Overview of the California Economy

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The Business Cycle: Where the Economy Has Been, Where It Is Today, Where It Might Be Headed As Told Through the EDD's Labor Market Information Data

- By definition, the economy can be in one of either two conditions at any given time: ***recession*** (contraction) or ***expansion*** (growth).
- The ***business cycle*** refers to the cycle, or series of cycles, of economic expansion and recession.
- Nationally, the business cycle is officially dated and arbitrated by the National Bureau of Economic Research (NBER), typically long after economic conditions have changed.
  - A ***recession*** is "a ***significant decline*** in economic activity ***spread across the economy***, ***lasting more than a few months***, normally visible in real Gross Domestic Product (GDP), income, employment, industrial production, and wholesale-retail sales."
  - An ***expansion*** is an increase in the level of economic activity, or the goods and services that are available.
- Recessions begin (expansions end) when economic activity peak and starts to decline. Recessions end (expansions begin) when the decline reaches a trough and economic activity begins to grow.
- The NBER only dates national business cycles. Technically, a state's economy can't be in recession or expansion independent of the nation. To get around this inconvenience, economists use the convention to date state business cycles unofficially by the peaks and troughs in total nonfarm employment (jobs).

California Nonfarm Payrolls Since 1960
January 2019; Seasonally Adjusted Data
(Note: Historical job totals in red prior to January 1990 are no longer official.)
Thousands of Jobs
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
Jan 60
Jan 63
Jan 66
Jan 69
Jan 72
Jan 75
Jan 78
Jan 81
Jan 84
Jan 87
Jan 90
Jan 93
Jan 96
Jan 99
Jan 02
Jan 05
Jan 08
Jan 11
Jan 14
Jan 17
Jan 20

The Current Business Cycle: 15-Year History of Total Nonfarm Employment (Jobs)

- The Great Recession began in July 2007 in California and lasted through February 2010.
- The current economic expansion began in February 2010 and continued through February 2019, which is the most recent month for which jobs data are available.

The Great Recession in California

- California lost 8.5 percent of its nonfarm jobs from the July 2007 peak through its February 2010 trough, or 1,316,400 jobs in total. This was far and away the worst job loss the state has experienced in the post-World War II era. These job losses occurred over a 32-month period. It took the economy 51 months to recover them.

The Great Recession in California

- The Great Recession began in the housing and financial sector, quickly spread into the consumer economy, and from there into the rest of the economy. California's construction, financial activities, and manufacturing sectors suffered the deepest job losses. The administrative support services, wholesale trade, and retail trade subsectors also suffered disproportionately large job losses. In contrast, educational and health services gained jobs from July 2007 through February 2010.

The Great Recession in California

- Every one of California's 28 metropolitan divisions (MDs) and statistical areas (MSAs) except Hanford-Corcoran suffered deep job losses during the recession. Losses tended to be largest where the housing bust and related financial crisis hit hardest.

Changes in Total Nonfarm Jobs in California's Seasonally Adjusted Metroplitan Divisions (MDs) and Metropolitan Statistical Areas (MSAs) During the Great Recession: Areas With More Than 100,000 Jobs Only

July 2007 - February 2010; Seasonally Adjusted Data

Change in Number of Jobs		Change in Percent	
CALIFORNIA	***-1,316,400***	***CALIFORNIA***	***-8.5%***
Largest Areas (>950,000 jobs)		**Largest Areas (>950,000 jobs)**	
Los Angeles-Long Beach-Glendale MD	-349,500	Riverside-San Bernardino-Ontario MSA	-11.5%
Anaheim-Santa Ana-Irvine MD	-169,800	Anaheim-Santa Ana-Irvine MD	-11.1%
Riverside-San Bernardino-Ontario MSA	-149,000	Sacramento--Roseville--Arden-Arcade MSA	-9.9%
San Diego-Carlsbad MSA	-98,000	Oakland-Hayward-Berkeley MD	-8.9%
Oakland-Hayward-Berkeley MD	-94,700	Los Angeles-Long Beach-Glendale MD	-8.2%
Sacramento--Roseville--Arden-Arcade MSA	-91,100	San Diego-Carlsbad MSA	-7.4%
San Jose-Sunnyvale-Santa Clara MSA	-66,000	San Jose-Sunnyvale-Santa Clara MSA	-7.1%
San Francisco-Redwood City-So. San Francisco MD	-47,700	San Francisco-Redwood City-S. San Francisco MD	-5.3%
Middle-Sized Areas (100,000 to 400,000 jobs)		**Middle-Sized Areas (100,000 to 400,000 jobs)**	
Fresno MSA	-27,800	Santa Rosa MSA	-12.4%
Oxnard-Thousand Oaks-Ventura MSA	-26,200	Santa Cruz-Watsonville MSA	-11.6%
Santa Rosa MSA	-23,800	Stockton-Lodi MSA	-9.9%
Stockton-Lodi MSA	-21,500	Modesto MSA	-8.9%
Modesto MSA	-14,700	Oxnard-Thousand Oaks-Ventura MSA	-8.7%
Bakersfield MSA	-13,200	Fresno MSA	-8.7%
Santa Maria-Santa Barbara MSA	-11,400	Vallejo-Fairfield MSA	-8.3%
Santa Cruz-Watsonville MSA	-11,300	San Rafael MD	-7.8%
Vallejo-Fairfield MSA	-10,800	San Luis Obispo-Paso Robles-Arroyo Grande MSA	-7.3%
San Rafael MD	-8,300	Santa Maria-Santa Barbara MSA	-6.6%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	-7,500	Visalia-Porterville MSA	-6.1%
Visalia-Porterville MSA	-7,000	Bakersfield MSA	-5.5%
Salinas MSA	-6,500	Salinas MSA	-5.0%

