

# What's Next for the California Economy

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# Outline

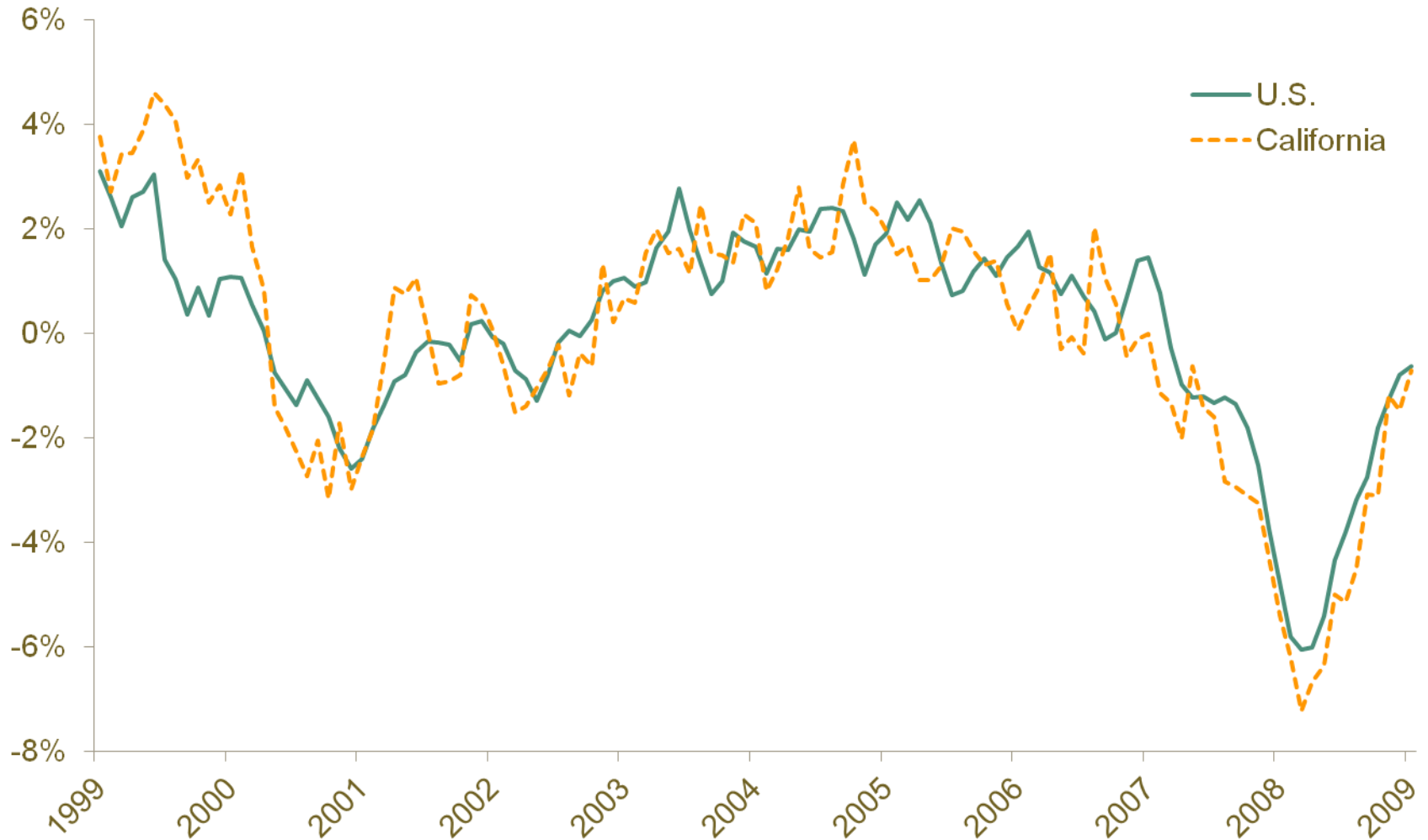
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- Recession and recovery
- Long-term strengths and weaknesses
- California's relevance to Southern Oregon



# California Job Growth Tracks U.S.

Annualized quarterly employment growth, monthly to Dec 2009



# Recession Ending, Not Back to Normal

	Employment growth		Unemployment rate	
	California	U.S.	California	U.S.
2008 (actual)	-1.1%	-0.4%	7.2%	5.8%
2009 (estimated)	-4.5%	-3.8%	11.7%	9.2%
2010	-1.2%	-0.7%	12.1%	10.0%
2011	1.5%	1.9%	11.3%	9.4%
2012	2.3%	2.5%	10.2%	8.5%
NORMAL	1.5%	1.5%	6-7%	5-6%

