

California's Aging Business Cycle and Trumponomics

The story for the California economy, now in its seventh year of economic expansion since the Great Recession, has remained relatively consistent over the past few years. The state is showing signs that it is maturing later into the economic cycle as employment growth moderates. The cost of doing business and living in California remains high as strong job growth, and even stronger income growth, drove up home prices and rents. States like Texas and Florida will likely continue to benefit from their relatively higher affordability, drawing in workers and businesses from the two coasts. Maintaining strong employment growth also becomes a challenge as labor markets tighten and the California unemployment rate drops, now at a current cycle low of 4.9 percent in March 2017. The state unemployment rate is expected to dip even further, down to 4.6 percent by year end.

The near term risk to the California economic outlook appears to be a political one. The California economy is on course to collide with the Trump administration's agenda over the next few years. A change on H1B visas, NAFTA and immigration enforcement would have a material impact on California's high-tech, logistics and agricultural industries. California total nominal trade (exports + imports) with Canada and Mexico equaled \$115.6 billion in 2016, according to the Census Bureau. The Pew Research Center estimated the total number of unauthorized immigrants living in California at 2.35 million, or roughly 6 percent of the population, in 2014. This fuels a lot of demand for California goods and services, supporting state economic growth.

California Economic Outlook

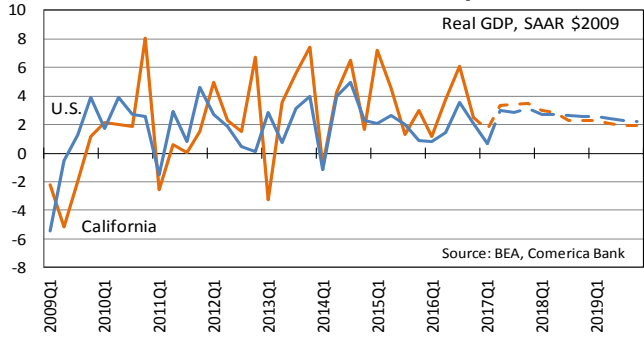
	4Q'16a	1Q'17a	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2Q'18f	3Q'18f	2016a	2017f	2018f
State GDP											
Real GDP (Chained 2009 Millions \$)	2333841	2343479	2363008	2382832	2403328	2420983	2437917	2451664	2300792	2373162	2443986
Percent Change Annualized	2.5	1.7	3.4	3.4	3.5	3.0	2.8	2.3	2.9	3.1	3.0
Labor and Demographics											
Payroll Jobs (Thousands)	16625	16674	16754	16839	16917	16989	17055	17116	16484	16796	17084
Percent Change Annualized	2.5	1.2	1.9	2.0	1.9	1.7	1.6	1.4	2.7	1.9	1.7
Unemployment Rate (Percent)	5.3	5.0	4.9	4.7	4.6	4.5	4.5	4.4	5.4	4.8	4.4
Population (Thousands)	39402	39488	39572	39657	39740	39824	39907	39991	39291	39614	39949
Percent Change Annualized	0.8	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.8	0.8
Net Migration (Thousands)	14.8	12.9	14.8	14.6	14.9	15.0	14.9	14.5	40.0	57.3	58.3
Personal Income											
Total Personal Income (Nom., Millions \$)	2243066	2269672	2299847	2330849	2362311	2393893	2425255	2454788	2197492	2315670	2439727
Percent Change Annualized	5.6	4.8	5.4	5.5	5.5	5.5	5.3	5.0	4.5	5.4	5.4
Housing											
Housing Starts (Total, Ann. Rate)	111587	90774	94659	96132	97586	99015	100289	101272	95885	94788	100649
Percent Change Annualized	108.1	-56.2	18.3	6.4	6.2	6.0	5.2	4.0	4.5	-1.1	6.2
SF Housing Starts (# of Units, Ann Rate)	59523	53720	54312	55258	56028	56708	57262	57692	51315	54829	57452
MF Housing Starts (# of Units, Ann Rate)	52063	37054	40347	40874	41558	42307	43027	43580	44570	39958	43197
Existing Home Sales (Ths. of Units, Ann Rate)	452	455	459	464	469	473	477	480	452	462	479
House Prices, FHFA (1991 Q1=100, SA)	251	256	261	266	271	275	279	283	246	263	281
Year/Year Percent Change	6.6	6.6	7.1	7.4	7.8	7.7	6.9	6.5	7.3	7.3	6.8
Bankruptcies											
Total Business (12 Months Ending)	3025	2951	2799	2670	2570	2512	2459	2431	3158	2747	2456
Total Personal (12 Months Ending)	72088	71573	70123	69290	68598	67995	67603	67454	74371	69896	67659

