



California Economy: MEF Fall Bulletin Going Mobile: Five Years of Recovery



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California Economic Overview - 2015

Marin Economic Forum

Key Observations

- California is forecasted to grow faster than the US economy through 2018.
- California's economic growth will continue to drive the national economy and to be one of the fastest among the 50 states.
- San Francisco has seen rapid job growth in Quarter 3 of 2015, which is likely to continue toward the end of 2015.
- The state unemployment rate remains above the national average by about one percent, but continues to fall in sync with the national average.
- Regionally, San Francisco and San Mateo combined are among the lowest unemployment rate regions in the United States.
- Personal income in California continues to rebound.
- Housing markets continue their recovery with solid results again in 2015, likely to be slightly more than 10 percent growth of median prices.
- Construction employment growth is following trends in housing prices, especially as commodities prices have flattened.
- Income inequality and poverty remain issues in California as growth continues; wages have not grown at the same pace as personal incomes.
- Venture capital funding is more likely to happen in the Bay Area than anywhere else in the country.
- Drought conditions, a lack of robust recovery in the interior valleys, summer fires, and commodities prices are acting as a drag on many parts of California while the coastal areas continue to grow.

CALIFORNIA ECONOMIC OVERVIEW

California's economy continues to have a positive outlook into 2016 and likely through 2018. Companies in the mobile application and technology space continue their growth. California continues to create jobs, experience real estate appreciation, fill commercial real estate across all sectors, add to personal income, and remain the global center of both internet-based businesses and biotechnology firms globally. This prognosis depends on global and national growth to provide a growing capacity to purchase goods and services from California. California has lingering social and environmental issues.

Figure 1 illustrates the recovery of California's economy and how the rest of the US economy has grown in comparison. As California's gross state product (the state-level analog to national income) has risen since 2010, its share of US gross domestic product has also risen. Part of this story is that California became America's job and business engine again after 2011. The other part of the story is that the rest of the United States has both slowed or not grown as fast as California. South Dakota was one of the fastest growing state economies in 2009 and experienced negative growth in 2014

Figure 1: California and US GDP Comparison

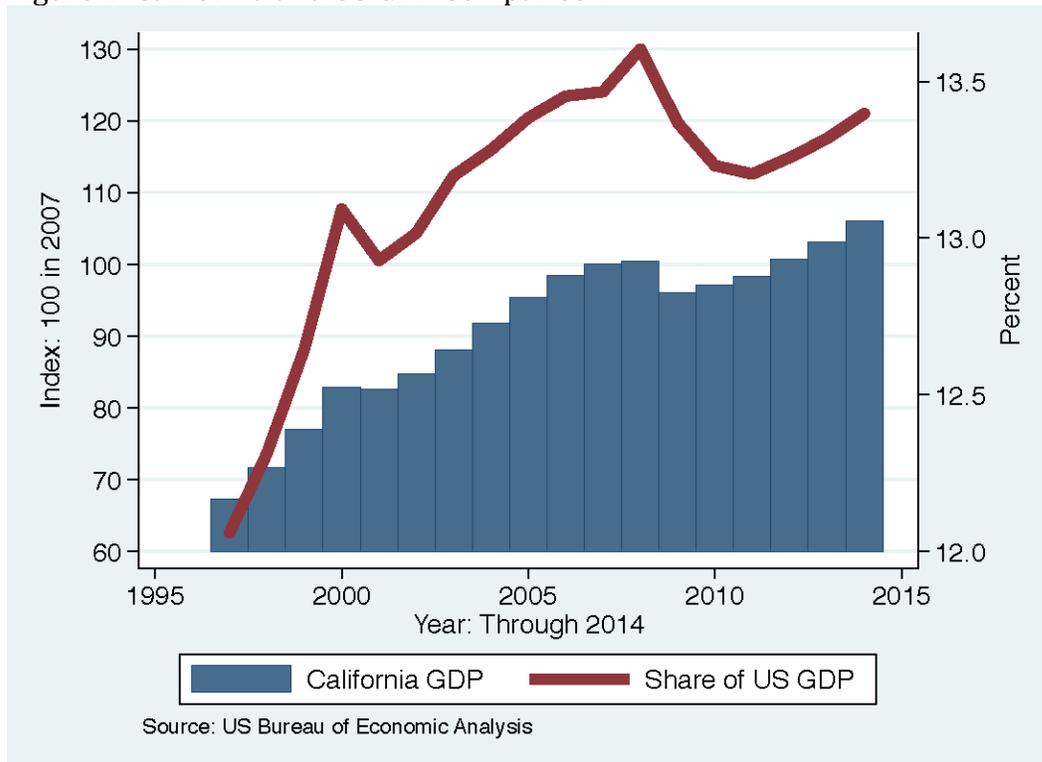
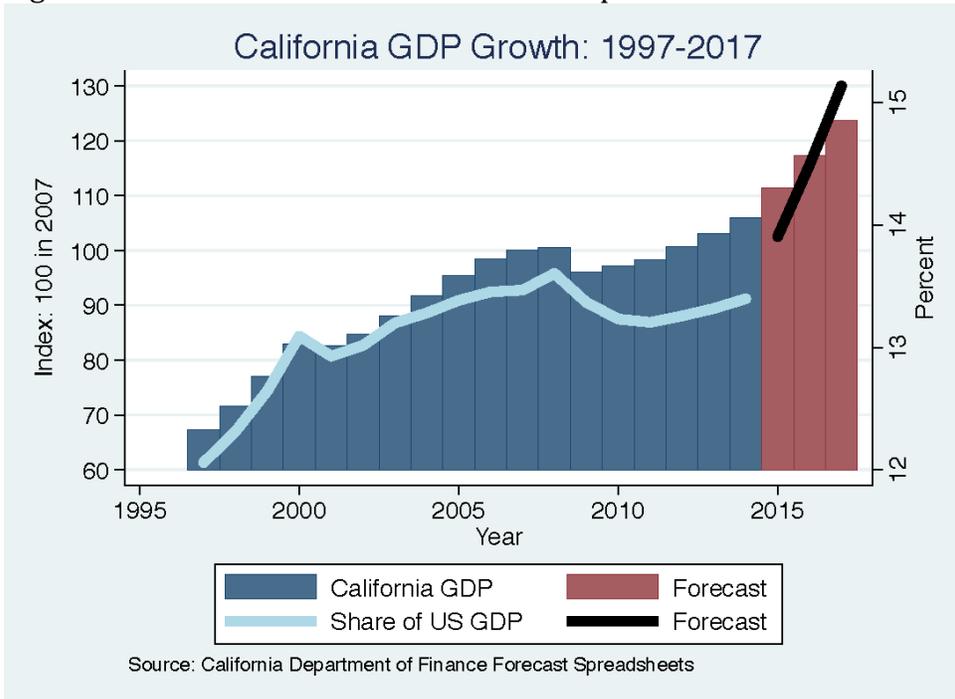
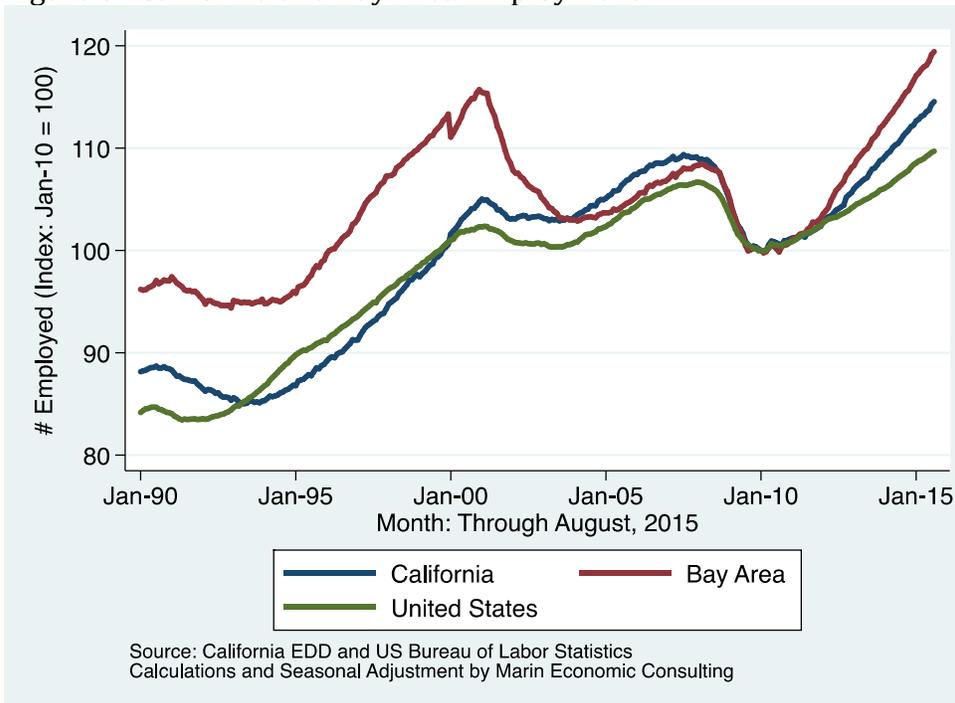