- California's 1.3 million-job loss from July 2007 through February 2010 was far and away the largest loss amongst states. It's 8.5 percent job loss over the period was fifth largest among states.

The Great Recession in California

- California's unemployment rate shot up from a low of 4.9 percent in January 2007 to a high of 12.3 percent in March, October, and November 2010. This was a record high in the official data series that dates to the start of 1976.

The Great Recession in California

- Economic conditions in California were so dire by November 2010 that the state had the second highest unemployment rate in the nation.

The Current Employment Expansion in California

- Mercifully, California's job losses finally bottomed out in February 2010, which is when the recession ended and the current expansion began. As of February 2019, the state had experienced nine years of all but continuous job growth, gaining jobs in 89 of the last 92 months. The prevailing trend of steady job growth shows no signs of ending.

The Current Employment Expansion in California

- California gained 3,133,100 nonfarm jobs from the recessionary trough in February 2010 through February 2019. At 108 months of age, the current employment expansion is California's second longest of the post-World War II era.

The Current Employment Expansion in California

- California finally recovered all the jobs it lost during the recession in May 2014. By February 2019, the state had 1,816,700 (11.7 percent) more nonfarm jobs than it had at its peak entering the recession in July 2007.

The Current Employment Expansion in California

- All of California's major industry sectors except the tiny mining and logging sector have gained jobs over the course of the current expansion. The drivers of California's employment expansion, or those sectors with job growth substantially faster than the economy as a whole, have been construction, leisure and hospitality, professional and business services, educational and health services, and information services. Note that the professional and business services and information sectors have a high concentration of high tech. firms.

The Current Employment Expansion in California

- San Francisco-Redwood City-South San Francisco MD and San Jose-Sunnyvale-Santa Clara MSA, the areas that incorporate Silicon Valley, have grown faster than other California areas over the course of the current expansion.

Changes in Total Nonfarm Jobs in California's Seasonally Adjusted Metroplitan Divisions (MDs) and Metropolitan Statistical Areas (MSAs) Over the Course of the Employment Expansion: Areas With More Than 100,000 Jobs Only

