

California Economy Feels Cooler in 2018

California was a growth leader for the U.S. economy coming out of the Great Recession. As the economic cycle matures, the state is running into some limits to growth. Strong job growth, supported by a vibrant high-tech sector has been a mainstay for the California economy. However, the state averaged a net of just 14,850 jobs gained per month through the first half of 2018, the slowest pace of hiring since 2011. With the state's unemployment rate at a historical low of 4.2 percent in June, it will be difficult to re-accelerate the pace of hiring to that seen in recent years for two reasons. First, the pool of unemployed job candidates is small. Second, transferring an existing worker to a new job within the state would not result in a net job gain. California's housing sector has also moderated in recent months. According to the California Association of Realtors, existing single-family home sales were 410,800 in June, down 7.3 percent from a year earlier. The supply of single-family homes for sale was at a tight 3.0 months' worth. Declining affordability, due to rising mortgage rates and home prices, will also be a limiting factor on new home sales. With constraints on single-family housing, we expect multifamily projects to remain in demand. Trade data has also weakened. California's exports and imports declined 7.0 and 5.2 percent, respectively, in June. Trade-related industries will feel the drag from tensions with China, California's most important trading partner. The U.S. imposed a 25 percent tariff on \$34 billion worth of goods from China on July 6 and will expand that to an additional \$16 billion on August 23, with further expansion possible.

California Economic Outlook

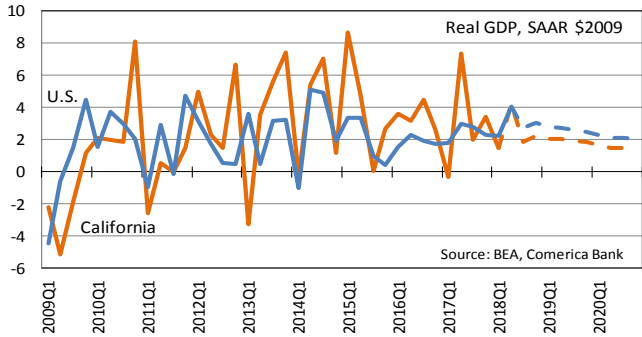
	1Q'18a	2Q'18a	3Q'18f	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	2017a	2018f	2019f
State GDP											
Real GDP (Chained 2009 Millions \$)	2426828	2452056	2463298	2477049	2489691	2502198	2514227	2525723	2386388	2454808	2507960
Percent Change Annualized	1.5	4.2	1.8	2.3	2.1	2.0	1.9	1.8	3.0	2.9	2.2
Labor and Demographics											
Payroll Jobs (Thousands)	17054	17089	17157	17226	17292	17357	17420	17480	16819	17132	17387
Percent Change Annualized	2.1	0.8	1.6	1.6	1.5	1.5	1.5	1.4	2.1	1.9	1.5
Unemployment Rate (Percent)	4.3	4.2	4.0	3.9	3.8	3.7	3.6	3.5	4.8	4.1	3.7
Population (Thousands)	39744	39812	39881	39948	40015	40083	40151	40219	39573	39846	40117
Percent Change Annualized	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.7	0.7
Net Migration (Thousands)	7.3	7.5	6.3	6.6	7.1	7.4	7.7	8.2	31.2	27.7	30.4
Personal Income											
Total Personal Income (Nom., Millions \$)	2368961	2406950	2437757	2468336	2499441	2529990	2561262	2592453	2307217	2420501	2545787
Percent Change Annualized	2.7	6.6	5.2	5.1	5.1	5.0	5.0	5.0	4.3	4.9	5.2
Housing											
Housing Starts (Total, Ann. Rate)	130622	114858	117398	118518	119383	120010	120587	121118	103335	120349	120274
Percent Change Annualized	83.5	-40.2	9.1	3.9	3.0	2.1	1.9	1.8	8.2	16.5	-0.1
SF Housing Starts (# of Units, Ann Rate)	72087	65529	66009	66486	66862	67172	67507	67772	59131	67528	67328
MF Housing Starts (# of Units, Ann Rate)	58535	49329	51388	52032	52521	52838	53081	53346	44204	52821	52946
Existing Home Sales (Ths. of Units, Ann Rate)	461	465	468	471	473	480	482	483	471	466	480
House Prices, FHFA (1991 Q1=100, SA)	279	284	289	293	297	300	304	308	264	286	302
Year/Year Percent Change	8.9	8.5	8.1	7.5	6.5	5.7	5.3	5.2	8.3	8.2	5.6
Bankruptcies											
Total Business (12 Months Ending)	2978	2828	2768	2708	2659	2619	2583	2554	2974	2820	2604
Total Personal (12 Months Ending)	67229	66624	66671	66428	65891	65109	64319	63521	69956	66738	64710

