

Navigating California Growth into 2017

After a rocky start to 2016, the California economy has picked up momentum in the second half of the year. Stronger job prospects have drawn people into the state labor force at levels not seen in over a decade. California has pulled in an additional 379,000 potential workers into the state labor force in the 12 months ending in September, the strongest pace since January 2001. The improving California labor market has supported our expectations of moderate state economic growth this year. We expect California real gross domestic product to grow by 2.5 percent in 2016, outpacing our forecasted U.S. average growth of 1.6 percent.

While we expect California's economy to continue to outpace the U.S. average in 2017, there are a number of uncertainties to our outlook over the next few years. At the local level, we are already seeing moderating year-over-year employment growth, off of 2015 highs, across the California major metropolitan areas. This is to be expected as the economic cycle matures. A tighter labor market can both limit the pool of job applicants and increase labor costs through upward pressure on wages, slowing down the pace of hiring. At the national and international level, the strong rhetoric on trade policy throughout the 2016 presidential election increases the uncertainty for industries tied to California imports and exports. Mexico, Canada, China and Japan are the top four markets for California exports, respectively. Therefore a shift in trade policy for NAFTA or future trade with China and the resolution to Trans-Pacific-Partnership could have a material impact on California regional economies.

California Economic Outlook

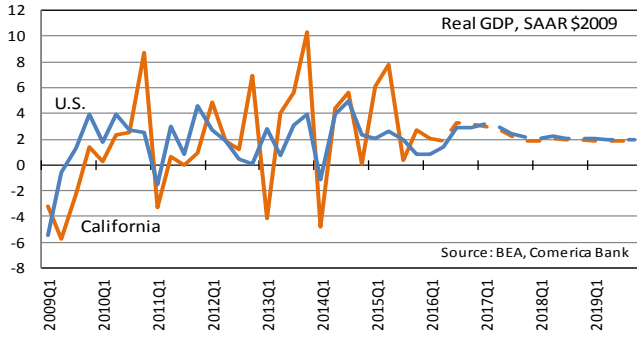
	2Q'16a	3Q'16a	4Q'16f	1Q'17f	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2015a	2016f	2017f
State GDP											
Real GDP (Chained 2009 Millions \$)	2250754	2269109	2286656	2303344	2319174	2331986	2343002	2353550	2206766	2261687	2324377
Percent Change Annualized	1.9	3.3	3.1	3.0	2.8	2.2	1.9	1.8	4.1	2.5	2.8
Labor and Demographics											
Payroll Jobs (Thousands)	16421	16513	16611	16688	16765	16839	16912	16986	16052	16462	16801
Percent Change Annualized	2.9	2.3	2.4	1.9	1.9	1.8	1.7	1.7	3.0	2.6	2.1
Unemployment Rate (Percent)	5.3	5.5	5.3	5.1	5.0	4.9	4.9	4.8	6.3	5.4	5.0
Population (Thousands)	39509	39602	39697	39788	39880	39972	40064	40155	39191	39556	39926
Percent Change Annualized	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Net Migration (Thousands)	23.8	24.5	22.0	22.1	21.9	21.8	21.5	21.2	88.5	91.8	87.4
Personal Income											
Total Personal Income (Nom., Millions \$)	2172056	2201379	2234207	2262697	2291491	2321543	2351935	2382739	2103669	2189781	2306917
Percent Change Annualized	3.9	5.5	6.1	5.2	5.2	5.3	5.3	5.3	6.4	4.1	5.3
Housing											
Housing Starts (Total, Ann. Rate)	88305	91632	91267	93444	95027	96180	97150	98064	91727	90584	95451
Percent Change Annualized	-11.8	15.9	-1.6	9.9	6.9	4.9	4.1	3.8	15.7	-1.2	5.4
SF Housing Starts (# of Units, Ann Rate)	46517	50837	48833	50213	51209	51844	52330	52778	46811	48418	51399
MF Housing Starts (# of Units, Ann Rate)	41788	40796	42434	43232	43819	44336	44821	45285	44916	42166	44052
Existing Home Sales (Ths. of Units, Ann Rate)	453	391	403	410	417	424	430	434	452	422	420
House Prices, FHFA (1991 Q1=100, SA)	243	247	251	254	258	261	264	267	229	245	259
Year/Year Percent Change	7.2	7.1	6.3	5.8	5.9	5.5	5.3	5.1	7.5	7.0	5.6
Bankruptcies											
Total Business (12 Months Ending)	3185	3162	3015	2919	2858	2831	2826	2842	3400	3156	2858
Total Personal (12 Months Ending)	74620	73461	72922	71710	70451	69389	68587	67944	86608	74579	70034

