

California's Economy to Cool in 2019

We expect the California economy to continue to expand in the near term. That said, downside risks to California's economy have increased and the list of possible accelerators for the California economy has diminished. One item that remains on the plus side for California would be a resolution to the U.S./China trade war which would boost demand for California exports plus bolster overall shipping volumes through California ports. Job growth for the state is moderating. California added 284,300 jobs in 2018, the slowest pace of job growth since 2011. We expect the state to add about 276,000 jobs over the year ending in 2019Q4. Meanwhile, the state's unemployment rate is near a historical low at 4.2 percent in December, and is expected to decline through 2019. With labor markets this tight, it is hard to see where more workers would come from. The most recent data from the Census Bureau is indicating that California is experiencing a net outflow of people even with a historically tight labor market. Low housing affordability and high business costs are persistent motivators for out-migration. Recent declines in mortgage rates and moderating house price growth across California's major metropolitan areas will help affordability in the short term, but will not be enough to alter the state's high cost of living. The rate of house price appreciation has moderated significantly in the second half of 2018 in California's key cities. According to the Case-Shiller data, San Francisco house prices were up 11.1 percent in March 2018, over the previous year. In November the yearly gain had decreased to 5.6 percent.

California Economic Outlook

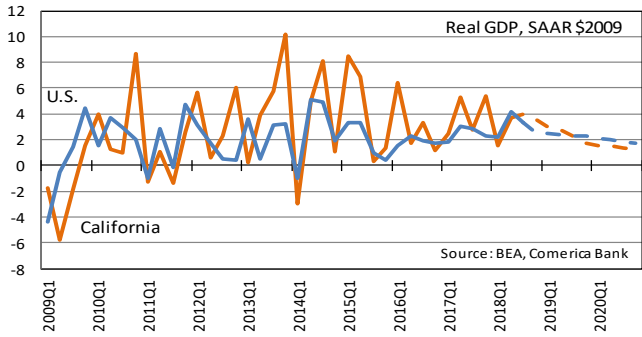
	2Q'18a	3Q'18a	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	1Q'20f	2017a	2018f	2019f
State GDP											
Real GDP (Chained 2009 Millions \$)	2652488	2678432	2702426	2721884	2740193	2755797	2767719	2778408	2576223	2665519	2746398
Percent Change Annualized	3.7	4.0	3.6	2.9	2.7	2.3	1.7	1.6	3.0	3.5	3.0
Labor and Demographics											
Payroll Jobs (Thousands)	17096	17179	17262	17343	17411	17478	17538	17597	16819	17148	17443
Percent Change Annualized	1.0	2.0	2.0	1.9	1.6	1.5	1.4	1.3	2.1	2.0	1.7
Unemployment Rate (Percent)	4.2	4.2	4.1	3.9	3.8	3.7	3.6	3.5	4.8	4.2	3.7
Population (Thousands)	39557	39605	39656	39708	39762	39815	39866	39917	39419	39584	39788
Percent Change Annualized	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5
Net Migration (Thousands)	-9.7	-9.4	-9.5	-8.1	-8.5	-8.4	-8.6	-9.2	-31.7	-38.5	-33.7
Personal Income											
Total Personal Income (Nom., Millions \$)	2465197	2490789	2521959	2548972	2578814	2610955	2642783	2674075	2364129	2477807	2595381
Percent Change Annualized	5.4	4.2	5.1	4.4	4.8	5.1	5.0	4.8	4.6	4.8	4.7
Housing											
Housing Starts (Total, Ann. Rate)	117929	111259	109821	110926	111385	111604	111987	112157	103335	117322	111475
Percent Change Annualized	-32.9	-20.8	-5.1	4.1	1.7	0.8	1.4	0.6	8.2	13.5	-5.0
SF Housing Starts (# of Units, Ann Rate)	66312	66006	64470	65410	65766	65943	66180	66312	59131	67233	65825
MF Housing Starts (# of Units, Ann Rate)	51617	45253	45351	45516	45620	45661	45807	45845	44204	50089	45651
Existing Home Sales (Ths. of Units, Ann Rate)	453	429	427	429	431	432	433	433	473	444	431
House Prices, FHFA (1991 Q1=100, SA)	281	284	287	290	293	296	299	302	263	282	295
Year/Year Percent Change	7.5	6.5	5.7	4.3	4.6	4.5	4.2	4.1	8.2	7.2	4.4
Bankruptcies											
Total Business (12 Months Ending)	2828	2819	2813	2728	2698	2656	2636	2619	2974	2860	2680
Total Personal (12 Months Ending)	66624	66041	65855	65328	63664	62729	61936	61450	69956	66437	63414

