the U.S. dollar against other major currencies may slow inflation and keep the Federal Reserve from resorting to rate hikes to tame the economy.



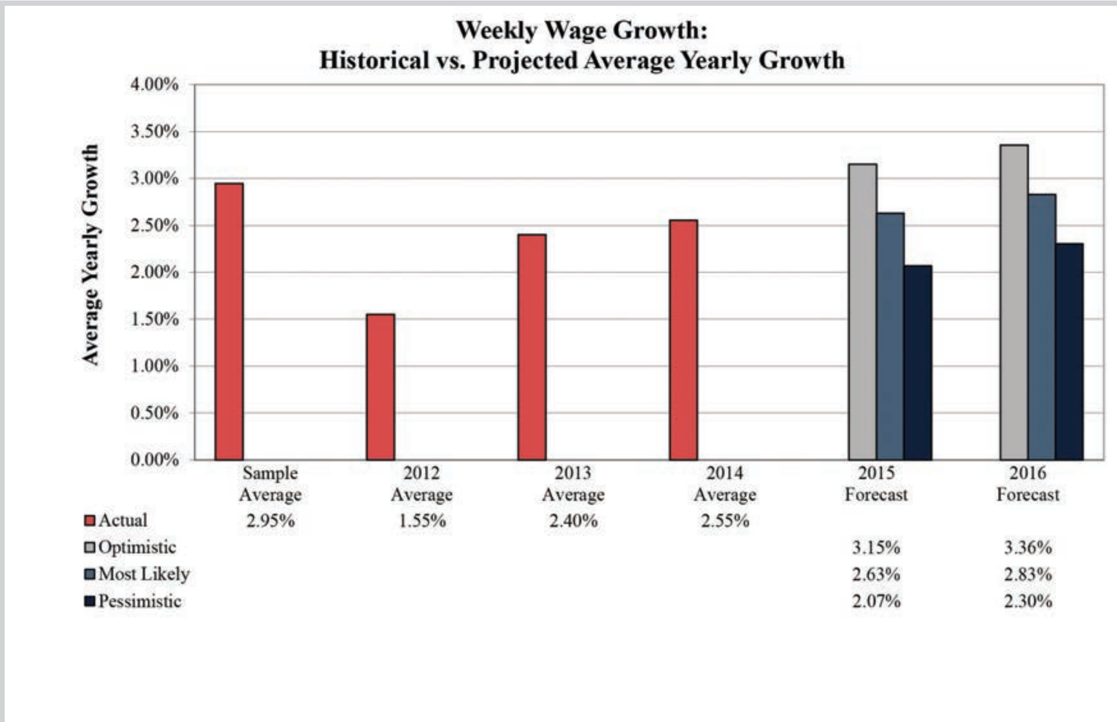
In 2013, the average yearly inflation rate on the West Coast was 1.50 percent. In 2014, although still below 2.0 percent, there was a slight increase in inflation to 1.91 percent. Projections show that average yearly inflation will further increase to 2.42 percent in 2015 and 2.61 percent in 2016, fueled mainly by demand-pull factors. Although some circles argue that any drop in the price of oil below $80 per barrel will bring deflation, the projections show that this will not likely occur because the supply of oil, rather than demand, is driving the price down and keeping cost-push factors low.