Figure 2: State GDP Forecasted Growth Compared to US Growth



The forecast for California is to continue income and production growth, where the growth rate will accelerate (see the red columns in Figure 2) as will the share of the US production value that is coming from California.

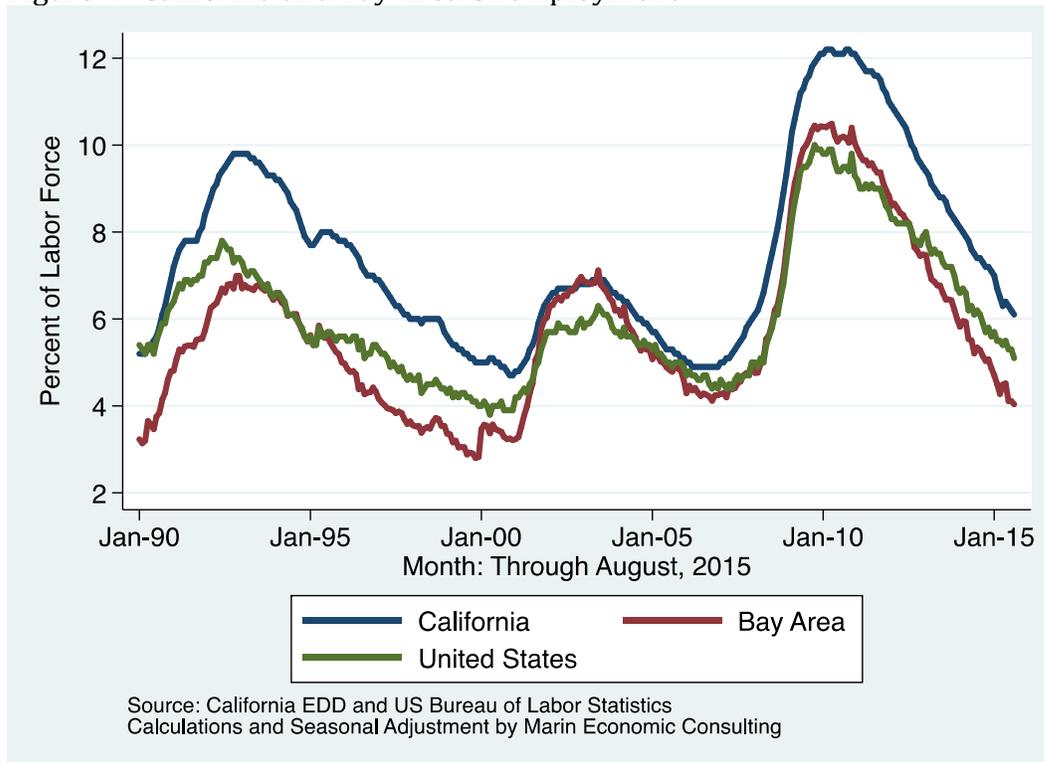
Figure 3: California and Bay Area Employment



Employment and unemployment are tied very directly to the inflation-adjusted value and levels of production. As the economy expands, employment moves with income and vice-versa. While the causality is unknown, the correlation is classic and a brief “eyeball” test of Figures 1 and 3 in comparison shows that job growth and gross product walk hand-in-hand. Employment growth in both the Bay Area and California as a whole has been outpacing that in the rest of the United States by a significant margin in recent years. The further acceleration of growth has helped support growth in smaller Bay Area counties like Marin.

Unemployment rates and levels move inversely with employment levels in most settings, but depend also on labor force dynamics. The labor force is the the proportion of the population that is eligible to work and is participating by either being employed or actively-seeking work. Like the national economy, the level and rate of unemployment in California has steadily fallen since the peak in late 2010. The Bay Area unemployment rate (as compared to California in Figure 4) peaked earlier and has fallen more rapidly than the state overall. While job growth continues, some parts of the state (mainly those away from major urban centers) still struggle in the recessions wake to grow jobs.

