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California's Economy to Outperform the National Economy in 2026

The Golden State's economy looks to have outperformed the rest of the nation in 2025, fueled by the Artificial Intelligence boom (It is harder than usual to judge the second half the year, since the government shutdown delayed recent data). The tech sector and AI are forecast to fuel another year of strong economic growth in 2026, with robust business investment and strong consumer spending by households with high-paid workers in the industry. California's undisputed leadership of the global innovation economy will again offset the state's economic shortcomings: High costs for main street businesses, slow population growth, cool labor demand, and post-pandemic headwinds to big cities' central business districts. Californian tourism faced a challenging year in 2025, but should do better in 2026 as the FIFA World Cup boosts leisure and hospitality businesses. Trade disputes may simmer down in 2026, another potential tailwind.

Population growth will likely be negligible in 2026 as more stringent immigration policies limit international migration. At the same time, outmigration will be less appealing to Californians due to a low-hire, low-fire national job market, a cooler market for home sellers, and fewer remote work opportunities, an offsetting support to the state's population. Payroll growth is projected to moderate further in 2026. Tracking national trends, the Golden State's unemployment rate probably will remain elevated in the first half of next year, then come down in the second as the economy strengthens. Total personal income growth will likely be little changed from 2025, but disposable personal incomes will accelerate after the OBBBA's tax cuts. In particular, California will see an above-average boost to affluent households' spending from the increased State And Local Tax (SALT) deduction, since it has the nation's highest proportion of high income households and relatively high state income and property taxes.

California's housing starts jumped in the first quarter of 2025 amid the post-election bounce in homebuilder sentiment, then weakened after April's tariff hike shock. Single-family construction is forecast to edge lower again in 2026, while multifamily housing is forecast to hold steady. California has among the lowest vacancy rates in the nation, a key support for multifamily construction. House prices will likely ease in the first half of 2026 due to strained affordability, homeowners insurance issues, and more existing home listings, then return to increases in the second half of 2026.

California Economic Outlook											
	1Q'25a	2Q'25a	3Q'25f	4Q'25f	1Q'26f	2Q'26f	3Q'26f	4Q'26f	2024a	2025f	2026f
State Output											
Real GDP (Chained 2017 Billions \$)	3,342	3,377	3,411	3,434	3,440	3,458	3,484	3,507	3,307	3,391	3,472
Percent Change Annualized	0.0	4.3	4.0	2.8	0.7	2.1	3.0	2.6	3.2	2.5	2.4
Labor and Demographics											
Payroll Jobs (Millions)	18.0	18.0	18.0	18.0	18.0	18.1	18.1	18.1	18.0	18.0	18.1
Percent Change Annualized	0.0	0.4	0.1	0.7	0.0	0.2	0.5	0.7	0.7	0.4	0.3
Unemployment Rate (Percent)	5.4	5.3	5.5	5.7	5.8	5.9	5.7	5.6	5.3	5.5	5.8
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 \$)	3,519	3,561	3,594	3,634	3,683	3,747	3,794	3,849	3,400	3,577	3,768
Percent Change Annualized	4.3	4.9	3.8	4.6	5.5	7.1	5.1	6.0	6.8	5.2	5.4
Housing											
Housing Starts (Thousands, Annual Rate)	115.5	90.3	88.1	88.4	87.7	90.2	93.7	95.1	92.0	95.6	91.7
Percent Change Annualized	170.2	-62.7	-9.2	1.1	-2.8	11.9	16.3	6.2	-13.0	3.9	-4.1
Single-Family Housing Starts (1,000s Units, Annual Rate)	77.5	57.1	55.8	56.9	56.5	57.9	59.6	60.6	63.3	61.8	58.7
Multi-Family Housing Starts (1,000s Units, Annual Rate)	37.9	33.2	32.3	31.5	31.2	32.3	34.1	34.5	28.6	33.7	33.0
House Price Index, FHFA (1991 Q1=100, SA)	425	420	415	412	410	409	418	418	421	418	414
Year/Year Percent Change	1.7	0.4	-1.7	-2.8	-3.6	-2.7	0.9	1.3	4.0	-0.6	-1.1
a = actual f = forecast											

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