a = actual f = forecast

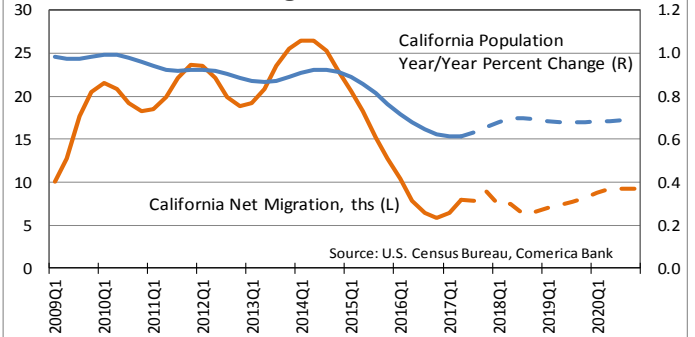
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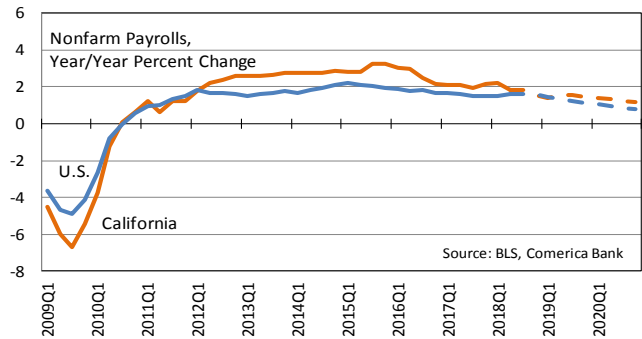
CA Economic Growth to Cool



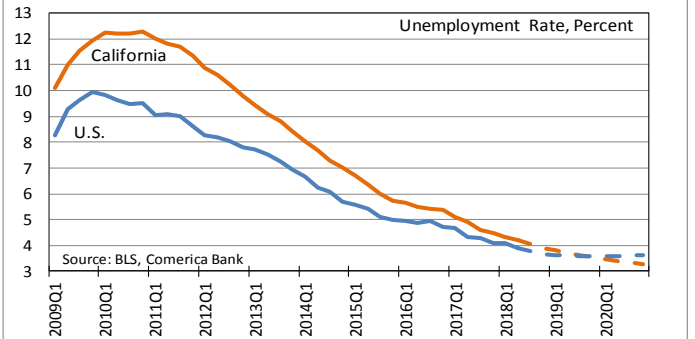
Net Migration Is Weaker



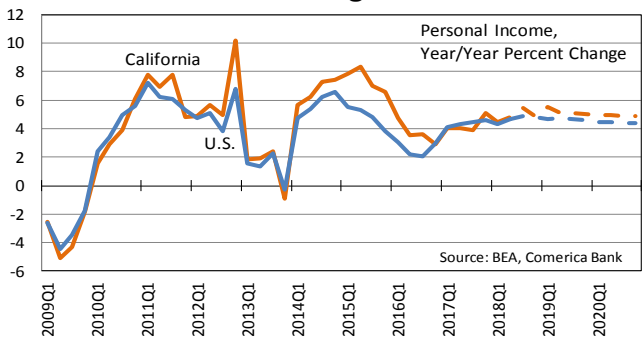
CA Job Growth Slows



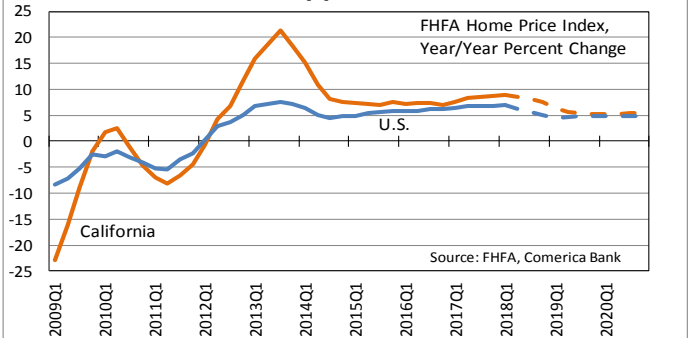
CA U. Rate at 4.2% in June



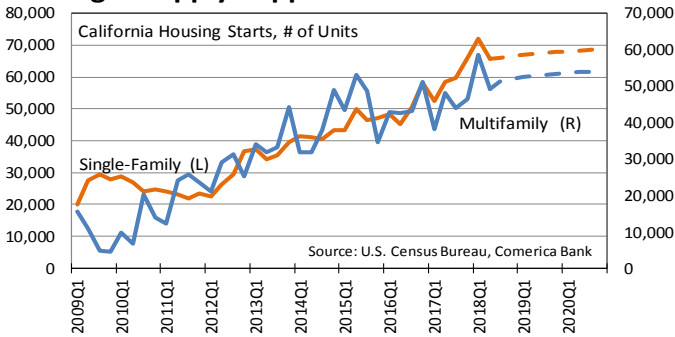
Incomes Rise with Tighter Labor Market



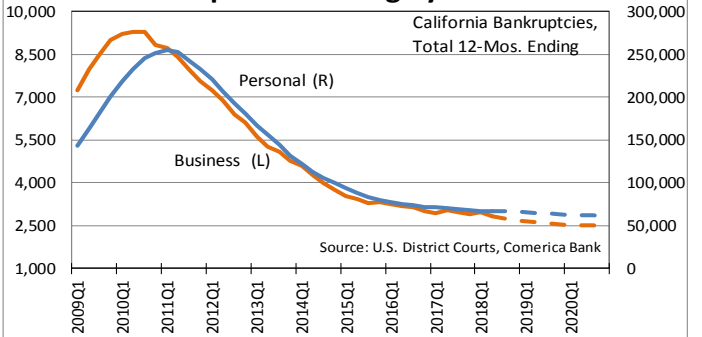
Home Price Appreciation to Ease



Tight Supply Supports New Construction



Bankruptcies Nearing Cyclical Lows



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