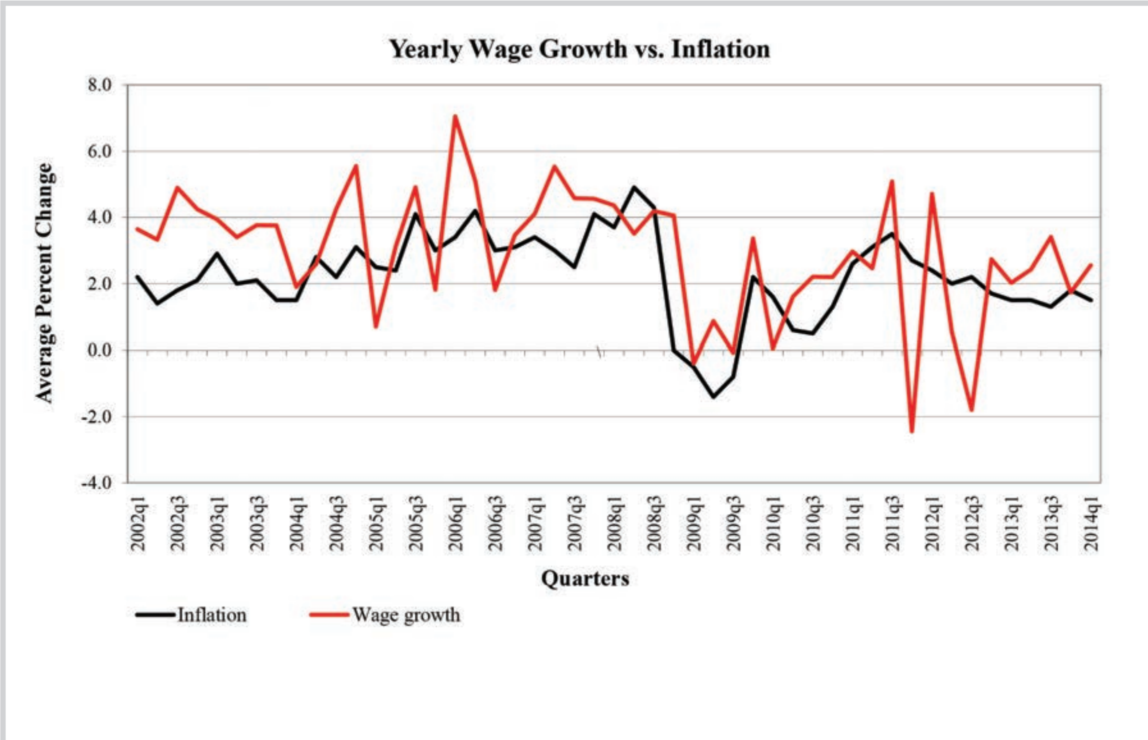
If the Federal Reserve is able to maintain a policy of low interest rates, slowdown expectations on the part of investors will not materialize and the stock market will continue to perform well. Reversal of long-run business cycles will attract dollars back home, putting pressure on the home currency to appreciate further. Although appreciation of home currency will slow inflation, it will also hurt U.S. exports and slow aggregate demand expansion.



Average wages grew in 2014, ending the concave pattern of average weekly wages in the Valley. Compared with its long-run benchmark rate of 2.95 percent, which is slightly above the long-run average inflation rate of 2.32 percent, wage growth in 2011 and 2012 was stagnant. However, the pace of growth increased in 2013 and 2014. Most recent surveys show a significant increase in the number of firms planning to raise compensation in 2015.



Average weekly wages will probably rise faster in the next two years, but the rate of increase will not be significantly different from the rate of inflation. Average weekly wages are projected to increase 2.63 percent in 2015 and 2.83 percent in 2016.

