Sonoma County
Economic Development Board

Healthcare Industry Insider

2024

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JULY 2024

Executive Summary

Recent performance

Varied Success

Sonoma County's healthcare industry continues to experience notable growth, outpacing the already strong state and national averages. Over the past year, the sector contributed nearly half of the county's net job gains, and the Robert Wood Johnson Foundation's annual rankings placed Sonoma County eighth in California for health outcomes.

Outlook

Macro-Economic Drivers

Sonoma County's economy is projected to continue its positive performance with a slow but steady cool-down in the coming year. Consumer spending remains bolstered by substantial post-inflation financial gains across the wage distribution, yet higher-income households still account for much of the discretionary spending. Unemployment is also expected to remain low as businesses are likely to avoid layoffs due to ongoing challenges with hiring and retaining workers.

Industry Drivers

Healthcare job growth in Sonoma County is robust, and payrolls up from pre-pandemic levels. The county's growing population of citizens 65+ and rural members from neighboring regions are driving increased demand for healthcare services. Although, continued outward migration has exacerbated an already thinning pool of eligible workers, leading to significant wage increases as firms compete for qualified employees.

Upside Risks

If consumer incomes and population growth exceed expectations, the county's healthcare industry stands to benefit from increases in consumer spending and expansion of the patient pool. This would benefit the county's healthcare industry as more individuals would opt into elective healthcare procedures and specialized treatments.

Downside Risks

The primary downside risk is a potential misstep by the Fed, particularly if it delays easing monetary policy. This scenario would lead to a slowdown of the labor market, a reduction in household income, and a lowering of consumer spending. Citizens will thus be less inclined to opt into elective procedures, hurting the healthcare sector.

Long Term Outlook

Despite below average overall population growth, the healthcare sector will uniquely benefit from a rapidly growing senior population. This demographic shift will sustain demand for healthcare services for the foreseeable future, supporting moderate long-term industry expansion.

Recent Performance. Sonoma County's healthcare industry is surging. Industry job growth is outpacing the strong California and national averages and is responsible for nearly half of net job gains in the county during the past year. Annual healthcare rankings by the Robert Wood Johnson Foundation placed Sonoma County eighth in the state out of 58 ranked counties, according to a health outcomes composite index measure of patient health and well-being. Sonoma has ranked in the top 10 in each of the last six years.

Macro drivers. Odds are good that the economy's solid performance will continue and our most likely, or baseline, scenario is for a soft landing of the economy in the coming year. That is, the economy will remain at full employment with growth consistent with the economy's potential, inflation will continue to subside and fall back to the Federal Reserve's target, and interest rates will slowly but steadily normalize.

Solid after-inflation wage gains across the wage distribution are supporting consumer spending. Higher-income and wealthier households will do the bulk of the spending, spurred on by record-high stock prices and housing values; plenty of excess savings still in their checking accounts and money funds; and if they have any debt, it is at interest rates that were locked in at record lows. We estimate that households in the top one-third of the income distribution account for approximately two-thirds of consumer spending.

Our baseline scenario also rests on businesses remaining steadfast in their resolve to avoid layoffs. Unemployment insurance claims remain exceptionally low, as do layoff rates. Businesses have reined in their hiring and cut back workers' hours in response to any softening in demand for their goods and services, but with the exception of the technology and, to a lesser degree, financial services, education and auto industries, layoffs have barely registered.

Businesses' reticence to cut workers is likely due in significant part to their persistent difficulty in finding and retaining workers. This has been the case since well before the pandemic. Firms were severely wrong-footed during the pandemic. They laid off workers in the shutdowns but were unable to hire back sufficiently when the economy restarted. Also motivating businesses' labor hoarding is the rapid retirement of baby boomers, which business executives calculate to mean that finding and retaining workers will remain difficult, notwithstanding any coming productivity gains from artificial intelligence and remote work.

Industry drivers. The healthcare industry is red-hot, but while broader tailwinds will continue, industry job growth will inevitably slow. Demographic trends are mixed. The county's population declined once again in 2023, though at its slowest pace in five years. Population losses have been steadily moderating, and the expected slower pace of house price appreciation in the next few years will help further balance the housing market and slow the pace of out-migration. Immigration is also rebounding steadily.