February 2010 - Febuary 2019; Seasonally Adjusted Data

Change in Number of Jobs		Change in Percent	
CALIFORNIA	***3,133,100***	***CALIFORNIA***	***22.1%***
Largest Areas (>1 million jobs)		**Largest Areas (>1 million jobs)**	
Los Angeles-Long Beach-Glendale MD	619,200	***San Francisco-Redwood City-So. San Francisco MD***	***38.2%***
Riverside-San Bernardino-Ontario MSA	359,700	***San Jose-Sunnyvale-Santa Clara MSA***	***31.8%***
San Francisco-Redwood City-So. San Francisco MD	323,700	Riverside-San Bernardino-Ontario MSA	31.3%
Anaheim-Santa Ana-Irvine MD	295,000	***Sacramento--Roseville--Arden-Arcade MSA***	***22.1%***
San Jose-Sunnyvale-Santa Clara MSA	275,700	***Oakland-Hayward-Berkeley MD***	***22.1%***
San Diego-Carlsbad MSA	266,800	San Diego-Carlsbad MSA	21.7%
Oakland-Hayward-Berkeley MD	214,900	Anaheim-Santa Ana-Irvine MD	21.7%
Sacramento--Roseville--Arden-Arcade MSA	184,200	Los Angeles-Long Beach-Glendale MD	15.8%
Middle-Sized Areas (100,000 to 400,000 jobs)		**Middle-Sized Areas (100,000 to 400,000 jobs)**	
Fresno MSA	71,900	Fresno MSA	24.7%
Stockton-Lodi MSA	47,900	***Stockton-Lodi MSA***	***24.6%***
Bakersfield MSA	42,000	San Luis Obispo-Paso Robles-Arroyo Grande MSA	24.0%
Santa Rosa MSA	40,100	***Santa Rosa MSA***	***23.9%***
Oxnard-Thousand Oaks-Ventura MSA	35,500	Santa Cruz-Watsonville MSA	21.0%
Modesto MSA	29,000	Modesto MSA	19.3%
Santa Maria-Santa Barbara MSA	24,200	San Rafael MD	19.0%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	22,800	Bakersfield MSA	18.4%
Salinas MSA	21,700	Salinas MSA	17.5%
Vallejo-Fairfield MSA	20,700	Visalia-Porterville MSA	17.5%
Visalia-Porterville MSA	19,000	Vallejo-Fairfield MSA	17.3%
San Rafael MD	18,700	Santa Maria-Santa Barbara MSA	14.9%
Santa Cruz-Watsonville MSA	18,100	Oxnard-Thousand Oaks-Ventura MSA	13.0%

The Current Employment Expansion in California

- California gained more nonfarm jobs than any other state from February 2010 through February 2019. Texas's 2.4 million job gain over the same period ranked a distant second. California's 22.1 percent job gain from February 2010 through February 2019 tied with Washington for 7th largest among states.

The Current Expansion in California

- California's unemployment rate fell from its record-tying high of 12.3 percent in November 2010 to a record-low of 4.1 percent from July through December 2018 before ticking up to 4.2 percent to begin 2019.

The Current Expansion in California

- Labor markets in California are tight. The state's 4.2 percent unemployment rate in February 2019 was 0.7 percentage point lower than the pre-recession low and the rate has remained in record low territory for the last 20 months. The state's unemployment rate in February remained just 0.1 percentage point above the 4.1 percent record low that occurred over the last six months of 2018.

The Current Expansion in California

- Is the unemployment rate trend changing? The rate increase in January, small though it was, was California's first rate increase since October 2010. Year-over, the California unemployment rate fell by just 0.1 percentage point in February 2019. This was the state's smallest year-over rate decrease since early in the expansion in January 2011. California's unemployment rate exhibited no net change whatsoever from May 2018 to February 2019.

Unemployed Californians

- During the Great Recession, the number of unemployed in California skyrocketed from 860,000 persons in October 2006 to nearly 2.3 million in October 2010. It fell nearly continuously after reaching this peak to the point that there were just 797,000 unemployed Californians in September 2018, which was the state's lowest unemployment total since March 1990. However, unemployment in California rose for the fifth consecutive month in February 2019, with the increase over this period totaling 27,000 persons.

A Brief Look at the Last Year in California

- California continues to experience steady job growth and the trend of job growth shows no sign of reversing. But, the pace of job growth in California has slowed. California gained a total of 20,500 nonfarm jobs in January and February 2019 combined. This compares to a gain of 76,400 nonfarm jobs during the first two months of 2018.

  ➔ Very wet weather conditions in California likely contributed to the state's weaker job growth in 2019-to-date. California's weather-sensitive construction sector added a combined total of 21,400 jobs in January and February 2018, but lost 10,000 jobs in those same months in 2019. This was a negative swing of 31,400 construction jobs.

A Brief Look at the Last Year in California

- However, weather alone does not explain why job growth is slowing. The pace of year-over job growth in California has slowed over the course of the last year. California's year-over nonfarm job gains slipped to 222,500 (1.3 percent) in February 2019. This was the state's smallest year-over job gain in number and percent since December 2011, and about half February 2018's year-over gain.

A Brief Look at the Last Year in California

- Although California added more jobs than any state in the nation except Texas over the year ending in February 2019, its 1.3 percent year-over job gain ranked just 20th among states and fell short of the nation's 1.7 percent gain.

A Brief Look at the Last Year in California

- California continues to experience broad-based job growth across most major industry sectors. No weakness is evident in the economy outside of the financial activities sector, which had a small year-over job loss.