Figure 4: California and Bay Area Unemployment



JOB GROWTH

Over the 12 month period that ended in August 2015, employment in California grew by approximately 3.0 percent. Table 1 shows regional data on job growth over the last year and the year to date. Employment growth, as a rate of change, has become more even across the state since August 2014, while the San Francisco Bay Area grew at a rate of more 3.2 percent per year for the second year in a row. Other fast-growing areas in California include Santa Barbara, San Luis Obispo, San Diego, and the Inland Empire. Job growth in the Central Coast and Central Valley has accelerated a bit since 2014.

Table 1: California Employment by Region (Thousands, SA)

August 2015	Aug Non-Farm	Jul to	Jun to	3-Mon Chg.		6-Mon Chg.		Year Chg.	
	Payroll	Aug	Jul	Chg.	%	Chg.	%	Chg.	%
California	16,185.1	36.3	80.4	139.0	0.9	242.9	1.5	470.0	3.0
BAY REGION	3,734.7	9.0	20.3	41.8	1.1	66.0	1.8	136.9	3.8
San Francisco (MSA)	2,152.7	6.1	11.7	23.8	1.1	35.3	1.7	67.4	3.2
Oakland (MD)	1,089.1	-0.4	4.3	7.1	0.7	9.0	0.8	20.5	1.9
San Francisco (MD)	1,063.6	6.4	7.4	16.7	1.6	26.4	2.5	46.9	4.6
San Jose	1,066.1	2.1	6.2	13.4	1.3	25.6	2.5	55.7	5.5
Santa Rosa	197.7	0.3	0.8	2.4	1.2	2.4	1.2	5.0	2.6
Vallejo	132.4	0.4	0.4	0.9	0.7	1.5	1.1	4.2	3.3
Napa	70.8	0.0	0.5	0.4	0.5	0.1	0.2	1.5	2.2
CENTRAL COAST	526.8	-0.2	0.9	1.8	0.3	2.8	0.5	13.2	2.6
Santa Barbara	183.6	0.1	0.8	1.5	0.8	2.7	1.5	6.3	3.6
Salinas	134.6	0.5	-0.4	0.6	0.5	0.5	0.4	2.9	2.2
San Luis Obispo	112.9	-0.8	0.2	0.1	0.1	0.5	0.5	4.0	3.6
Santa Cruz	95.7	-0.1	0.3	-0.4	-0.5	-0.9	-0.9	0.0	0.0
NORTH CENTRAL VALLEY	1,315.4	1.0	5.5	9.0	0.7	15.7	1.2	32.1	2.5
Sacramento	919.1	2.2	3.8	8.3	0.9	13.9	1.5	24.7	2.8
Stockton	214.1	-0.3	0.6	0.5	0.2	1.1	0.5	4.3	2.1
Chico	77.9	-0.9	1.1	0.1	0.1	0.5	0.7	1.5	2.0
Redding	63.4	0.2	-0.0	0.1	0.2	0.1	0.1	0.9	1.4
SOUTH CENTRAL VALLEY	964.3	-0.6	0.0	2.7	0.3	-0.3	-0.0	12.8	1.3
Fresno	323.6	0.3	0.2	1.5	0.5	1.5	0.5	8.3	2.6
Bakersfield	258.0	-0.7	0.0	1.2	0.5	-1.4	-0.5	-0.5	-0.2
Visalia	117.2	-0.2	0.5	0.4	0.3	0.8	0.7	2.2	1.9
Merced	63.2	0.1	-0.7	-0.4	-0.7	-0.9	-1.5	0.4	0.7
SOUTHERN CALIFORNIA	8,962.3	1.4	29.7	50.4	0.6	93.5	1.1	215.7	2.5
Los Angeles (MSA)	5,876.6	4.5	10.1	25.3	0.4	52.6	0.9	124.4	2.2
Los Angeles (MD)	4,326.8	1.6	6.4	12.8	0.3	32.5	0.8	75.9	1.8
Orange County (MD)	1,549.8	2.9	3.7	12.5	0.8	20.1	1.3	48.4	3.2
San Diego	1,395.7	-0.5	9.3	12.0	0.9	21.0	1.5	42.4	3.1
Inland Empire	1,338.0	-2.1	9.7	11.9	0.9	17.8	1.3	44.5	3.4
Ventura	297.0	-0.6	0.2	0.3	0.1	0.8	0.3	2.5	0.8
El Centro	55.0	0.2	0.4	1.0	1.9	1.3	2.3	2.0	3.7

Source: California EDD, Calculations and Seasonal Adjustment by MEC

A number of sectors grew above 3 percent between July 2014 and July 2015. These include construction, wholesale, professional and business services, administrative and waste management services, education, leisure and hospitality, and logistics. Among these high-growth industries, only leisure and hospitality grew more slowly this year than last.

Table 2: California Employment by Industry (Thousands, SA)