Furthermore, the aging of the local and state population will provide another boost to healthcare demand in the near and medium term. The 65-and-older cohort, who consume the lion's share of health services, is growing more rapidly in Sonoma County than the state. Retiree inflows remain strong even in the face of rising unaffordability issues, and a growing elderly population will sustain healthcare demand in the county. Sonoma County hospitals also draw patients from neighboring, more-rural counties, providing a key boost to healthcare demand even as the local population shrinks.

Healthcare payrolls are up a whopping 7% relative to their pre-pandemic levels, compared with just 4% for total employment. Robust healthcare job growth during the past two years has been crucial in keeping the labor market afloat amid a slowdown in the county's other core driver, tourism. However, labor shortages are becoming more acute. Average industry wages through 2023 advanced nearly four times faster than they did for the rest of the labor market, indicating that healthcare firms are bidding up wages to find qualified workers, and still-weak demographic trends are thinning the pool of available workers.

Operating expenses. Operating costs will remain elevated through the next year. Worker shortages in healthcare ensure that wage growth presses higher, albeit at a somewhat moderated pace, as firms compete for available labor. Efficiency gains will provide relief as the transition to electronic recordkeeping helps hospitals manage more caseloads. Additionally, the transition from the traditional fee-for-service model, which can lead to unnecessary testing and other services, toward per-procedure payments will help by making consumers and hospitals more cost-conscious.

Long-term outlook. Even though below-average population growth in the years to come will hamper healthcare's progress, the industry will benefit as the share of senior citizens in Sonoma County rises faster than the U.S. average. The local population of residents age 65 or older has expanded 41% in the last decade, compared with 34% in California and 33% nationwide—despite total population backtracking over the same period. By 2030, one in four individuals in Sonoma County will be at least 65 years old. Longer term, health services will expand at a moderate pace to meet the medical needs of an aging population and broader patient base.

Upside risks. The resilience of the U.S. consumer has been remarkable in the face of decades-high inflation, but income growth could surprise on the upside and lead to even further growth in consumer spending. Spending on elective procedures and healthcare more broadly could sustain rapid hiring in the industry.

Stronger-than-expected population growth, which would likely be fueled by immigration, would be a boon to county healthcare providers by expanding the patient pool. Greater demand for specialized treatments such as joint replacements and gene-based therapies would translate into stronger growth in Sonoma County's healthcare industry and pay dividends for the overall economy.

Downside risks. A misstep by the Fed is diminishing in likelihood, though it remains the primary downside risk to the U.S. outlook. Policymakers are unlikely to overreact to slower-than-expected disinflation in early 2024 by tightening policy further. There is also the added stress of politics. In a presidential election year, easing policy will be criticized by the opposition party as needlessly serving the incumbent by stimulating the economy. The time to ease policy is near, but a broad perception that the Fed is not honoring its apolitical mandate might lead policymakers to sit on their hands longer than appropriate.

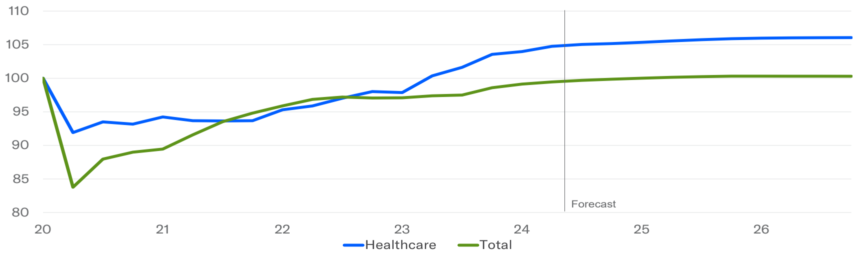
Nevertheless, if the Fed is too slow in loosening policy, the robust labor market may soften excessively. Rising joblessness would hit household income and consumer spending, leading to what would have been an avoidable economic downturn. While healthcare spending is more insulated than broader consumer spending patterns, an economic downturn would limit discretionary spending on more elective procedures.