a = actual f = forecast

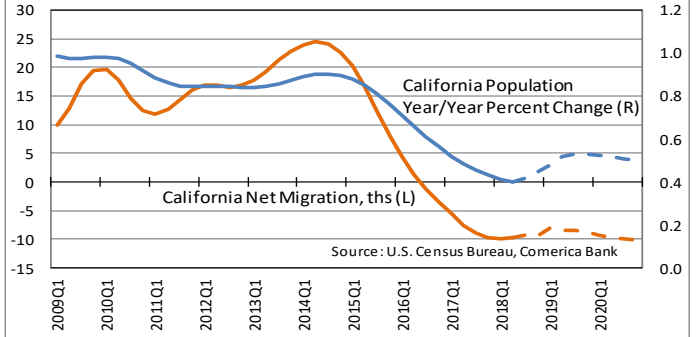
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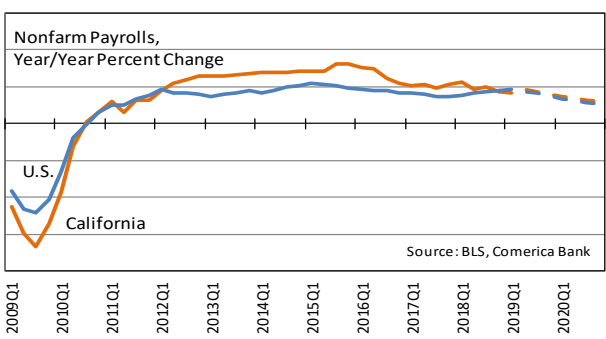
CA Economic Growth to Cool



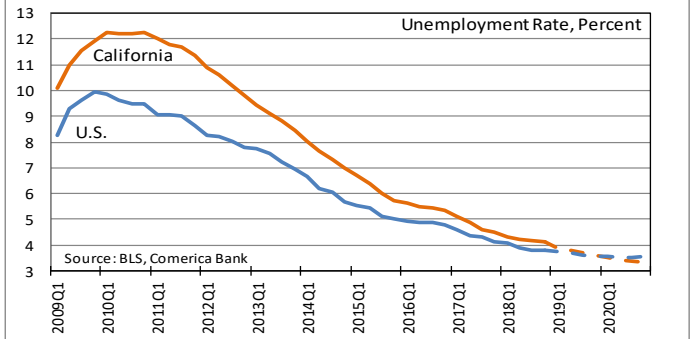
CA Sees Net Outflow of People



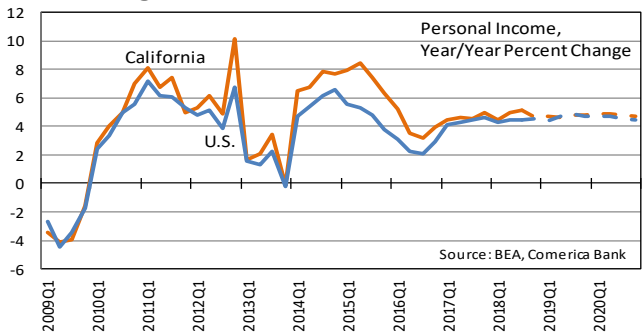
CA Job Growth Continues to Moderate



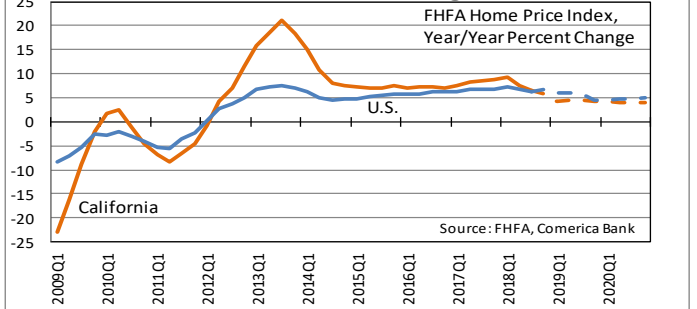
CA U. Rate at 4.2% in December



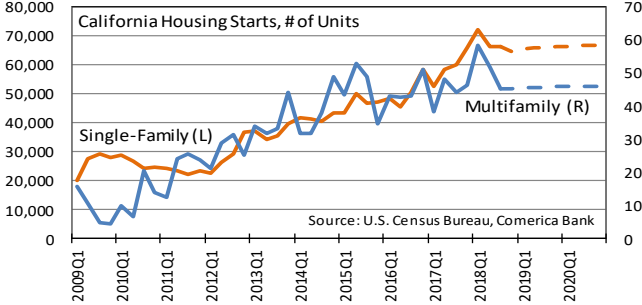
Tight Labor Markets Boost Income



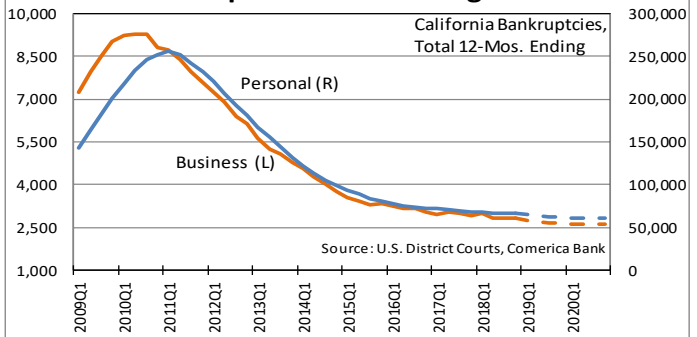
Home Price Growth Is Cooling in L.A., San Francisco and San Diego Markets



New Residential Construction to Stabilize this Year



Bankruptcies Are Levelling Out



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