August 2015	Aug Non-Farm	Jul to	Jun to	3-Mon Chg.		6-Mon Chg.		Year Chg.	
	Payroll	Aug	Jul	Chg.	%	Chg.	%	Chg.	%
Farm	416.0	1.8	10.4	2.1	0.5	-1.8	-0.4	-0.9	-0.2
Total Nonfarm	16,185.1	36.3	80.4	139.0	0.9	242.9	1.5	470.0	3.0
Goods Producing	2,020.5	-6.8	6.6	-3.2	-0.2	15.1	0.8	39.9	2.0
Construction	721.9	0.7	3.3	3.5	0.5	15.6	2.2	43.8	6.5
NR/Mining	28.6	-0.4	-0.3	-1.4	-4.7	-1.9	-6.2	-2.7	-8.6
Manufacturing	1,270.0	-7.1	3.6	-5.3	-0.4	1.4	0.1	-1.2	-0.1
Durable Goods	800.5	-4.6	2.0	-4.5	-0.6	1.6	0.2	6.3	0.8
Non-Durable Goods	469.5	-2.5	1.6	-0.8	-0.2	-0.2	-0.0	-7.5	-1.6
Service-Providing	14,164.6	43.1	73.8	142.2	1.0	227.8	1.6	430.1	3.1
Trade Transport Util.	2,962.9	7.9	8.3	23.5	0.8	45.5	1.6	81.6	2.8
Wholesale Trade	738.7	1.0	-1.7	-0.3	-0.0	5.5	0.8	22.6	3.2
Retail Trade	1,678.1	6.1	0.8	13.8	0.8	28.2	1.7	36.8	2.2
Transport Warehouse Util.	546.1	0.8	9.2	10.0	1.9	11.8	2.2	22.2	4.2
Information	472.6	0.3	5.0	3.9	0.8	2.5	0.5	11.6	2.5
Fin. Activities	800.1	1.6	3.5	8.4	1.1	2.6	0.3	13.7	1.7
Finance and Ins.	523.2	1.4	0.3	3.7	0.7	0.4	0.1	3.8	0.7
Real Estate	276.9	0.2	3.2	4.7	1.7	2.2	0.8	9.9	3.7
Professional/Business	2,580.8	-11.2	24.1	31.9	1.3	75.4	3.0	134.6	5.5
Prof Sci and Tech	1,279.6	1.9	14.8	24.6	2.0	49.6	4.0	87.7	7.4
Management	232.1	1.1	1.1	1.2	0.5	2.6	1.1	6.8	3.0
Admin Support	1,069.1	-14.2	8.2	6.1	0.6	23.2	2.2	40.1	3.9
Education/Health	2,502.8	3.8	17.0	26.2	1.1	43.3	1.8	68.6	2.8
Educ. Services	364.5	-12.3	6.1	-2.5	-0.7	0.9	0.2	7.1	2.0
Health Care	2,138.3	16.1	10.9	28.7	1.4	42.4	2.0	61.5	3.0
Leisure and Hosp.	1,840.6	10.6	18.8	23.4	1.3	29.1	1.6	77.0	4.4
Other Services	549.0	-1.2	4.8	3.2	0.6	-0.4	-0.1	5.2	1.0
Government	2,455.8	31.3	-7.7	21.7	0.9	29.8	1.2	37.8	1.6
Fed Gov	243.9	1.7	-1.5	1.3	0.5	3.1	1.3	1.8	0.7
State Gov	508.3	1.5	2.8	3.6	0.7	3.8	0.8	12.3	2.5
Local Gov	1,703.6	28.1	-9.0	16.8	1.0	22.9	1.4	23.7	1.4

Source: California EDD, Calculations and Seasonal Adjustment by MEC

Health care job growth has slowed since 2014, but still grew 3.0 percent in the last 12 months. The Affordable Care Act shifting demand in health care toward smaller clinics and away from classic health care systems looks like it may not have been as extreme a change and industry demand is simply up overall.

The construction sector remains a source of growth, due to both commercial and multi-unit residential building in urban areas. This theme has continued since the

recent recession; growth in construction jobs was 6.5 percent since August 2014 and 7.3 percent the previous 12 months. In September 2015, the Federal Reserve's choice to keep interest rates at emergency levels likely will continue to fuel renovation, refinancing, and other credit markets associated with construction of all types. Suburban and rural areas are competing with urban construction for workers and for raw materials; the recent fires in Lake County that have destroyed homes and commercial spaces will likely provide a dubious, regional boost to construction over the next 18 to 24 months.

Figure 5: Employment Growth in Key Sectors



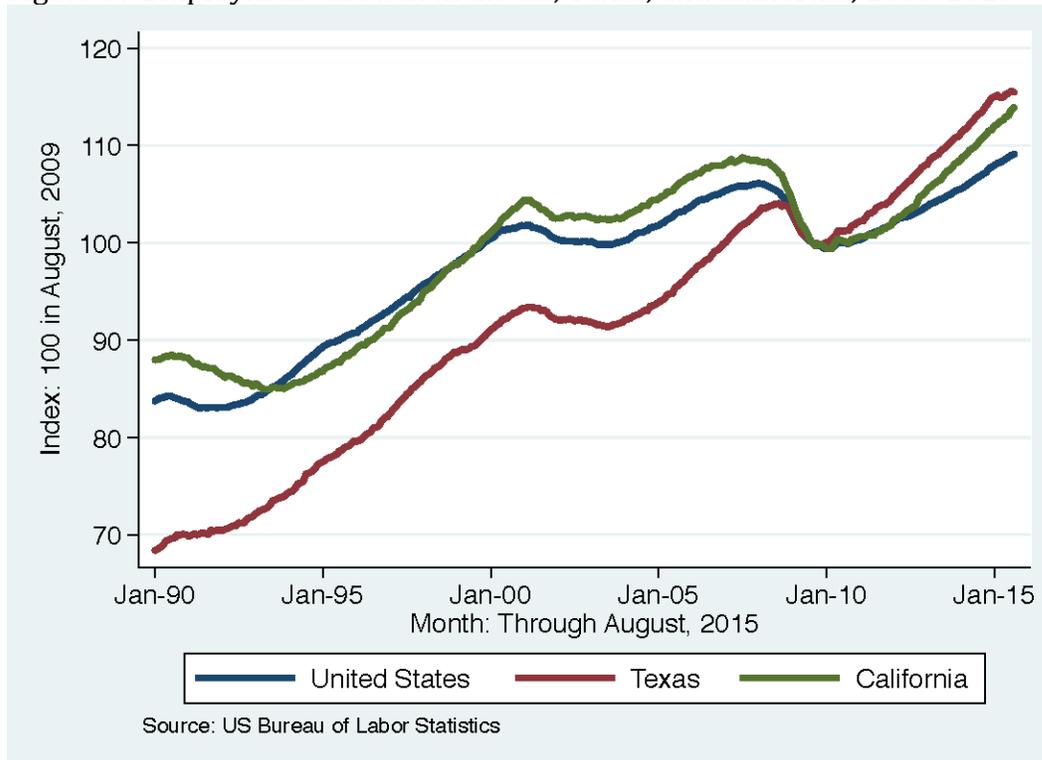
Manufacturing slowed down in the last 12 months, a reflection that global demand for goods made in California is slowing and predicted to continue such slow growth due to the dollar's rise in value and slowing economies in Europe and Asia. Manufacturing has a wide breadth in California, covering everything from aerospace, defense, telecommunications hardware, wine, to tortillas. While slowing growth, manufacturing is approximately 7.6 percent of all jobs in California. Retail jobs are closing in on 11 percent of all jobs in California in comparison.