Forecast from California Legislative Analyst's Office



# Recovery Needs the Feds

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- Only federal government can:
  - Loosen monetary policy
  - Fund stimulus
    - Probably lowered unemployment by 0.5-2.0%
    - States must balance budgets
- Financial services and housing industries are national



# How California's Recession Differs

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## California is like other states:

- Severity of job and output losses
- Timing of recession and recovery
- Construction and manufacturing hit hardest

## California stands out:

- Higher unemployment level
- Housing market shifts
  - Bigger price drops
  - More foreclosures
  - LOWER vacancies



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# Long-Term Truths About California's Economy

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- Job growth tracks the U.S.
- High unemployment is due to faster growing labor force
- High costs of doing business are offset by higher productivity
- Neither businesses nor rich people flee California



# Growing Labor Force Explains High Unemployment

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- Even when California booms, unemployment above national average
- State's labor force grows faster than U.S.
  - Good place to live
  - Hopeful about finding work
- Higher wages could raise unemployment



# Businesses Aren't Fleeing California

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- Net annual loss:  
11,000 jobs out of 18,000,000 (.06%)
- Out-of-state moves account for 1.6% of job loss
- Most relocation is short-distance: toward cheaper land and within local labor market



# Rich People Aren't Fleeing, Either

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- California loses population to other states
  - Poorer households more likely to leave
  - Positive net inflow of college graduates
- Employment opportunities and housing costs matter
  - Taxes usually less important



# California's Low Business Climate Rankings Aren't Full Story

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- Poor rankings on many business climate indexes
  - High and progressive taxes
  - Regulatory burdens and other costs
- Many rankings exclude productivity advantages
  - Skilled workers, venture capital, and innovation culture
  - Natural amenities: climate and topography
- Compared with U.S., average California worker:
  - Earns 12% more
  - Produces 13% more



# Red Flags for California's Economy

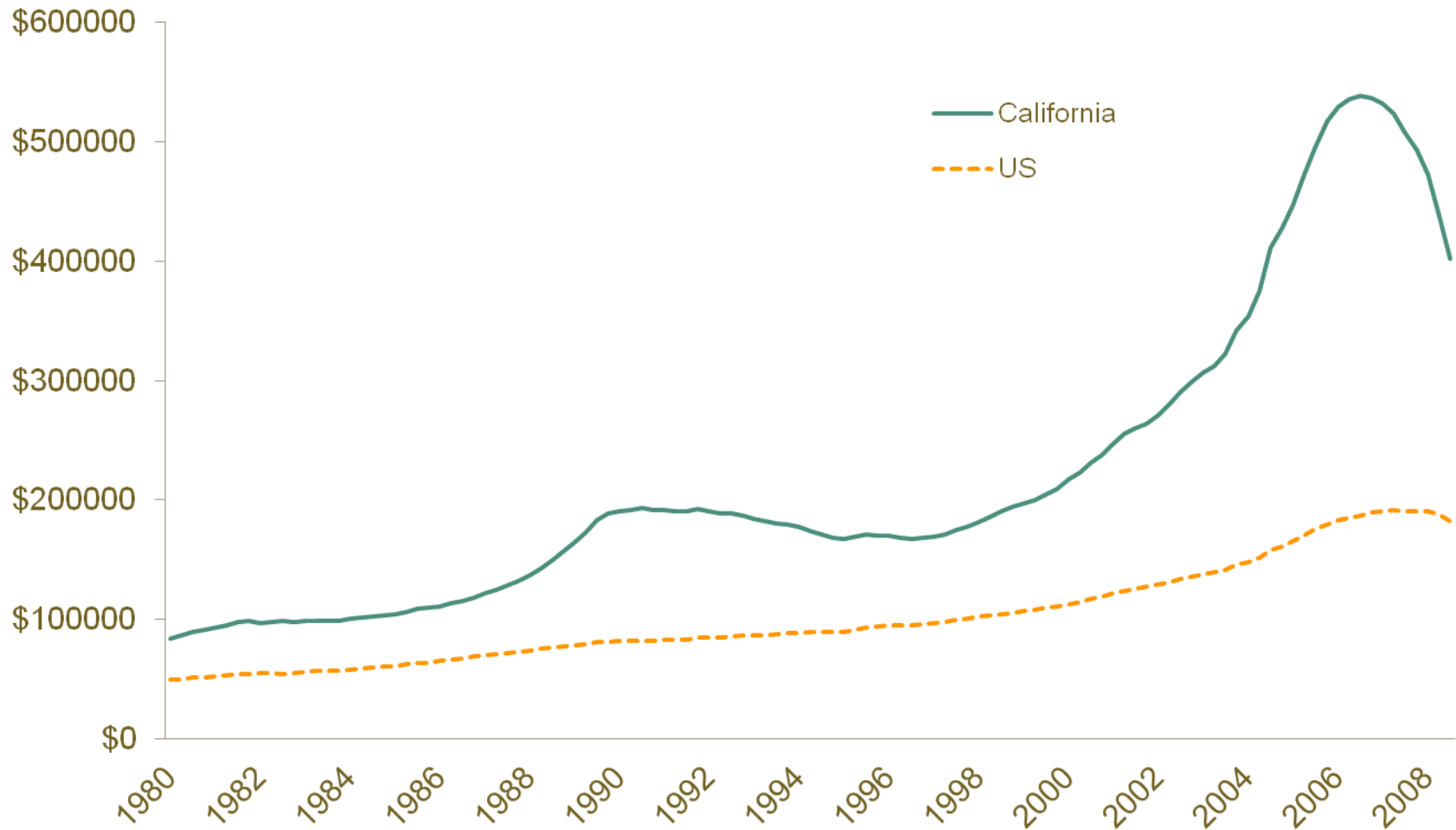
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- Expensive real estate
- Regional economic disparities
- Perennial budget crises



