

Persistent Risks to California Manufacturing Employment

California employment growth moderated in 2016. Employment data showed that California total non-farm payrolls were up by 2.0 percent, or 332,500 jobs, in the 12 months ending in December. The first read on full-year 2016 California jobs numbers is positive, yet overall job growth moderated from 2015 when the state added 483,000 jobs. Most major sectors saw a slowdown in employment in 2016, except for the government sector, which actually increased. California's manufacturing sector saw declines in jobs, down 7,600 jobs in 2016.

The Trump Administration has made growing manufacturing jobs in the U.S. a priority since taking office. However, we expect this objective to be particularly challenging for California manufacturers due to high costs of land, labor and the high regulatory burden. Most industries are tied to geographical areas; what economists refer to as industries of agglomeration. This includes access to things like ports, materials and workforce talent. The established infrastructure for the high-tech, bio-tech and defense manufacturing industries in California encourages businesses to remain in the state. However, the higher costs encourage state manufacturers to either automate or move operations out of state, ultimately pushing down manufacturing employment. A higher tax savings and increased federal spending on defense related manufacturing could boost California's manufacturing jobs in the near term. However, the share of California manufacturing to overall California employment is on a two-and-a-half decade slide from 15.8 percent in 1990 to 7.7 percent in 2016 and this longrun trend is unlikely to change.

California Economic Outlook

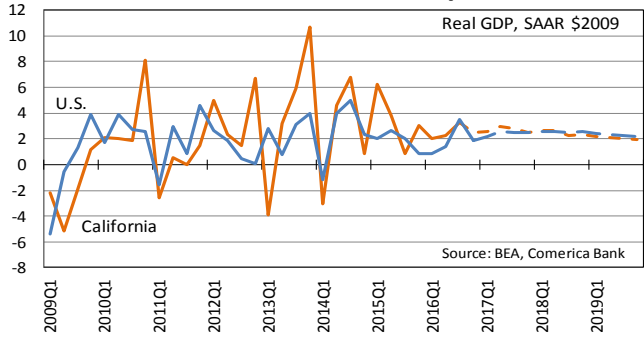
	3Q'16a	4Q'16a	1Q'17f	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2Q'18f	2016a	2017f	2018f
State GDP											
Real GDP (Chained 2009 Millions \$)	2287781	2301689	2316381	2333282	2349630	2364268	2379943	2395646	2278887	2340890	2401782
Percent Change Annualized	3.3	2.5	2.6	3.0	2.8	2.5	2.7	2.7	2.4	2.7	2.6
Labor and Demographics											
Payroll Jobs (Thousands)	16515	16600	16683	16761	16840	16912	16987	17061	16460	16799	17097
Percent Change Annualized	2.3	2.1	2.0	1.9	1.9	1.7	1.8	1.8	2.5	2.1	1.8
Unemployment Rate (Percent)	5.5	5.3	5.5	5.5	5.4	5.4	5.3	5.3	5.4	5.4	5.3
Population (Thousands)	39320	39405	39492	39580	39667	39752	39837	39922	39292	39623	39965
Percent Change Annualized	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.7	0.8	0.9
Net Migration (Thousands)	16.5	16.1	16.8	16.6	16.0	16.3	16.7	17.0	44.4	65.7	65.9
Personal Income											
Total Personal Income (Nom., Millions \$)	2208600	2233044	2260451	2289831	2318091	2348196	2379409	2411557	2194571	2304142	2426962
Percent Change Annualized	4.4	4.5	5.0	5.3	5.0	5.3	5.4	5.5	4.3	5.0	5.3
Housing											
Housing Starts (Total, Ann. Rate)	92911	103728	93138	95276	96827	97765	98584	99256	93920	95751	99627
Percent Change Annualized	24.0	55.3	-35.0	9.5	6.7	3.9	3.4	2.8	2.4	1.9	4.0
SF Housing Starts (# of Units, Ann Rate)	51419	58606	50422	51578	52476	52897	53316	53694	51086	51843	53885
MF Housing Starts (# of Units, Ann Rate)	41492	45122	42716	43698	44351	44867	45268	45562	42835	43908	45741
Existing Home Sales (Ths. of Units, Ann Rate)	454	447	461	473	480	488	492	498	451	475	500
House Prices, FHFA (1991 Q1=100, SA)	247	252	256	260	265	269	273	277	246	263	279
Year/Year Percent Change	7.2	6.8	6.6	6.7	7.1	6.8	6.6	6.5	7.3	6.8	6.5
Bankruptcies											
Total Business (12 Months Ending)	3162	3025	2923	2796	2693	2615	2575	2534	3158	2757	2534
Total Personal (12 Months Ending)	73461	72088	72060	72943	73549	74073	74638	75171	74371	73156	75562