a = actual f = forecast

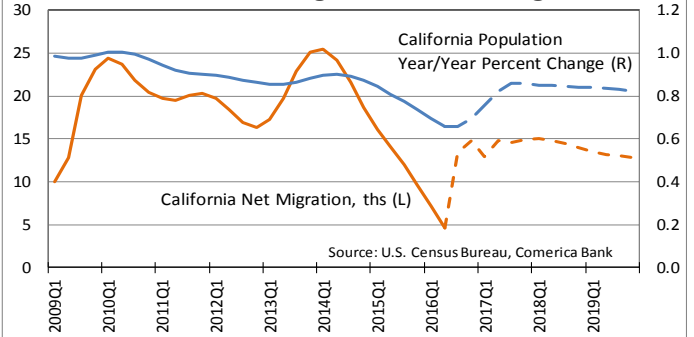
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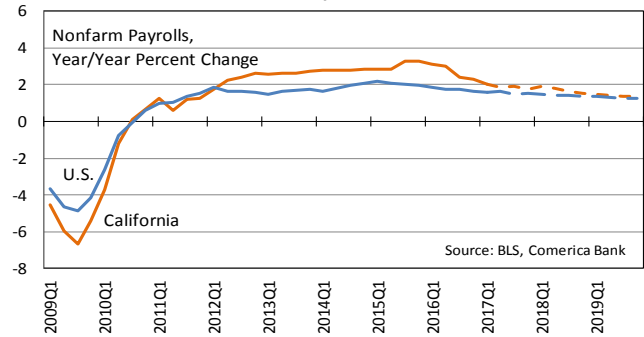
California 2016Q4 GDP Up 2.5%



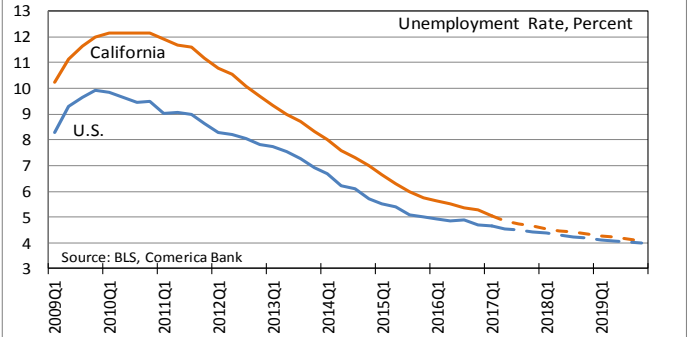
State Net Migration is Slowing



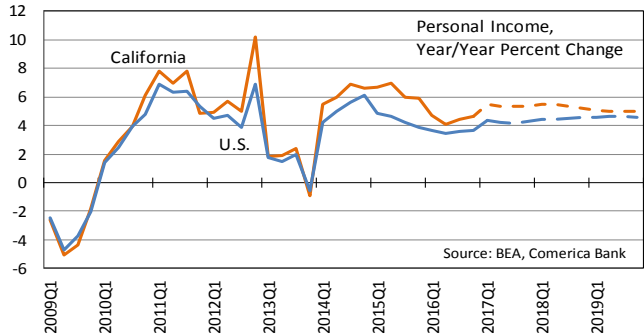
CA Added 56,100 Jobs in Q1



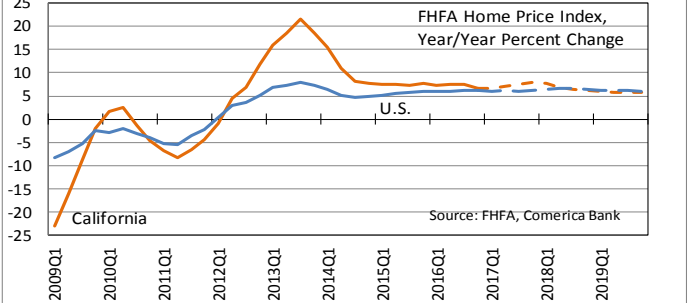
CA U. Rate Hits Lowest Level Since 2006



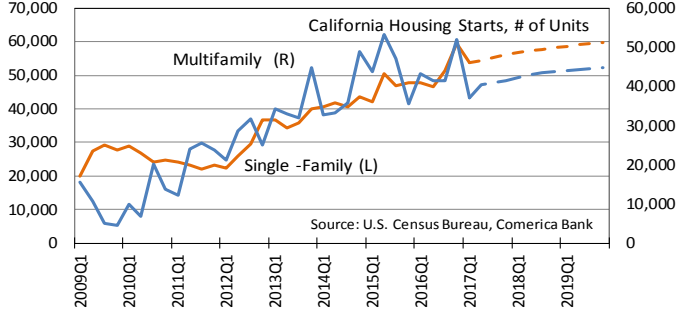
CA Income Growth to Outpace the U.S.



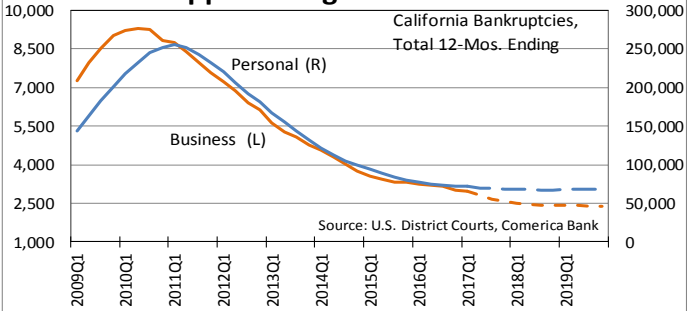
Home Price Growth Supported by Ongoing Housing Demand



Single-Family Housing Starts to Improve in 2017



State Personal Bankruptcies Approaching Lower Bound



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