# California House Prices Still Way Above U.S.

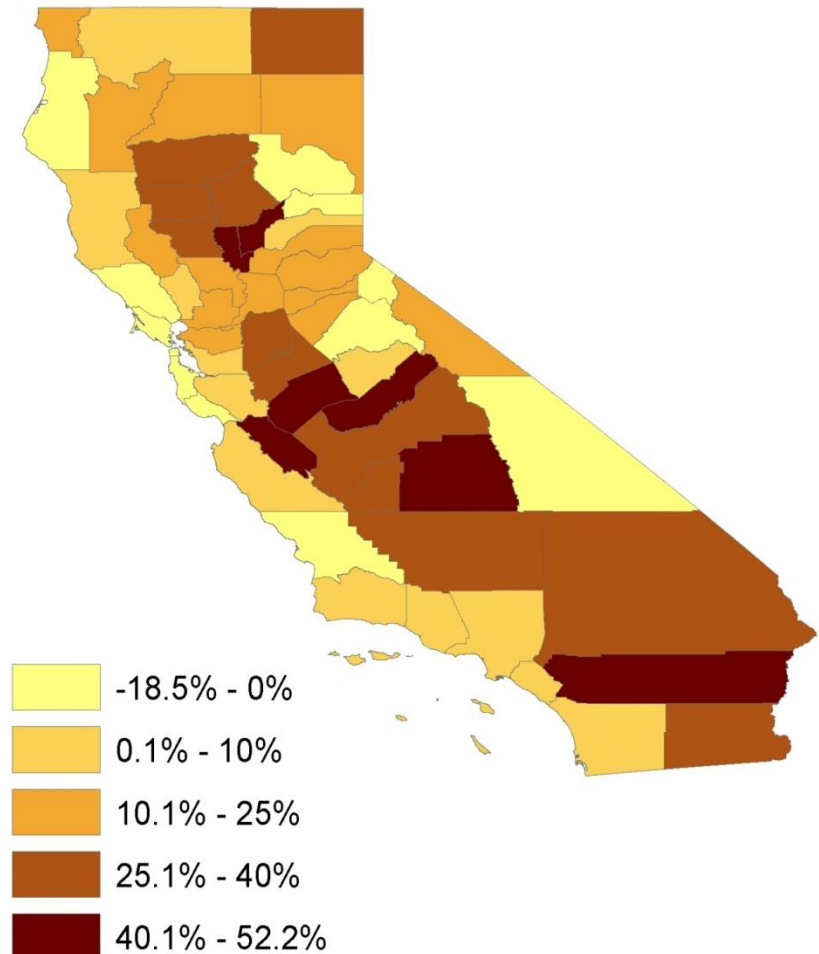
Estimated median home price  
(OFHEO price index combined with 2006 ACS median home value)



# Uneven Regional Growth

- Fastest growth inland
- Expensive coastal real estate drives growth eastward

Projected growth of working-age population, 2010-2025



# Budget Crises Have Economic Risks

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- Budget gap (~\$19b) roughly 1% of state output
  - Federal deficits much larger
- Crises raise borrowing costs
- Deep-rooted causes
  - Revenue volatility
    - Progressive income tax, low property taxes
  - 2/3 majority to pass budget or raise taxes
  - Initiatives limit budgetary options