Colin Seitz
June 2024

HEALTHCARE • Sonoma County

Healthcare Will Moderate but Remain Ahead of the Pack

Employment, Sonoma County, 2020Q1=100, SA

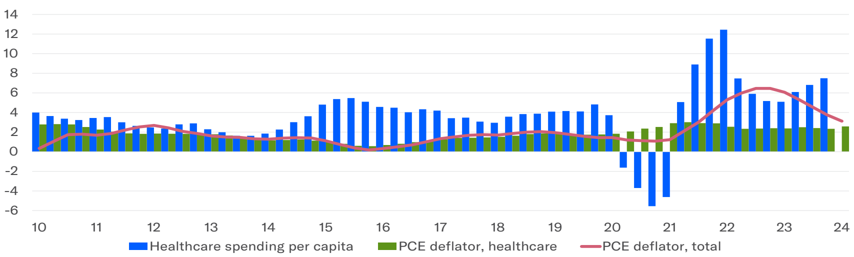


Sources: BLS, Moody's Analytics

Healthcare roared back to life in Sonoma County last year, edging ahead of the broader labor market recovery and surpassing pre-pandemic heights. Sonoma County's expanding senior population and elevated share of the population with health insurance fuel robust demand for healthcare in the county, which insulated it from the more severe industry contractions seen elsewhere in 2020. Modest labor force growth and improving hospital balance sheets have allowed providers to expand payrolls in response to growing demand. Payroll growth will begin to moderate this year as the industry hits cruising altitude.

Healthcare Spending Presses Higher

% change yr ago, 4-qtr MA

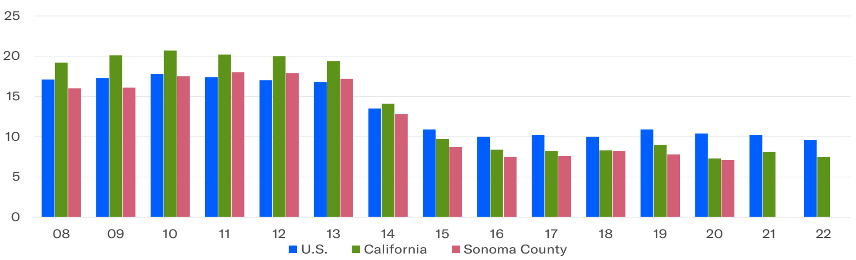


Sources: BEA, Moody's Analytics

The Affordable Care Act provided only temporary relief for rising healthcare costs. Increasing price pressures are holding healthcare providers to the fire—and cost containment is proving increasingly difficult. Insurers are aligning healthcare premiums with expected costs as prescription prices and spending on medical services rise. Therefore, premiums are headed north for both the individual market and employer-based coverage. Base effects contributed to the spike in year-over-year spending a couple of years ago, but spending has remained high due in part to pent-up demand for elective surgeries.

Insurance Coverage Ranks Favorably

Uninsured, % of total nonelderly population

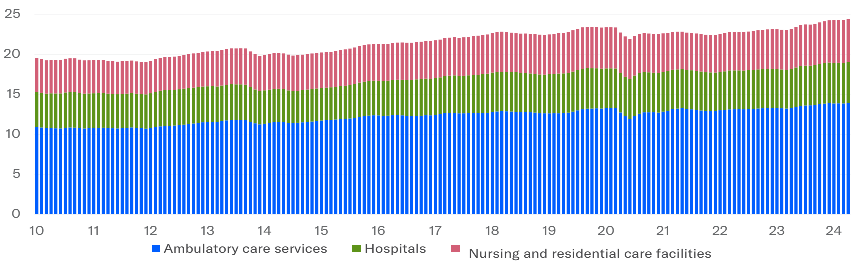


Sources: Kaiser Family Foundation, National Institutes of Health, Moody's Analytics

Uninsured rates have fallen significantly in recent years, and Sonoma County's figure is lower than both the state and national rates. The number of Californians receiving healthcare through Covered California recently rose to record heights due in part to expanded special enrollment periods and higher unemployment during the pandemic. Financial assistance from the American Rescue Plan lowered costs for the state's health insurance marketplace, pushing more than 350,000 additional people to enroll during the first two years following the COVID-19 lockdown.

Outpatient Care Drives Industry Growth

Employment, Sonoma County, 3-mo MA



Sources: BLS, Moody's Analytics

The Affordable Care Act's emphasis on preventive care and outpatient services rather than costly hospital stays has led to a rise in ambulatory care services. Wellness centers focused on healthy lifestyle programs—such as weight management programs, rehabilitation services, and physical therapy—have also seen an uptick in demand and payrolls. Providers of these services work with hospitals to ensure patients are getting appropriate care, keeping lower-risk patients out of hospitals so that beds can be reserved for more critical cases. This synergy supports better overall health outcomes.

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141 Stony Circle, Suite 110
Santa Rosa, CA 95401

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