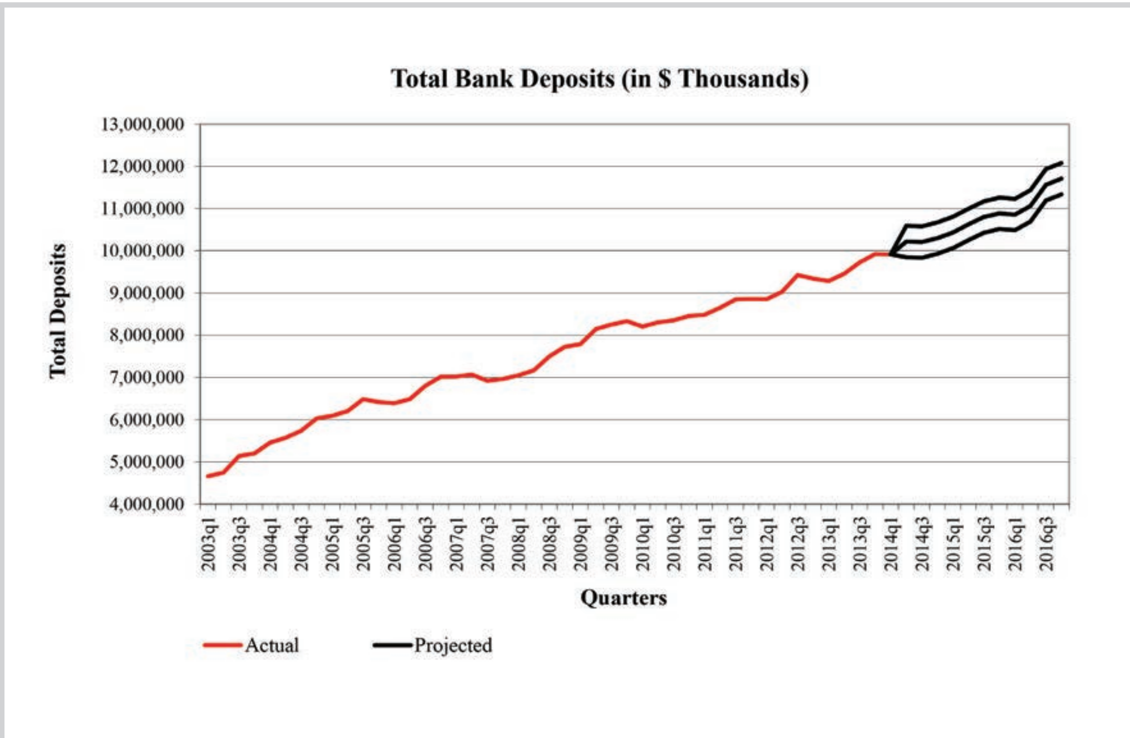


In 2014, for the first time since the end of the recession, average wages rose faster than the inflation rate. The average yearly increase in inflation was 1.91 percent, while the average yearly increase in weekly wages was 2.55 percent in 2014. There was a net gain in purchasing power for the first time since the end of the recession.