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# Southern Oregon and the California Economy

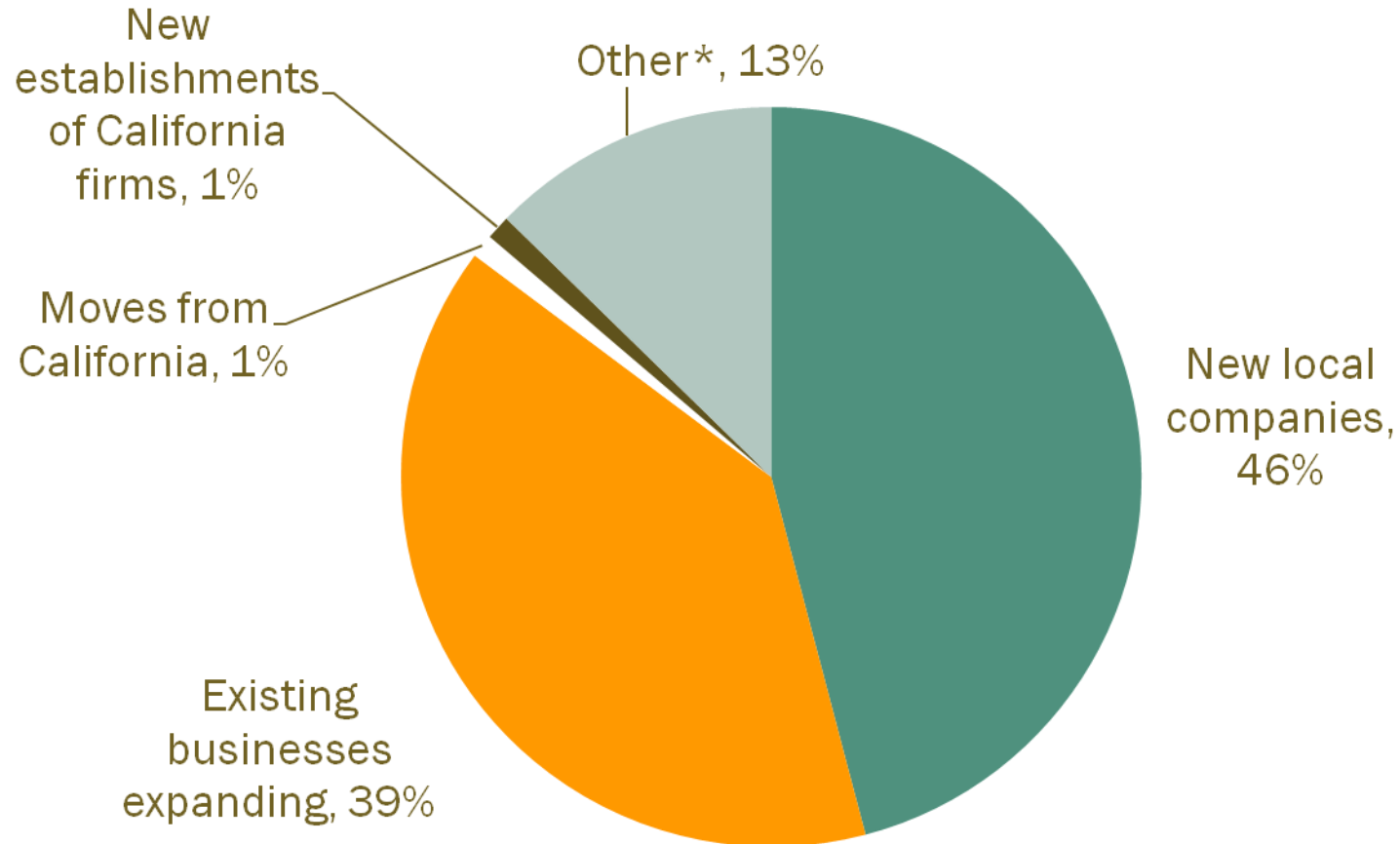
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- Growth in southern Oregon tracks California more closely than rest of Oregon
- However, local economic development strategy should not focus on California
  - Very few local jobs come from or headquartered in California
  - Little commuting across state border



