

California's Economy to Grow Above Trend Again in 2025

The Golden State economy's expansion gained traction in 2024, with robust growth in the first half of the year. The boom of demand for advanced semiconductors and artificial intelligence services, both domestically and in foreign markets, is a big positive for California's highly-productive and lucrative tech sector, with positive spillovers to consumer spending by high-earning knowledge workers.

Lower interest rates will also help credit-sensitive parts of the state's economy, like housing, and deregulation could benefit other sectors as well. The outlook for tourism is mixed, with the strong dollar and trade frictions potentially weighing on the willingness of foreigners to vacation in the U.S. Considering this mix of crosswinds, economic growth is likely to moderate to a still very healthy rate of 2.4% next year.

Housing, which has struggled in recent years, will probably rebound in 2025. California's rental vacancy rate is nearly two percentage points below the national rate, a tangible measure of the state's affordable housing shortage; multifamily construction will be a big driver of stronger construction. House price increases are likely to moderate further next year on the back of higher supply.

California's housing market faces some downside risks. Insurers exiting the state's homeowners' insurance market and soaring insurance premiums are big negatives. In addition, changes to immigration policy could be a wildcard for rental demand; the Pew Research Center estimates that unauthorized immigrants account for about 5% of California's population.

<i>California Economic Outlook</i>											
	1Q'24a	2Q'24a	3Q'24f	4Q'24f	1Q'25f	2Q'25f	3Q'25f	4Q'25f	2023a	2024f	2025f
State Output											
Real GDP (Chained 2017 Billions \$)	3,332	3,355	3,370	3,380	3,409	3,430	3,449	3,467	3,249	3,359	3,439
Percent Change Annualized	6.3	2.8	1.9	1.1	3.5	2.4	2.3	2.1	2.0	3.4	2.4
Labor and Demographics											
Payroll Jobs (Millions)	18.0	18.0	18.1	18.1	18.2	18.2	18.3	18.3	17.8	18.1	18.3
Percent Change Annualized	1.5	1.3	1.1	1.2	1.2	1.1	1.0	0.9	0.9	1.3	1.1
Unemployment Rate (Percent)	5.3	5.2	5.3	5.3	5.2	5.0	4.8	4.8	4.7	5.3	4.9
Population (Millions)	39.1	39.2	39.2	39.3	39.3	39.3	39.3	39.4	39.3	39.7	40.0
Percent Change Annualized	0.6	0.8	0.5	0.5	0.2	0.3	0.2	0.1	0.7	0.9	0.8
Personal Income											
Total Personal Income (Nominal Billions \$)	3,326	3,379	3,410	3,457	3,510	3,563	3,615	3,675	3,166	3,393	3,591
Percent Change Annualized	15.2	6.5	3.8	5.6	6.2	6.2	6.0	6.8	5.4	7.2	5.8
Housing											
Housing Starts (Thousands, Annual Rate)	100.7	91.3	81.3	91.2	93.9	97.0	98.9	101.0	105.6	91.1	97.7
Percent Change Annualized	-42.3	-32.4	-37.2	58.9	12.0	14.1	7.9	8.8	-4.5	-13.7	7.2
Single-Family Housing Starts (1,000s Units, Annual Rate)	67.4	62.0	60.4	62.4	62.7	63.1	63.4	63.6	62.8	63.0	63.2
Multi-Family Housing Starts (1,000s Units, Annual Rate)	33.3	29.3	20.9	28.9	31.2	33.9	35.4	37.4	42.8	28.1	34.5
House Price Index, FHFA (1991 Q1=100, SA)	421	420	428	431	436	435	444	445	407	425	440
Year/Year Percent Change	6.4	4.1	3.8	3.3	3.7	3.6	3.9	3.2	0.8	4.4	3.6
<i>a = actual p=provisional f = forecast</i>											

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