CALIFORNIA'S ECONOMY IS REBOUNDING, BUT CHALLENGES REMAIN

By many measures, California’s economy is making a strong recovery from the Great Recession. The state unemployment rate is lower than it has been in about five years, and jobs have been growing for four years straight. As the housing market continues to improve, the construction industry gains back some of the jobs lost during the recession. Many high-skill industries are experiencing strong growth, which is projected to continue over the next decade. However, many Californians are still unemployed or underemployed. Because of this, family incomes in California continued to decline well into 2012 and perhaps beyond. This mixed picture is reflected in Californians’ views of the economy: according to PPIC’s September 2013 Statewide Survey, 46 percent believe that the economy will face good times over the next year, and 44 percent believe bad times are likely.

While recent trends are an important gauge, historical patterns are still the best guide to California’s economic future. Booms, busts, and recoveries take place in the context of long-term trends, and major industry shifts—such as the transition from manufacturing to services—can occur over decades.

CALIFORNIA JOB GROWTH TRACKS GROWTH IN THE NATION OVERALL

![Graph showing annual growth rate of California and U.S. employment growth from 1950 to 2013.]

NOTE: Annual change in nonfarm employment, December to December every year except 2013.

CALIFORNIA’S LONG-TERM ECONOMIC PROSPECTS ARE FUNDAMENTALLY STRONG

The California economy generally keeps pace with the U.S. economy. California’s higher unemployment and higher costs of doing business are explained or offset by the state’s strengths. And they are likely to remain permanent features of the California economy.

• California’s economic performance closely tracks that of the nation as a whole.

The broadest measure of California's economic performance—employment growth—follows the nation’s growth rate very closely. Over the past 30 years job growth has averaged about 1.3 percent annually for both California and the nation—and both saw job growth in 2013, for the fourth year in a row. For the past two years, job growth in California (and the U.S.) outpaced the long-term average, growing at an annual rate of 1.5 to 1.8 percent.
• Unemployment is persistently higher in California.

In August 2013, California’s unemployment rate was 8.9 percent; the national rate was 7.3 percent. While high, California’s rate reflects a drop of nearly 2 percentage points from just one year ago; there have been consistent declines from a peak of 12.5 percent during the Great Recession. California’s unemployment rate has been higher than the national rate for 20 years—even when the state’s employment growth has surpassed national growth, as it did during the technology boom in the late 1990s. This may seem paradoxical, but it makes sense in the context of California’s fast-growing labor force: the state’s economy generates jobs at a rate similar to the national rate, but this is not enough to keep up with California’s faster-growing population. So California unemployment is likely to remain above the U.S. level for some time to come.

![UNEMPLOYMENT IS ON THE DECLINE](image)

**Sources:** U.S. Bureau of Labor Statistics and California Employment Development Department.

**Notes:** Monthly unemployment rate, seasonally adjusted. All dates are for August of the corresponding years.

• Labor market conditions have contributed to sizeable declines in family income.

California unemployment remains historically high. Moreover, as of March 2013 the average period of unemployment was 36 weeks—down only slightly since the Great Recession. Largely because of labor market conditions, median household income in 2012 (the most current data available) was 10 percent lower than before the recession—and slightly higher than in 2011. Median income is higher in California than in the nation as a whole (about $57,000, compared with $51,000). Income is more than twice as high for the median household headed by someone with a bachelor’s degree ($90,000) than for the median household headed by someone with a high school education only ($40,000).

• California is a high-cost, high-benefit state.

California workers, on average, earn 12 percent more than the national average—even after adjusting for differences in workers, occupations, and industries. But output per worker in California is 13 percent above the national average, so California’s higher productivity fully offsets the higher average wages. All of California’s immediate neighbors—Nevada, Oregon, and Arizona—pay their workers less and have lower output per worker.

• The “business climate” debate understates California’s strengths.

California consistently scores poorly in many business climate rankings that focus primarily on taxes and other costs of doing business. California’s economic performance is stronger than these business climate rankings alone would indicate. Businesses locating in California face higher costs, but they also enjoy many benefits, such as the skill level of the workforce, the availability of capital and support for new business, and the amenities that make California an attractive place to live.
GROWTH WILL BE UNEVEN

- Regional economic differences are dramatic—and persistent.