a = actual f = forecast

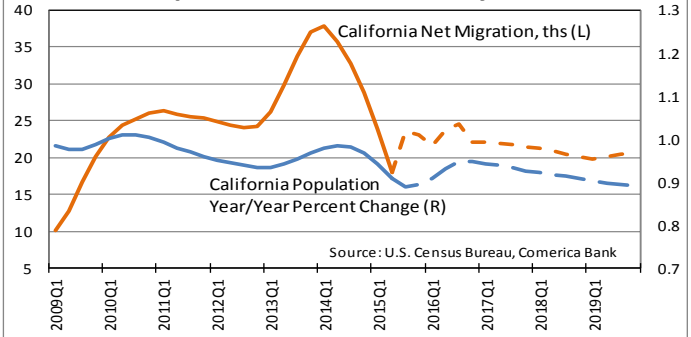
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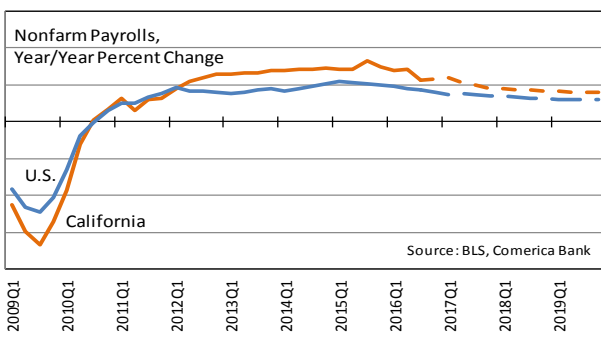
California Real GDP to Moderate



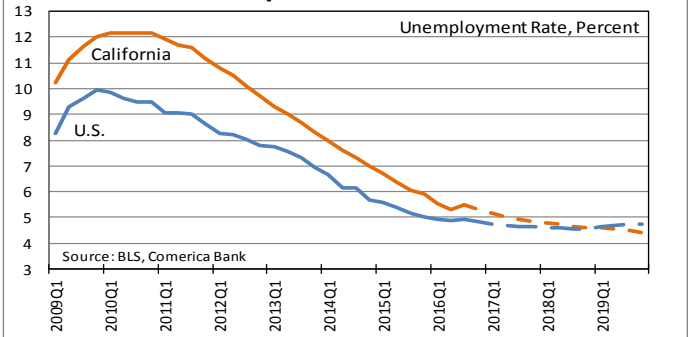
Population Growth to Stay Low



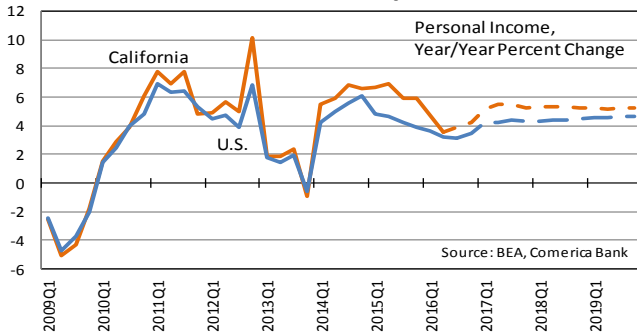
State Added 97,000 Jobs in Q3



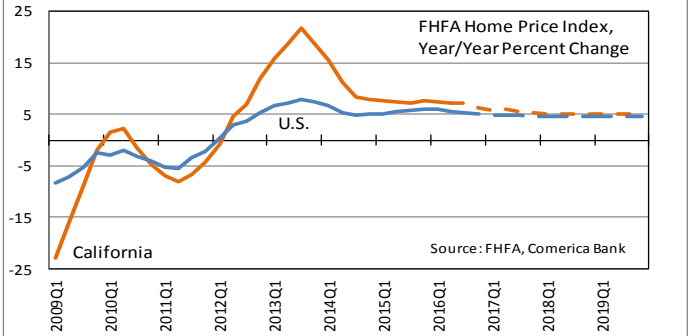
California September U. Rate at 5.5%



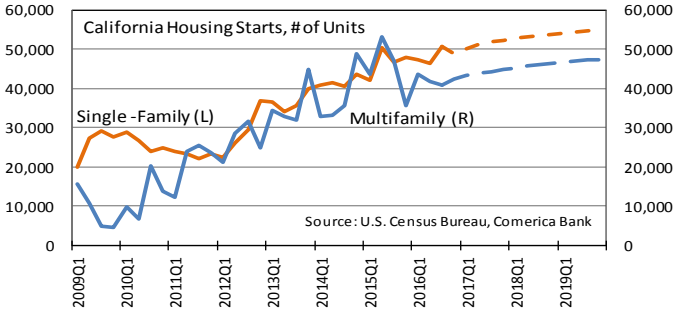
Income Growth to Improve in 2017



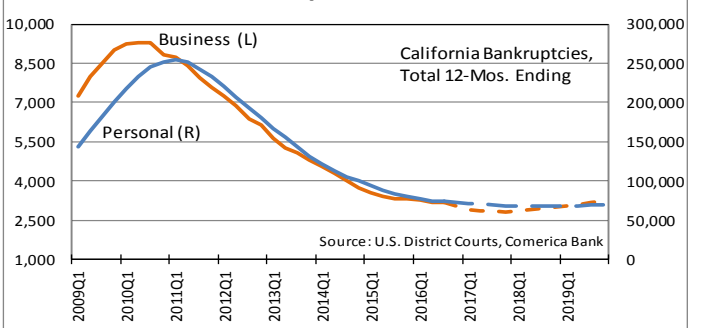
Home Price Growth Stabilizes



Housing Starts Continue to Increase at a Moderate Pace



State Bankruptcies Remain Low



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