Finance is only 3.2 percent of jobs, as many financial companies headquarters have moved out of state and branch offices continue to consolidate. The movement away from California to states like Nevada, Arizona, North Carolina, Oregon, and Texas is likely to continue as California's growing economy fuels both rising housing and commercial real estate prices.

California Job Growth versus Texas: Year 2 of comparisons

The recent downturn in commodities prices has hurt California in some ways (agriculture and energy markets), but has also hurt other states with more exposure to primary markets. In the 2014 version of this update, we looked at Texas and job growth to compare a state in the middle of the U.S. and California. With slowdowns in other Midwest and Plains states, especially those connected to energy markets have suffered with the downturn in oil prices and with over-expansion; Texas has continued to grow due to its diversified economy.

Figure 6: Employment Growth in the US, Texas, and California, 1990-2015



Notice the pace of job growth in Texas and California remains parallel since 2011-12. A lower cost of living and no state-level income tax in Texas help the calculus of businesses to move (and of people) toward TX. As it is impossible to provide services with no state revenue, there are higher than average property and sales taxes in Texas as well as lower than average spending on services for the citizenry. Although the gap in post-recession growth has started to close, job growth in Texas on par with California and a sign that Texas both feeds off California and is in competition with this state; watching both of these states is a good gauge for the US economy overall.

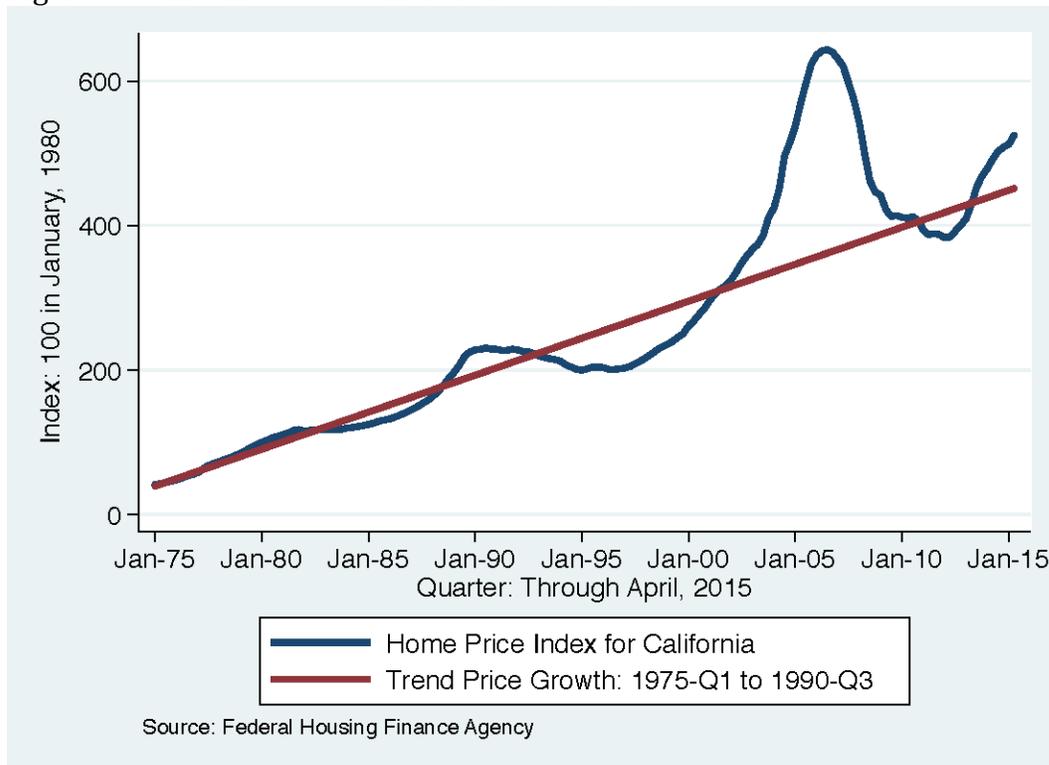
It is clear that government tax policy does not necessarily reveal Texas as attracting businesses and people from California in droves. However, people remain focused

on living in California, especially the Bay Area. Such demand is fueling an amazing growth of housing prices, housing rental prices, and commercial leasing values.

HOUSING

Housing continues its climb in pricing, and rents continue to remain stable and at relatively high prices. Concerns of a housing market bubble have grown, though a reduced supply of housing units while population continues to climb in the Bay Area and in California confound the idea of a bubble. Interest rates remain at relatively low levels, which have fueled home sales and renovations, and are tied to construction employment and income in California. Major construction efforts have been in multifamily housing, both for sale and for rent.

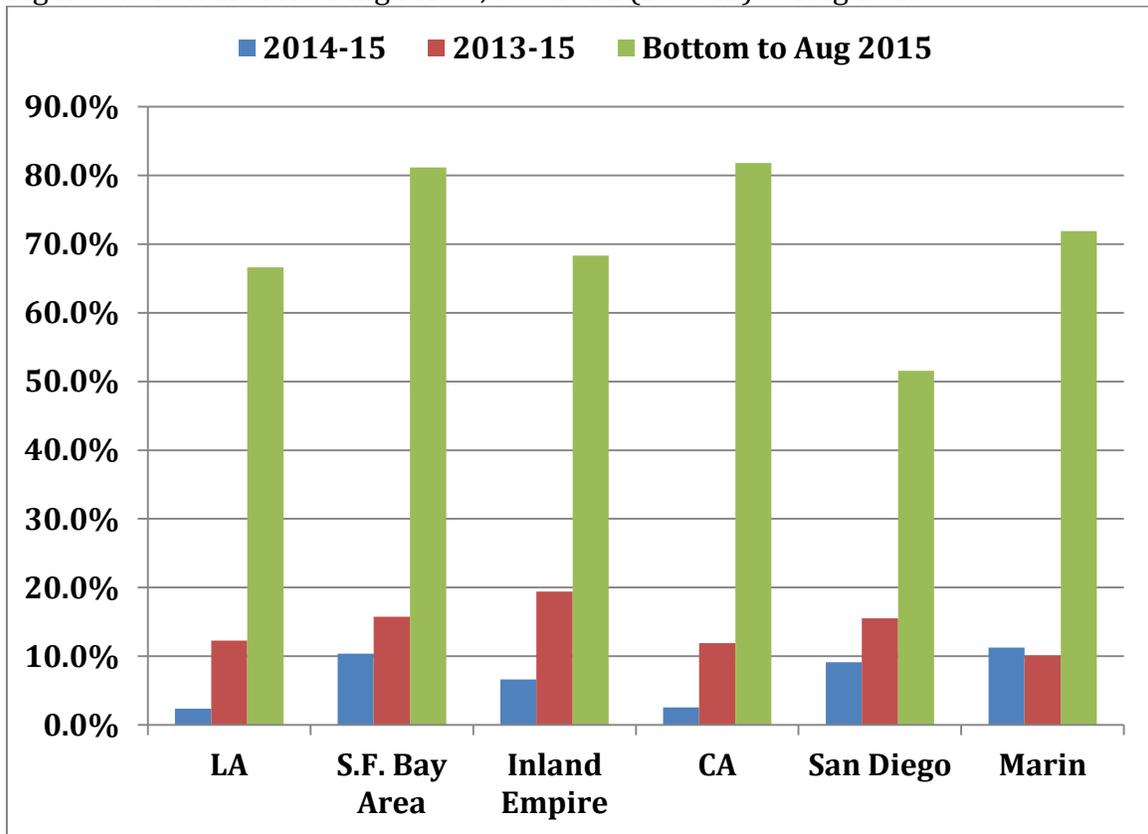
Figure 8: California Case-Shiller Home Price Index