Year-Over Changes in Industry Sector Jobs: February 2019 Vs February 2018

- The slowdown in the pace of job growth over the last year was wide-spread across most California industry sectors but was concentrated in the construction sector, which is the sector that is most directly affected by wet weather. The housing-oriented financial activities sector also had a fairly pronounced slowdown in job growth.

A Brief Look at the Last Year in California

- Job growth continued to be widespread across the state over the year ending in February 2019, with 25 of 28 metro. divisions and metro. statistical areas experiencing job gains. Northern California areas tended to have the stronger job growth than those in southern California. Agricultural producing areas also did comparatively well.

Year-Over Changes in Total Nonfarm Jobs in California's Seasonally Adjusted Metroplitan Divisions (MDs) and Metropolitan Statistical Areas (MSAs): FEBRUARY 2019

Seasonally Adjusted Data

Change in Number of Jobs		Change in Percent	
CALIFORNIA	**222,500**	**CALIFORNIA**	**1.3%**
Largest Areas (>1 million jobs)		**Largest Areas (>1 million jobs)**	
San Francisco-Redwood City-So. San Francisco MD	42,600	*San Francisco-Redwood City-So. San Francisco MD*	*3.8%*
Los Angeles-Long Beach-Glendale MD	33,500	*Sacramento--Roseville--Arden-Arcade MSA*	*2.7%*
Sacramento--Roseville--Arden-Arcade MSA	26,400	*San Jose-Sunnyvale-Santa Clara MSA*	*2.2%*
San Jose-Sunnyvale-Santa Clara MSA	24,700	San Diego-Carlsbad MSA	1.3%
San Diego-Carlsbad MSA	19,600	Oakland-Hayward-Berkeley MD	1.2%
Riverside-San Bernardino-Ontario MSA	15,400	*Riverside-San Bernardino-Ontario MSA*	*1.0%*
Oakland-Hayward-Berkeley MD	14,000	*Los Angeles-Long Beach-Glendale MD*	*0.7%*
Anaheim-Santa Ana-Irvine MD	11,800	*Anaheim-Santa Ana-Irvine MD*	*0.7%*
Middle-Sized Areas (100,000 to 400,000 jobs)		**Middle-Sized Areas (100,000 to 400,000 jobs)**	
Fresno MSA	12,500	*Fresno MSA*	*3.6%*
Bakersfield MSA	6,500	*Bakersfield MSA*	*2.5%*
Santa Maria-Santa Barbara MSA	3,400	*Salinas MSA*	*2.1%*
Salinas MSA	3,000	Santa Maria-Santa Barbara MSA	1.9%
Stockton-Lodi MSA	2,500	Santa Cruz-Watsonville MSA	1.5%
Visalia-Porterville MSA	1,500	Visalia-Porterville MSA	1.2%
Santa Cruz-Watsonville MSA	1,500	Stockton-Lodi MSA	1.0%
San Rafael MD	900	San Rafael MD	0.8%
Oxnard-Thousand Oaks-Ventura MSA	800	San Luis Obispo-Paso Robles-Arroyo Grande MSA	0.4%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	500	*Oxnard-Thousand Oaks-Ventura MSA*	*0.3%*
Modesto MSA	300	Modesto MSA	0.2%
Santa Rosa MSA	-400	*Santa Rosa MSA*	*-0.2%*
Vallejo-Fairfield MSA	-400	*Vallejo-Fairfield MSA*	*-0.3%*

A Brief Look at the Last Year in California

- However, the pace of year-over job growth slowed across most areas of the state over the course of the last year, with the notable exception of Silicon Valley (San Francisco and San Jose), Fresno, and Santa Barbara. The slowdown appears to be most pronounced in areas that have comparatively high concentrations of bedroom communities.

Difference in Year-Over Changes in Total Nonfarm Jobs in California's Seasonally Adjusted Metroplitan Divisions (MDs) and Metropolitan Statistical Areas (MSAs): FEBRUARY 2019 VS FEBRUARY 2018