Economic differences within California are likely to continue. Unemployment tends to be higher in the Central Valley—sometimes considerably higher—than in the urban, coastal parts of the state. This variation is attributable to different industry mixes and job growth patterns—and the faster-growing workforce in the inland parts of the state. Even among urban coastal areas, California’s regional economies don’t move in concert: in most years some regions of the state grow quickly while others grow slowly or contract. Although inland California currently has higher unemployment rates, that region’s low housing costs will contribute to the growth of its workforce. The working-age population in much of inland California is projected to grow more than 25 percent between 2010 and 2030; in California overall, the growth rate will be 8.8 percent.

INLAND CALIFORNIA’S LABOR FORCE WILL GROW FASTEST

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SOURCE: California Department of Finance.
NOTE: Projected growth rate of California’s working-age population by county, 2010–2030.

- Housing is still expensive and probably always will be.

Housing prices have increased year over year for 16 consecutive months in California. In August 2013, the median U.S. home was worth $162,100; in California, the median home was worth $383,300, according to Zillow. Even during the Great Recession, housing in California was much more expensive than in the nation as a whole. Expensive real estate makes it harder for some businesses to locate in California and attract workers, potentially pushing growth out of state. In the past year, median housing prices have increased across most of California—in both inland and coastal regions—with the largest gain in the Vallejo metro area (a 41% increase over 2012–13), followed by Stockton and Modesto (both around 35%).
• Services will continue to grow; manufacturing will continue to stagnate.

Manufacturing accounted for only 9 percent of California’s employment in August 2013; year over year, manufacturing employment fell slightly, whereas almost every other industry in the state grew. Manufacturing has been declining for decades and will continue to be a sluggish sector in California. During the recession, the construction industry contracted most sharply. As the housing market rebounds and the existing housing stock is being absorbed by California’s growing population, construction employment is rebounding as well. Over the past year, construction employment grew about 5 percent and is projected to grow 26 percent by 2020—making construction one of the fastest growing industries in the state. Service and trade industry jobs—including professional services, education, and health care—are also projected to grow quickly over the next decade.

![Projected Private-Sector Industry Growth, 2010–2020](image)

**SOURCE:** California Employment Development Department.

**NOTE:** Employment growth projections for private sector only.
LOOKING AHEAD

California’s long-term economic trends reflect strengths but also create pressures that policy must respond to. The most effective economic policies require accurate assessments of California’s economic performance, a balanced view of the state’s competitiveness, and a realistic sense of the state’s strengths and weaknesses.

• Pursue policies to help create jobs and foster full-time employment.
  California’s economic recovery is proceeding, but slowly: about 1.6 million Californians remain unemployed, nearly double the number who were unemployed before the recession. Creating jobs and increasing full-time employment is key to enhancing California’s recovery. A thriving California economy is the best route to future employment growth in the short and long run. Economic policy that stimulates business and fosters a strong, skilled workforce is crucial to job creation in California.

• Don’t pin all hopes on one industry.
  Although many industries—such as film, high-tech, and wine-making—are highly concentrated in California, the state’s economy is in fact very diversified, and its industry mix is quite similar to the nation’s. Economic policy should reflect the breadth and diversity of the state’s economy. Tempting as it is to identify the next boom industry—such as clean technology—and focus economic development efforts there, booms usually don’t deliver stable, steady growth, as the Internet and housing industries demonstrate. And some hyped industries fail to take off at all. Economic development policy needs to nurture both new, innovative industries that might constitute California’s next boom and established, steadily growing industries such as health care services.

• Promote economic opportunity through education.
  Education is essential to Californians’ economic well-being. Highly educated workers were somewhat protected from the impact of the Great Recession and are likely to do better during future boom and bust cycles. Promoting education is thus an important strategy for ensuring economic opportunity across the income spectrum and addressing income inequality. And because the new economy demands a highly skilled workforce, education has a crucial role in helping California remain economically competitive.