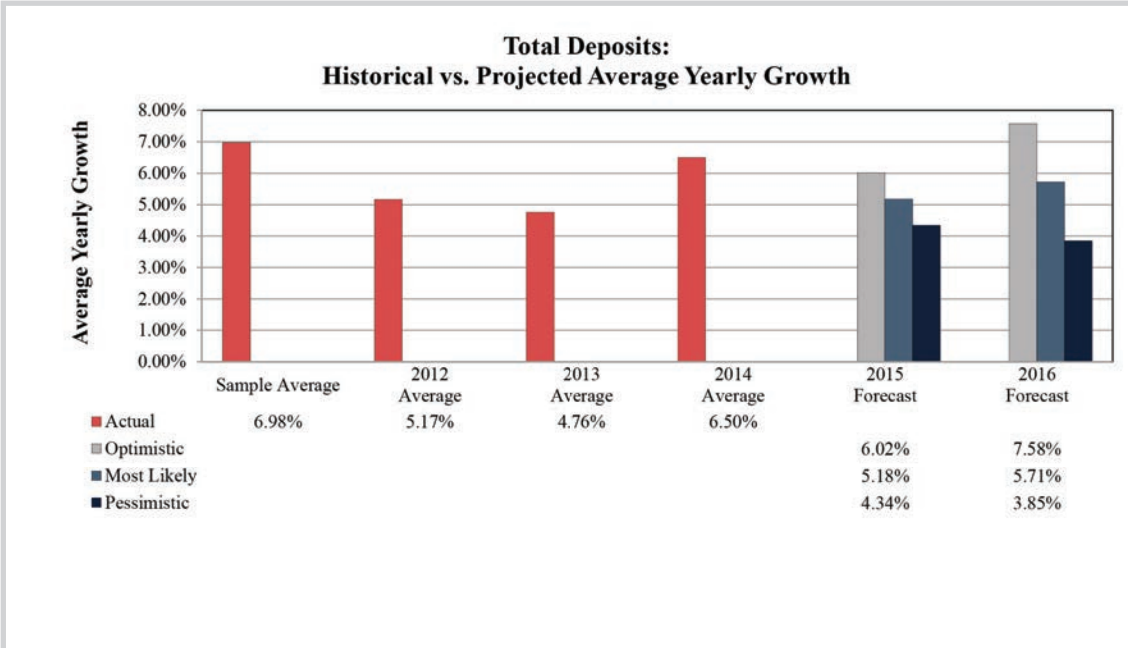
Banking and Capital Markets

Banking and Capital Markets

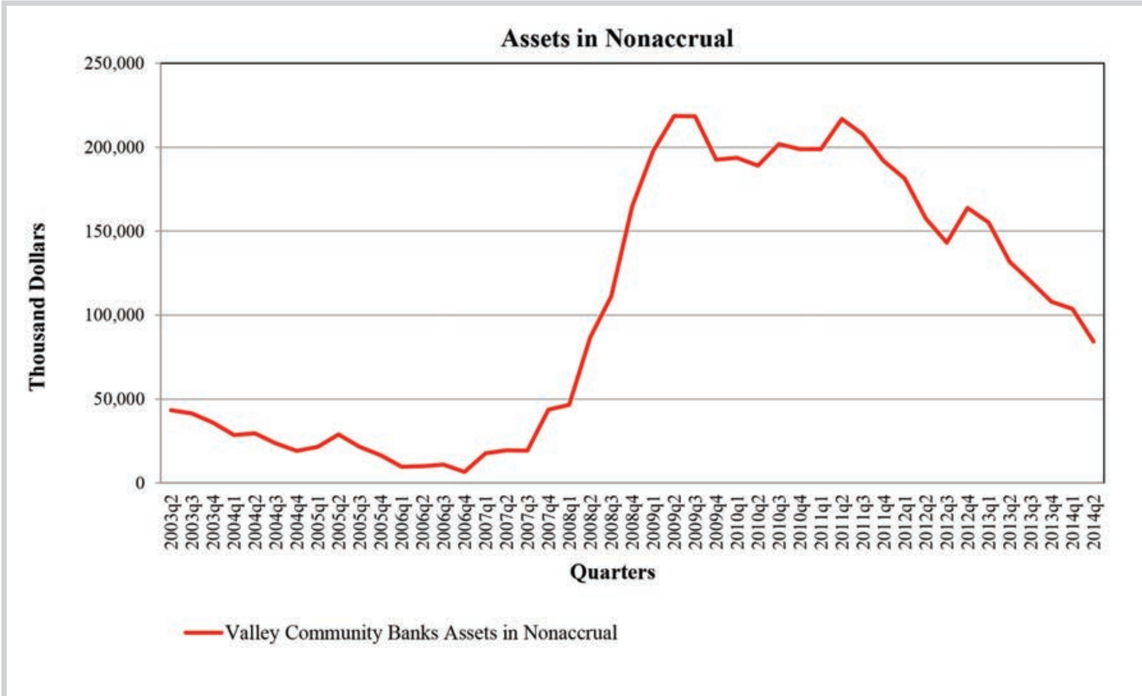
Valley bank deposits grew even during the recessionary years as investors and businesses held on to their cash. Since the recession, bank deposit growth remained a little under the long-term benchmark rate of 6.98 percent. From 2013 to 2014, there was a pick-up in the pace of growth when bank deposits grew from 4.76 percent a year to 6.50 percent.