Seasonally Adjusted Data

Change in Number of Jobs		Change in Percent	
CALIFORNIA	**-204,800**	**CALIFORNIA**	**-1.3%**
Largest Areas (>1 million jobs)		**Largest Areas (>1 million jobs)**	
San Francisco-Redwood City-So. San Francisco MD	17,300	***San Francisco-Redwood City-So. San Francisco MD***	***1.5%***
San Jose-Sunnyvale-Santa Clara MSA	2,400	***San Jose-Sunnyvale-Santa Clara MSA***	***0.2%***
Sacramento--Roseville--Arden-Arcade MSA	-7,100	Sacramento--Roseville--Arden-Arcade MSA	-0.8%
Oakland-Hayward-Berkeley MD	-12,100	Los Angeles-Long Beach-Glendale MD	-1.1%
San Diego-Carlsbad MSA	-16,300	Oakland-Hayward-Berkeley MD	-1.1%
Anaheim-Santa Ana-Irvine MD	-33,800	San Diego-Carlsbad MSA	-1.2%
Riverside-San Bernardino-Ontario MSA	-46,200	***Anaheim-Santa Ana-Irvine MD***	***-2.1%***
Los Angeles-Long Beach-Glendale MD	-46,700	***Riverside-San Bernardino-Ontario MSA***	***-3.3%***
Middle-Sized Areas (100,000 to 400,000 jobs)		**Middle-Sized Areas (100,000 to 400,000 jobs)**	
Fresno MSA	2,600	***Fresno MSA***	***0.7%***
Santa Maria-Santa Barbara MSA	700	***Santa Maria-Santa Barbara MSA***	***0.4%***
San Rafael MD	-300	San Rafael MD	-0.3%
Santa Cruz-Watsonville MSA	-300	Santa Cruz-Watsonville MSA	-0.3%
Visalia-Porterville MSA	-600	Bakersfield MSA	-0.4%
Bakersfield MSA	-800	Visalia-Porterville MSA	-0.5%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	-1,200	San Luis Obispo-Paso Robles-Arroyo Grande MSA	-1.0%
Salinas MSA	-2,200	Salinas MSA	-1.7%
Vallejo-Fairfield MSA	-4,500	***Oxnard-Thousand Oaks-Ventura MSA***	***-1.9%***
Santa Rosa MSA	-4,700	***Santa Rosa MSA***	***-2.3%***
Modesto MSA	-5,500	***Stockton-Lodi MSA***	***-2.9%***
Oxnard-Thousand Oaks-Ventura MSA	-5,600	***Modesto MSA***	***-3.2%***
Stockton-Lodi MSA	-6,500	***Vallejo-Fairfield MSA***	***-3.3%***

A Tale of Two Regions: The Bay Area and Southern California

Year-Over Percentage Change in Industry Sector Jobs in February 2019

A Tale of Two Regions: The Bay Area and Southern California

Year-Over Percentage Change in Industry Sector Jobs in February 2019 Compared to February 2018

Where the Economy Might Be Headed

- The pace of year-over job growth in February 2019 was substantially below that of February 2018 and prior years of the expansion, even if wet weather in 2019-to-date may be exaggerating the slowdown. Nevertheless, the economy continues to add jobs month in and month out, and the slowdown has been broad-based across most industry sectors and areas of the state. This, combined with the historically low unemployment rate, paints a picture of an economy operating at full employment, and not one that is losing steam and about to tip into recession. No downturn in the economy appears to be imminent, and the economy is expected to continue to grow in the immediate months to come.
- Nevertheless, there is a consensus forming among economists that the current expansion probably won't be able to last much beyond that. The California Department of Finance and the UCLA Anderson School Economic Forecast predict that economic growth in the U.S. and California will slow over the course of 2019 and into 2020. UCLA all but predicts a recession will occur in 2020 without actually saying so.

➔ **It would not take much to tip a slowly growing economy into recession**

Risks:

- Volatility in the stock market, falling profit margins, factors in the bond markets could shake business confidence and make them pull back on investments. California's high technology sector would be particularly vulnerable to a pull-back in business investment.

- The global economy is slowing, including the economies of China, Japan, and Europe. Tariffs on Chinese goods, now at 10 percent, could rise to 25 percent if the U.S. and China don't reach a trade agreement. The Administration is threatening to impose tariffs on Mexican and European goods. Trade wars are by their very nature unpredictable and difficult to control. Most imported goods from China and Asia enter the U.S. through California ports, and California is a key nexus of U.S.-Mexico trade. In other words, California is particularly vulnerable to a trade wars.

- Consumers: The cost of tariffs are typically borne by consumers. Moreover, rising interest rates due to Federal Reserve policies lead to higher interests on mortgages, car loans, and credit cards. Higher interest rates appear to have already put a damper on the housing market and could weaken consumer spending on the other big ticket items on which the economy depends. But rising wages could cushion the effects on consumers.

- The stimulatory effects of the 2018 tax cuts and ramp up in federal spending (particularly in defense) will wear off. In its place will be huge federal budget deficits. California still has a big defense industry.

- Policy uncertainty and unpredictability is not good for the economy. (Government shutdown in January, recent threats to close the Mexican Border, etc.)