a = actual f = forecast

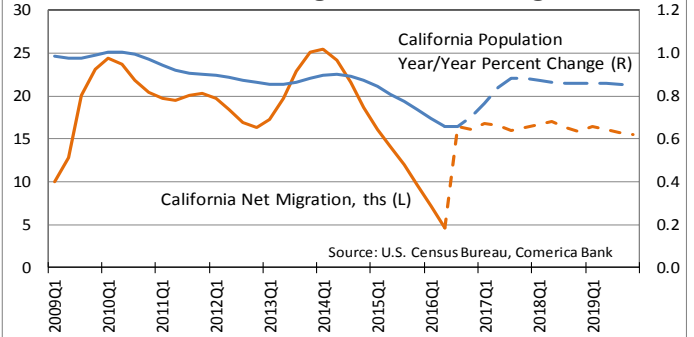
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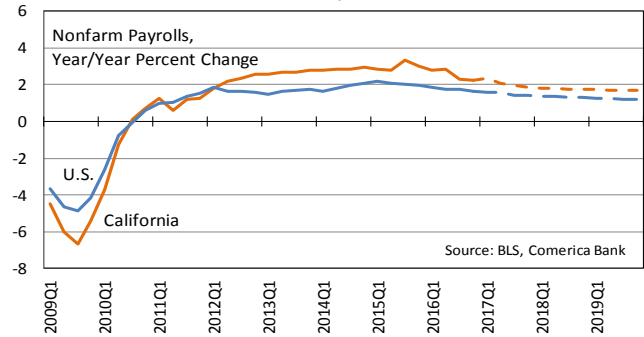
California 2016Q3 GDP Up to 3.3%



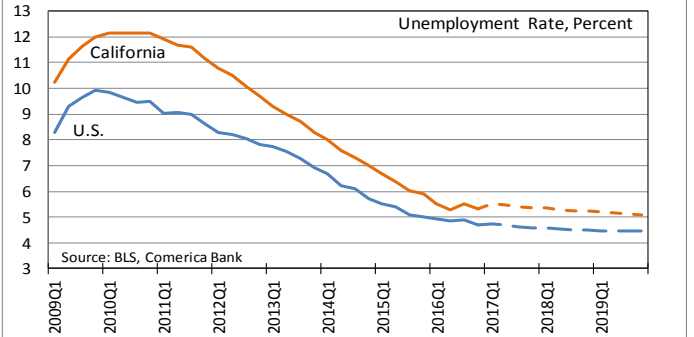
State Net Migration is Slowing



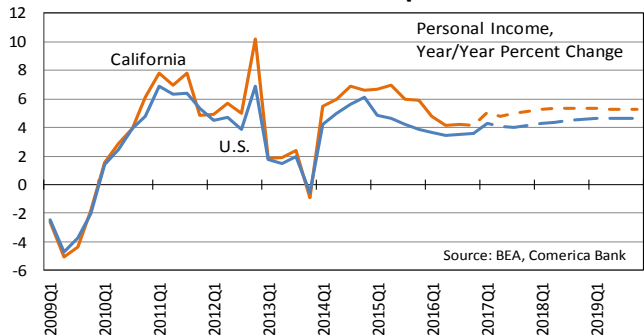
State Added 332,500 Jobs in 2016



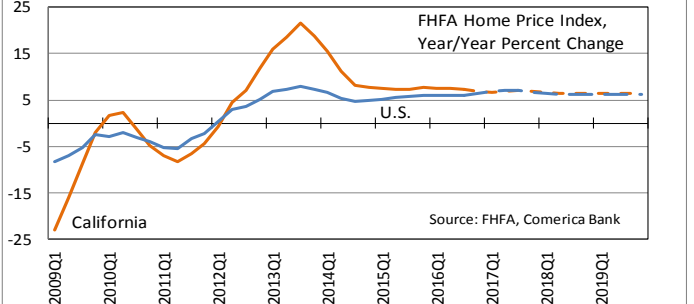
California December U. Rate at 5.2%



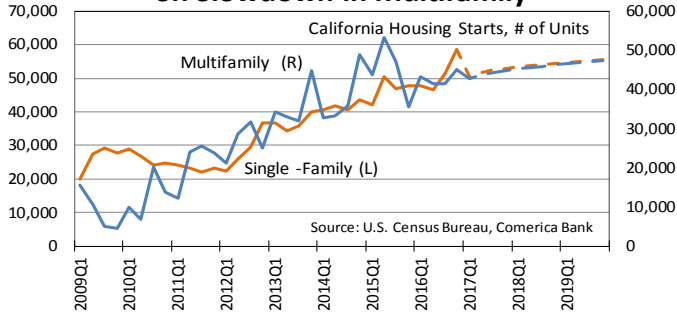
CA Income Growth Outperforms U.S.



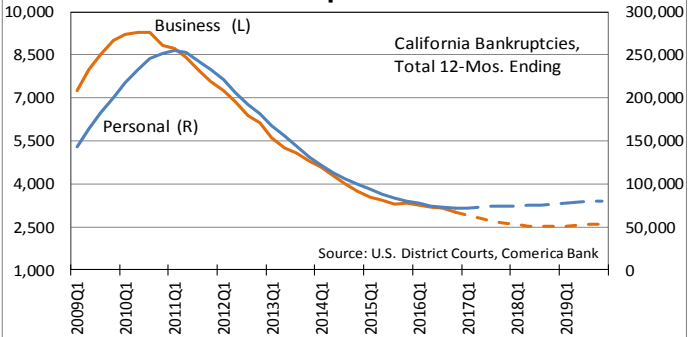
Statewide Home Prices Remain Below Pre-Recession Peak



Total Housing Starts Moderated in 2016 on Slowdown in Multifamily



State Bankruptcies Decline



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