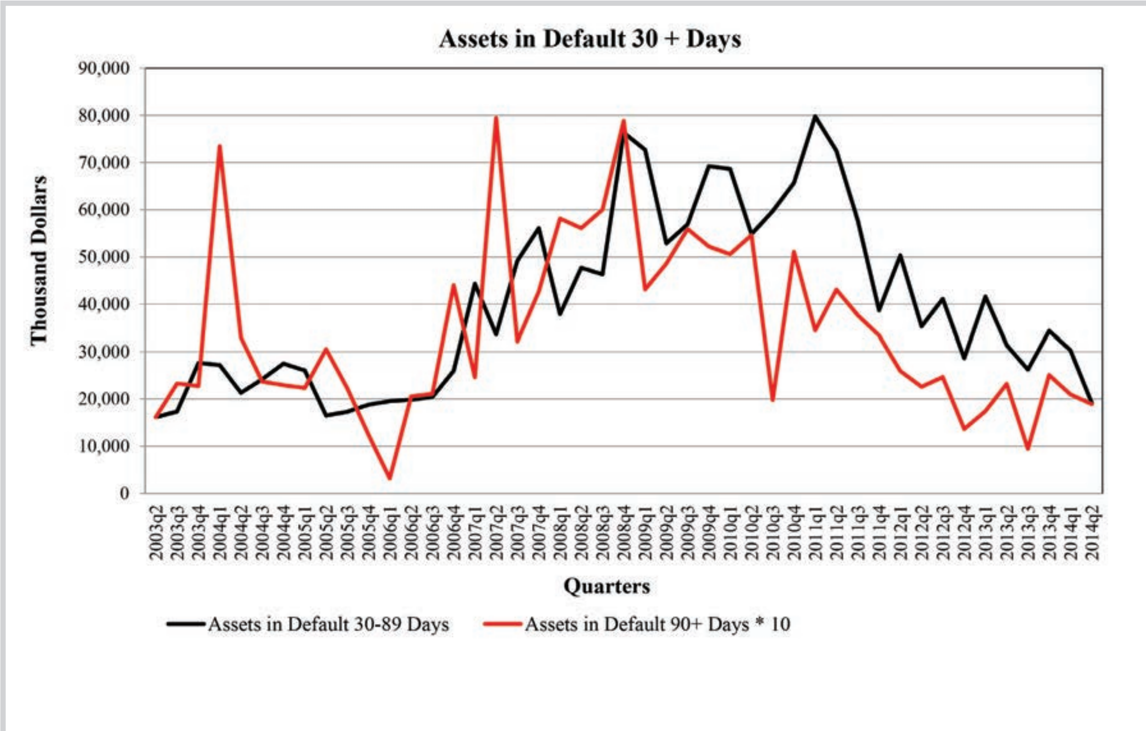
In 2014, Valley bank deposits grew at the fastest pace since the end of the recession — at an average yearly rate of 6.50 percent. Net loans and leases also grew coincidentally in 2014, indicating that bank deposits are increasingly being channeled to extend loans in the Valley. Along with a recovering economy, bank deposits are projected to grow 5.18 percent in 2015 and 5.71 percent in 2016.