The home price index increased from approximately 350 in 2012 to close to 500 by April 2015 (Figure 8). The bubble bursting brought things down to what might be considered something more commensurate with the long term trend in prices, but there has been a dramatic run back up of home values since mid-2010.

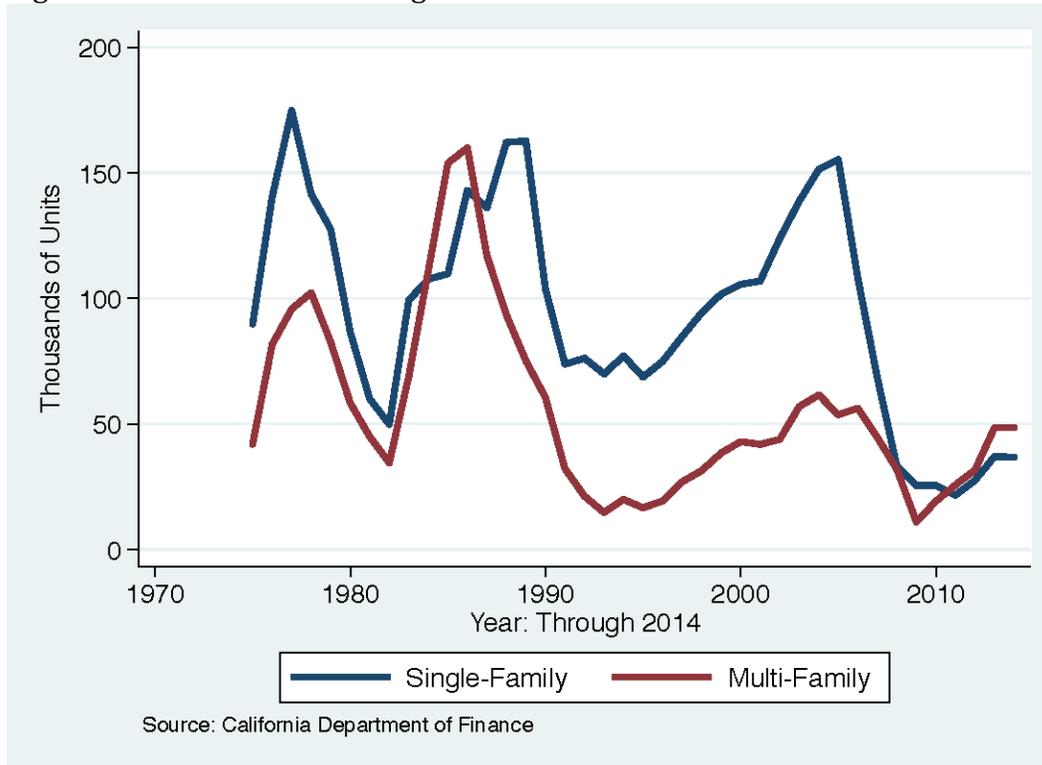
Over the course of the last year (July 2014 to July 2015), home prices in California have increased by 8 percent (Table 3). Particular locations have been increasing even faster. In particular, median values in San Francisco have increased by 18% year over year.

Figure 9: Growth of Housing Prices, Feb 2011 (Bottom) to Aug 2015



The Bay Area has been slow in building increased single-family housing for several decades. The lack of investment in new homes explains most of the recent increase in home prices, as demand caught back up with supply on home ownership, as rental markets saw prices increase. National rates of homeownership have increased again, suggesting that this is not an isolated phenomenon in California, and forecasts for home prices remain strong through 2018. Permit activity remains at relatively low levels, though there has been more permits in the last two years and predictions are that more will come (especially with low-cost financing remaining in place).

Figure 10: Residential Building Permits Issued in California



It is also true that rental prices will likely remain high as construction of new multi-family units will not keep pace with demand. A major consideration for non-urban regions of California is whether the housing markets will have demand as we saw in the mid-2000s again. Pockets of the state will see significant price increases continue where housing shortages are particularly acute. This includes, in particular San Francisco and much of the Bay Area. Housing shortages and a booming, wealthy technology sector have been spurring rapid price increases throughout the region. That wealth has not spread itself to some parts of the state and poverty remains an issue in many California counties.