# Southern Oregon's Job Growth Does Not Come From California

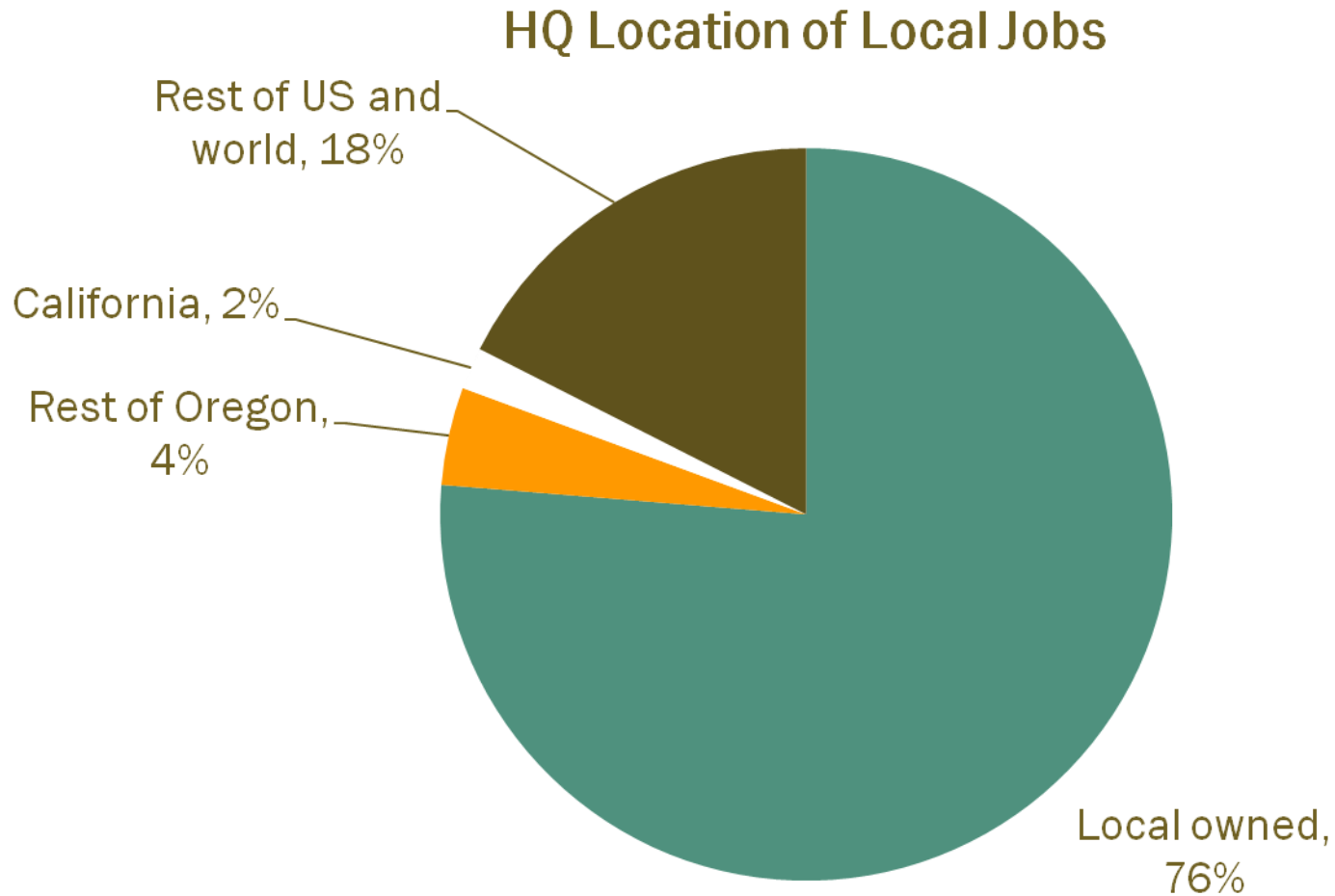
Sources of Job Creation, 1992-2006



\* "Other" includes moves from elsewhere and new establishments HQ'd elsewhere



# Southern Oregon's Jobs Do Not Report to California



# Few Commute Across State Border

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- 99% of employees in southern Oregon live here
  - Only 0.2% commute in from California
- 97% of employed residents of southern Oregon work here
  - Only 0.9% commute out to California



# Conclusions and Summary

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- Most regional growth comes from new businesses or local expansions
  - Relocations get disproportionate attention
- California is high-benefit, high-cost state
  - Lots of variation within California
  - Housing contributes more to costs than taxes do
- Political and economic constraints leave California little room for maneuver



# Notes on the use of these slides

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These slides were created to accompany a presentation. They do not include full documentation of sources, data samples, methods, and interpretations.

For more about the California economy, see:  
<http://www.ppic.org/main/policyarea.asp?i=1>

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Thank you for your interest in this work.