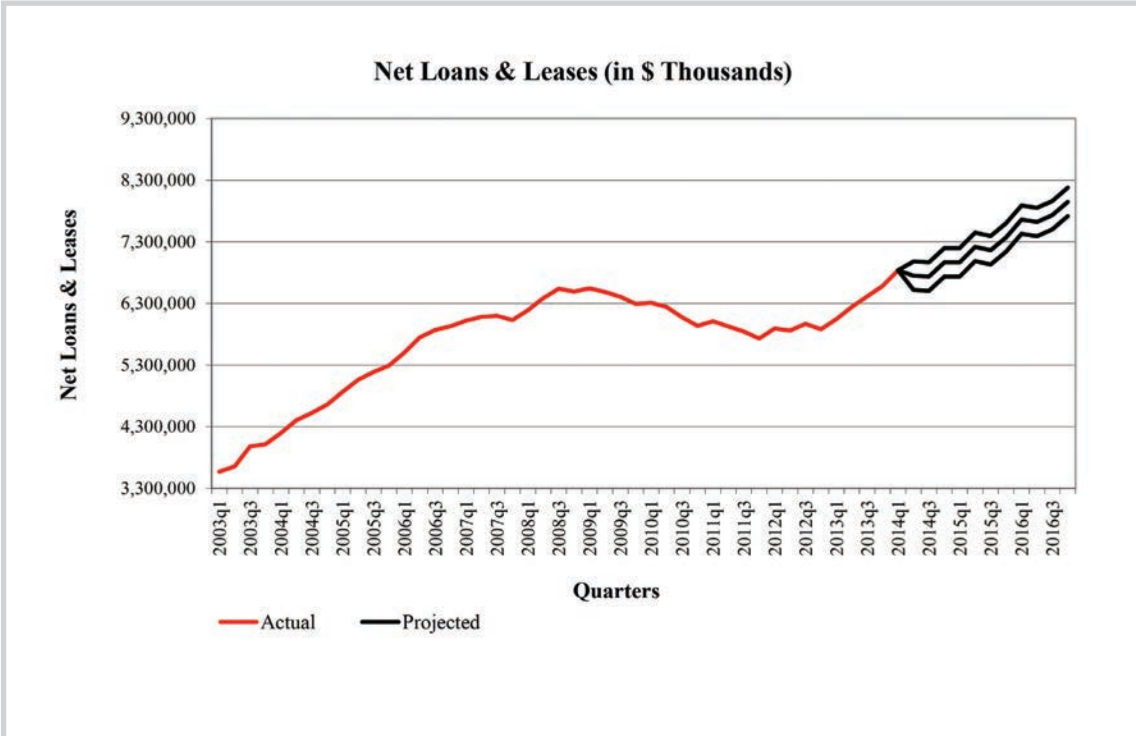
Bank assets in nonaccrual fell below 100,000 for the first time since 2008. Now back to the pre-recession levels, the continued improvement in bank assets in default is consistent with rising consumer confidence. The current level of bank assets in non-accrual indicates that the consumers' balance sheet health is in much better shape than a few years back.



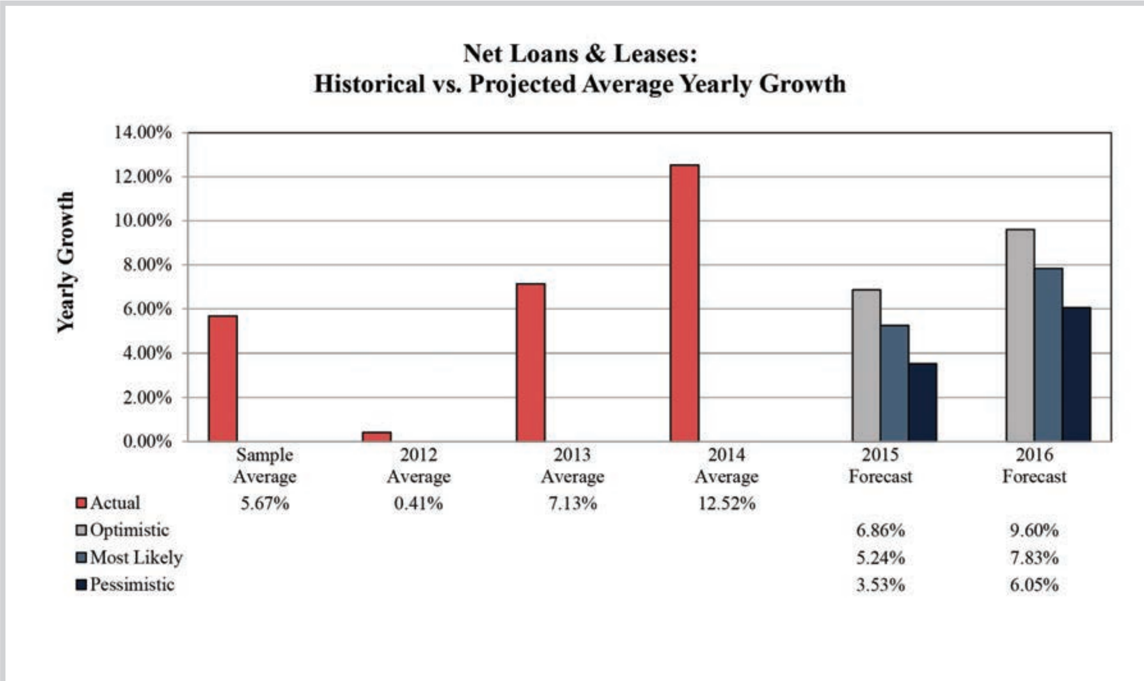
Assets in default 30 to 89 days and assets in default 90-plus days tell the same story as assets in nonaccrual. Assets in default 30 to 89 days are now below 20,000 in the vertical axis scale, and assets in default 90-plus days are below 200,000. These two indicators are now at the lowest level since 2006.