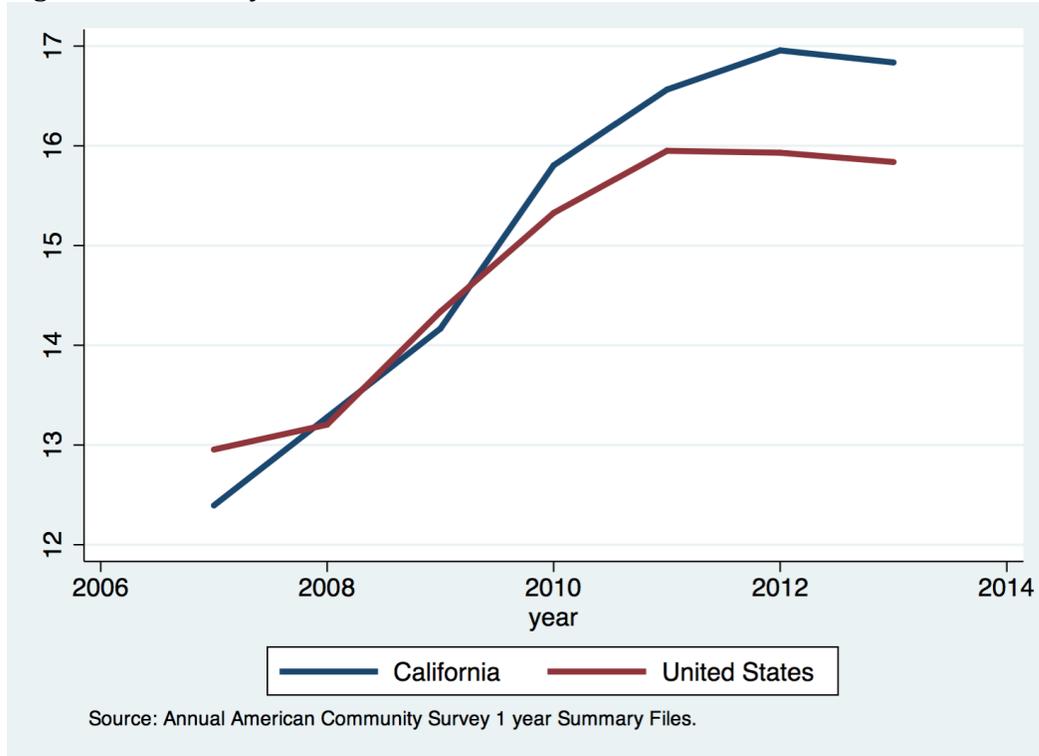
SOCIOECONOMIC CONCERNS: POVERTY

While the economic recovery is in place for most of California, poverty remains an issue that is bifurcating the state. Notice in Figures 11 and 12 that while poverty rates in California and in the United States have peaked and begun to fall, there are many counties in California that still have relatively-high poverty rates.

Notice the geography of these counties versus the state average and those that are below the state average. The interior valleys and northern and eastern border counties still struggle with the proportion of impoverished people and households versus the coastal, urban areas. Sacramento and Los Angeles are somewhat exceptions to this, but for good reason. Sacramento is surrounded by counties that remain in a struggle to break free of the recent recession, and Los Angeles remains a

bifurcated economy between its coastal job engine and its eastern neighbors that remain a drag on the LA region.

Figure 11: Poverty Rates



Poverty has increased for all groups, but most significantly for Hispanics and children (Table 3). Although overall poverty in California increased from 12.4% in 2007 to 16.4% in 2014, or 4 percentage points, the rate for Hispanics increased by 6.1 percentage points and the rate for children increased by 5.6 percentage points. In 2014, poverty rates for Hispanics and black individuals were nearly double those for white and Asian individuals. The period between 2007 and 2012 saw nearly 600,000 children in California added to the ranks of the impoverished and nearly 1.2 million Hispanics.

Table 3: Poverty by Race and Age in 2007 and 2014, Percent of Population

By Race	2007	2014	By Age	2007	2014
White, Not Hispanic	7.5	10.8	Under 18	17.1	22.7
Black, Not Hispanic	20.1	26.9	18-34	14.6	19.1
Asian, Not Hispanic	9.7	12.3	35-44	9.5	14.7
Hispanic	17.8	23.9	45-64	8.4	11.7
			65+	8.1	10.6
Total	12.4	16.4	Total	12.4	16.4

Source: 2007 and 2014 1 year American Community Survey Public Use Microdata Samples (PUMS)

One of the largest, socioeconomic questions of the next decade will be wealth and educational inclusion outside the urban areas of California and how much more urbanization can California accept and handle. Venture capital, especially in San Jose, San Francisco and the greater Bay Area, remains a fuel for job and business growth. Figure 13 provides county-level median household income as a contrast.

Figure 12: Poverty Rates in California Counties, 2014

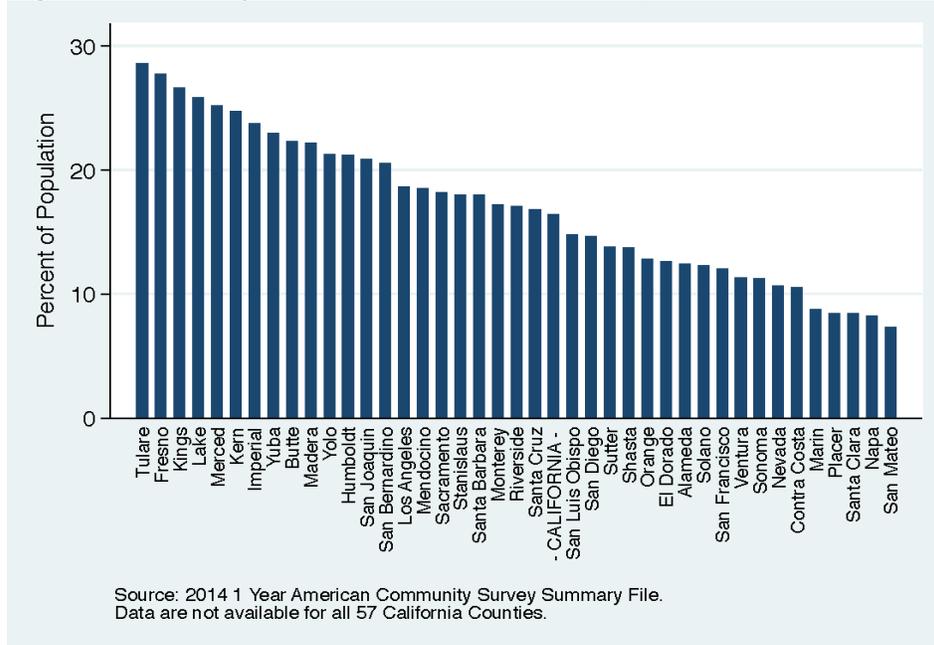
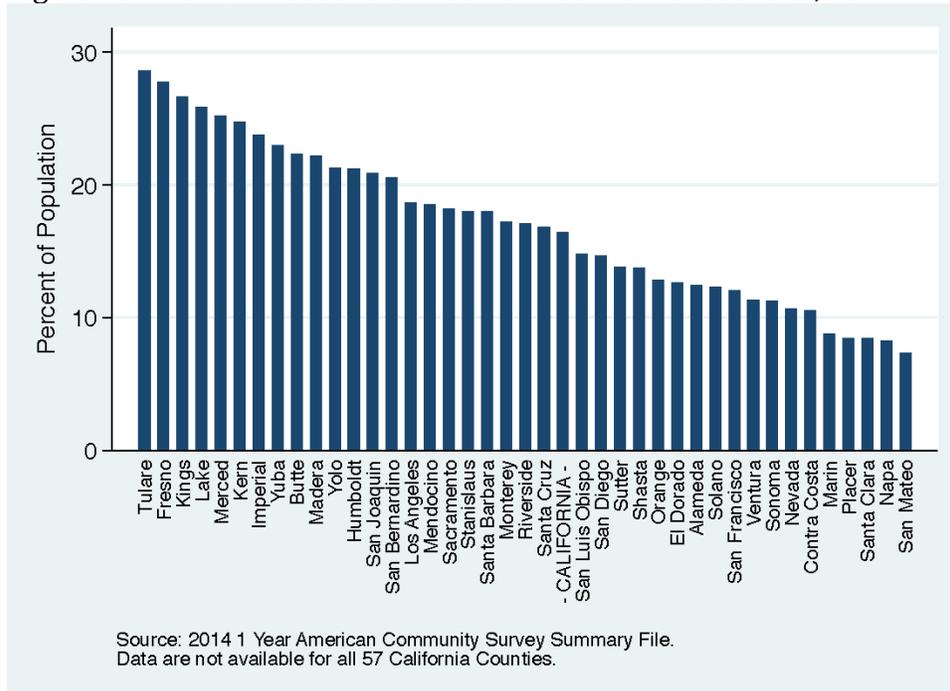


