

■ Bill Adams ■ Waran Bhahirethan

California's Economy to Expand at a Slower Pace in 2025

Following robust growth of 3.6% in 2024, the Golden State's economy is forecast to expand at a more moderate rate in 2025. Positive spillovers from the highly-productive tech sector, fueled by the accelerating adoption of artificial intelligence technologies both in the U.S. and globally, are anticipated to partially offset the effects of a cooling main street economy and headwinds from slower population growth, soft labor demand, trade frictions, high interest rates, and high inflation. Tax changes enacted in the One Big Beautiful Bill Act (OBBBA), especially the increased State And Local Tax (SALT) deduction, will be a very big positive for California, which has one of the highest proportion of high income households in the country. Geopolitical and trade disputes with key tourist source countries, including Mexico, Canada, and China, are additional headwinds for growth this year.

Tougher immigration enforcement is expected to weigh on population growth in 2025 and 2026. However, fewer job opportunities out of state and difficulties selling homes will make moving elsewhere less appealing to Californians, providing an offsetting support to the state's population. Payrolls are projected to grow by a moderate 0.4% in 2025 and expand by 0.5% next year. The Golden State's unemployment rate is expected to hold steady in the current year and then fall in 2026. A cooler labor market will limit total personal income growth in 2025. Disposable personal incomes (DPI) of Californians—incomes adjusted for taxes—will see a boost next year, as tax changes enacted in the OBBBA raise after-tax incomes and spur consumer spending.

California's housing market is rebounding this year from 2024's sharp contraction, as limited supply spurs residential construction. Around 70,000 single-family units are anticipated to be constructed in the state in 2025 and again in 2026. Multi-family housing is forecast to rise, following a jump in projects launched earlier this year. Vacancy rates in the state, among the lowest in the nation, will be a key driver of multifamily construction. House price increases are forecast to moderate amidst housing affordability challenges, insurance market disruptions, and higher supply as more existing homes are listed. Home prices are projected to rise, especially in the second half of next year, as California's economy gains momentum.

California Economic Outlook											
	1Q'25a	2Q'25f	3Q'25f	4Q'25f	1Q'26f	2Q'26f	3Q'26f	4Q'26f	2024a	2025f	2026f
State Output											
Real GDP (Chained 2017 Billions \$)	3,391	3,407	3,410	3,417	3,431	3,448	3,468	3,490	3,365	3,406	3,459
Percent Change Annualized	-0.2	1.9	0.4	0.8	1.6	2.0	2.4	2.6	3.6	1.2	1.5
Labor and Demographics											
Payroll Jobs (Millions)	18.0	18.0	18.0	18.1	18.1	18.1	18.1	18.2	18.0	18.0	18.1
Percent Change Annualized	0.0	0.6	0.5	0.4	0.3	0.4	0.5	0.7	0.7	0.4	0.5
Unemployment Rate (Percent)	5.4	5.3	5.4	5.3	5.3	5.2	5.0	5.0	5.3	5.3	5.1
Population (Millions)	39.6	39.7	39.7	39.8	39.8	39.8	39.8	39.8	39.5	39.7	39.8
Percent Change Annualized	0.6	0.5	0.4	0.4	0.3	0.2	0.1	0.1	0.6	0.6	0.3
Personal Income											
Total Personal Income (Nominal Billions \$)	3,491	3,537	3,573	3,616	3,665	3,728	3,774	3,827	3,376	3,554	3,749
Percent Change Annualized	5.2	5.4	4.1	5.0	5.5	7.1	5.1	5.7	6.6	5.3	5.5
Housing											
Housing Starts (Thousands, Annual Rate)	115.1	100.3	101.2	101.8	100.8	102.2	106.2	107.2	92.0	104.6	104.1
Percent Change Annualized	166.8	-42.4	3.7	2.3	-3.6	5.7	16.4	3.9	-13.0	13.7	-0.4
Single-Family Housing Starts (1,000s Units, Annual Rate)	77.2	67.1	66.9	66.6	65.9	66.7	69.4	70.0	63.3	69.4	68.0
Multi-Family Housing Starts (1,000s Units, Annual Rate)	37.9	33.2	34.3	35.2	34.9	35.6	36.8	37.2	28.6	35.2	36.1
House Price Index, FHFA (1991 Q1=100, SA)	426	423	425	427	429	429	433	437	421	425	432
Year/Year Percent Change	1.5	1.1	0.8	0.6	0.8	1.3	1.8	2.4	4.0	1.0	1.6
a = actual f = forecast											

[Subscribe](#) to our publications, contact us at ComericaEcon@comerica.com, or review publication [archives](#).

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of Comerica or its management team. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor Comerica guarantee its accuracy, and such information may be incomplete or condensed. Neither the authors nor Comerica shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information. © 2025, Comerica Bank. All rights reserved.