In the years following the end of recession net loans and leases, along with the overall economy, have become increasingly sensitive to movements in interest rates. In 2014, net loans and leases in the Valley increased at a rate of 12.52 percent, which was higher than the year before, registering the fastest pace of growth since the end of the recession.



Following the incremental increase in 2014, Valley net loans and leases are now above the pre-recession peak. Net loans and leases are not projected post double-digit growth rates in 2015 and 2016, but revert to growth rates that are more consistent with the 10-year benchmark rate of 5.67 percent.



Assuming the Federal Reserve stays committed to a policy that maintains low interest rates, Valley net loans and leases are projected to increase at a more balanced rate of 6.53 percent a year on average in 2015 and 2016.

Concluding Remarks

Valley total employment grew in 2014 but at a lower rate than in 2013. The average yearly growth was still higher than the 10-year benchmark growth rate, indicating further expansion. While employment grew fastest at the county level in Merced and Fresno, there was negative or no growth in Madera, Kings and Tulare.

Construction continued to be the fastest-growing category of employment in the Valley, followed by leisure and hospitality services employment. Government employment growth switched from negative to positive in 2014. Financial activities employment did not improve significantly from the year before and is not projected to reach pre-recession levels any time soon. Manufacturing employment posted a small decline in 2014. The rate of decline in information employment decreased in 2014 and is projected to start posting small but positive growth in 2014. As new numbers became available, the pace of growth in education and health services employment showed an increase in 2014 and is projected to grow at a similar rate in the next two years.

In line with our projections, average yearly growth in housing prices exhibited a turning point in 2014. Home values displayed more balanced growth and appreciated less in 2014 than 2013, and are projected to rise in single- rather than double-digits by 2016. Single-family building permits are also projected to post growth in line with more sustainable rates, avoiding potentially explosive growth patterns in the near future.

Most recent surveys from around the nation now point to a greater number of firms planning to raise compensation in 2015. Wages that have remained stagnant in the past few years are projected to begin growing in 2015. However, the rate of growth is projected to be close to the yearly inflation rate. Inflation is projected to rise above the long-term average rate of 2.32 percent in the coming two-year period.

Valley bank assets in default are now back to levels that existed in 2006 and are consistent with an increasing pattern of consumer confidence. Bank deposits continued to increase in 2014, registering the highest rise since the end of the recession. Net loans and leases also increased coincidentally with bank deposits, indicating that bank deposits are increasingly being channeled to extend loans in the Valley. Relative to the previous years, net loans and leases increased at the fastest pace in 2014. Given that the Federal Reserve stays committed to a policy of maintaining low interest rates, net loans and leases in the Valley are projected to grow at rates more in line with the 10-year benchmark rate.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