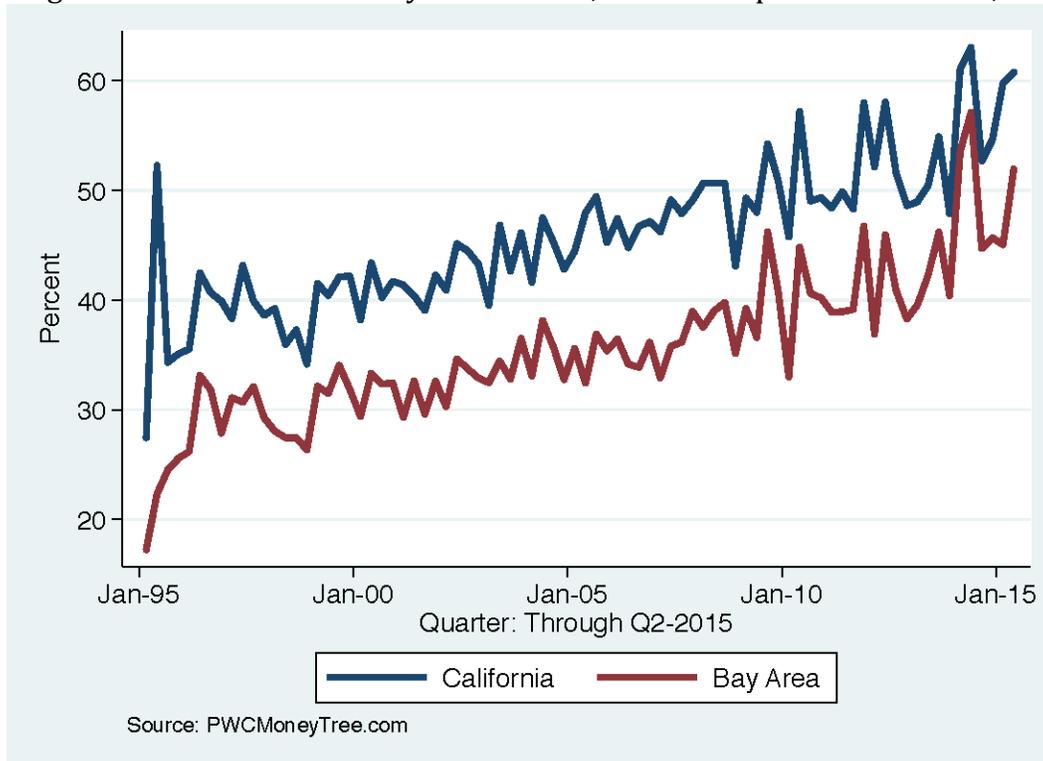
Figure 13: Median Household Income in California Counties, 2014



VENTURE CAPITAL

The state of the California and Bay Area economies are a global magnet for investment capital. Since the 1990s, economists have used the growth (or lack thereof) in venture capital (VC) funding of businesses as a gauge for how technology stocks and companies may be performing in the near future. Figure 14 illustrates that California attracts the majority of VC funds invested in the United States. The Bay Area receives the vast majority of these funds, over 80 percent of funds finding their way to California. This attraction underscores the competitive and comparative advantages California has in technology firms; Asia was once thought to be a major competitor to California, but may be losing its way versus the capitalism that runs at full speed in California.

Figure 14: California and Bay Area Shares, Venture Capital Investments, US



CALIFORNIA INTO THE FUTURE

The forecast for California's economy remains solid through 2018, and perhaps through 2020. Employment levels, personal income, household income, and venture capital growth all point toward more investment and consumption in California over the next two years. Given 2016 is a year with a presidential election, the final four years of this decade and California's economic future depends on stability in the national economy.

California, like other global economic centers, faces risks that are both internal and external. Housing prices continue to rise, and these gains are driving increases in the cost of living. The lack of transmission of this cost to wages across California is both a sign that the urban centers have been the focus of recovery and expansion in the recent recession's wake and also that slack labor markets still exist throughout California allowing wages to creep up more slowly than prices.

Low interest rates and global slowdowns in Asia and Europe may have confounding effects on the California economy. The continued effects of drought on the California's agricultural lands and interior valleys generate another set of reasons for slower recovery in some counties. Recent wildfires are a testament to drought and may exacerbate the depth and breadth of a slow recovery away from the coastal areas.

Poverty remains a major issue for California, its nonprofit organizations, and its political houses. The state is increasingly suffering from a bifurcation of its populace. This is evidenced by higher rates of income inequality combined with higher rates of poverty. The underfunding of schools in the state is one source of the problem. The loss of middle wage workers and jobs is another.

In spite of the risks, venture capital statistics suggest a continued and expanding appetite to invest in California-based companies, especially those in mobile applications, internet-based solutions to business problems and biotechnology. California looks to remain the engine of the American economy, regardless of competition from other states, which will rise over time; a challenge for California is to watch taxation and regulation as to not drive more businesses and employment from this state as market forces will already attempt to do.