## Economic Forecast

### OUTPUT AND EMPLOYMENT

<table>
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<tbody>
<tr>
<td>Real GDP</td>
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<tr>
<td>$ billions (fourth quarter)</td>
<td>$14,996</td>
<td>$14,575</td>
<td>$14,540</td>
<td>$14,942</td>
<td>$15,242</td>
<td>$15,540</td>
<td>$15,942</td>
<td>$16,501</td>
<td>$17,120</td>
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<tr>
<td>% change over the four quarters</td>
<td>1.9%</td>
<td>-2.8%</td>
<td>-0.2%</td>
<td>2.8%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.6%</td>
<td>3.5%</td>
<td>3.8%</td>
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<tr>
<td>Nonfarm employment</td>
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<tr>
<td>Job count (fourth quarter)</td>
<td>138,246,000</td>
<td>135,493,667</td>
<td>129,877,867</td>
<td>130,652,000</td>
<td>132,642,667</td>
<td>134,853,667</td>
<td>137,247,667</td>
<td>139,694,848</td>
<td>141,679,460</td>
</tr>
<tr>
<td>% change over the four quarters</td>
<td>0.9%</td>
<td>-2.0%</td>
<td>-4.1%</td>
<td>0.6%</td>
<td>1.5%</td>
<td>1.7%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Average monthly change</td>
<td>101,667</td>
<td>-229,361</td>
<td>-468,000</td>
<td>64,528</td>
<td>165,889</td>
<td>184,250</td>
<td>199,500</td>
<td>203,932</td>
<td>203,932</td>
</tr>
<tr>
<td>California</td>
<td></td>
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<tr>
<td>Real GDP</td>
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<td></td>
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<tr>
<td>$ billions (fourth quarter)</td>
<td>$1,761</td>
<td>$1,722</td>
<td>$1,669</td>
<td>$1,680</td>
<td>$1,714</td>
<td>$1,773</td>
<td>$1,838</td>
<td>$1,913</td>
<td>$1,994</td>
</tr>
<tr>
<td>% change over the four quarters</td>
<td>0.5%</td>
<td>-2.2%</td>
<td>-3.1%</td>
<td>0.6%</td>
<td>2.0%</td>
<td>3.5%</td>
<td>3.6%</td>
<td>4.1%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Nonfarm employment</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>% change over the four quarters</td>
<td>0.5%</td>
<td>-2.7%</td>
<td>-5.5%</td>
<td>0.7%</td>
<td>1.2%</td>
<td>3.2%</td>
<td>2.6%</td>
<td>2.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Average monthly change</td>
<td>6,383</td>
<td>-34,733</td>
<td>-68,631</td>
<td>7,983</td>
<td>14,375</td>
<td>38,192</td>
<td>32,672</td>
<td>28,168</td>
<td>24,957</td>
</tr>
</tbody>
</table>

### WHAT THE TABLE SHOWS:
- California's GDP forecast is derived from the national forecast by allocating output to each of the 50 states based on employment shares. So, forecast misses reflect surprises in the aggregate forecast as well as unexpected shifts in a state’s GDP share.
- California's recovery is gaining traction, as drags related to earlier real estate speculation recede.

### KEY MESSAGES:
- California's economy is forecast to grow faster than the national economy in 2014 and 2015 and that would be expected to translate into solid job gains as well.

Note: GDP figures are based on quarterly values that are interpolated from annual GDP estimates using quarterly employment changes. Unbolded figures are reported actual values and bold figures represent forecasts.

Sources: US Department of Commerce; US Department of Labor.
The Economy’s Structure

WHAT THE CHART SHOWS:

- The figure compares the relative importance of selected industries to the state’s economy with the national footprint of each industry (state and national figures reflect the value added of each industry as a percent of aggregate state or US nominal GDP, respectively).
- Information technology, real estate and professional and technical industries have an outsized footprint in the state’s economy, compared with the average industry composition in other states.

KEY MESSAGES:

- California’s economy is highly diversified, but real estate activity still has an outsized footprint. This was a liability in the housing debacle but now is an asset.

Relative House Prices

WHAT THE CHART SHOWS:

- The figure tracks the relative price of houses in the state versus the nation—that is, it reflects the ratio of the state price index to the national house price index, with that ratio set to unity in the summer of 1995. A drop in the line means that house prices in the state lag the national trend. States that did not suffer from speculative conditions saw a decline in the relative price of houses in this last decade.

- House prices rose 75 percent more than the national average from the mid-1990s to early 2006 but the decline in prices since the spring 2006 peak pulled prices back to historically normal levels relative to the rest of the nation.

- Prices have jumped in the past year, lifted in part by cash purchases.

KEY MESSAGES:

- Price appreciation is likely to return to historically-normal trends now that earlier inflated values have been erased.

Source: FHFA. Updated through 2014 Q1.
Real Estate Markets

WHAT THE CHART SHOWS:
- The figure tracks the cumulative percentage deviation in house prices since 1995 in selected local markets and compares those with the national average.
- Houses again are appreciating around the state now that prices are more affordable.

KEY MESSAGE:
- Inflated housing conditions around the state have largely corrected.
- Recent surges in key metropolitan areas probably are slightly exaggerated and rapid price appreciation likely will settle down to a more normal pace in the coming year.

Sources: FHFA; Standard & Poor’s. Updated through 2014 Q1.
### HOUSE PRICES IN SELECTED COMMUNITIES (RATIO TO THE 2003 AVERAGE)

<table>
<thead>
<tr>
<th>Metro</th>
<th>2007 Peak</th>
<th>2011 Bottom</th>
<th>Now (2014 Q1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1.30</td>
<td>1.03</td>
<td>1.20</td>
</tr>
<tr>
<td>California</td>
<td>1.60</td>
<td>0.85</td>
<td>1.16</td>
</tr>
<tr>
<td>Los Angeles-Long Beach-Glendale Metro</td>
<td>1.84</td>
<td>1.19</td>
<td>1.45</td>
</tr>
<tr>
<td>San Francisco-San Mateo-Redwood City Metro</td>
<td>1.46</td>
<td>1.13</td>
<td>1.43</td>
</tr>
<tr>
<td>Anaheim-Santa Ana-Irvine Metro</td>
<td>1.72</td>
<td>1.15</td>
<td>1.41</td>
</tr>
<tr>
<td>San Jose-Sunnyvale-Santa Clara</td>
<td>1.47</td>
<td>1.08</td>
<td>1.38</td>
</tr>
<tr>
<td>Oxnard-Thousand Oaks-Ventura</td>
<td>1.66</td>
<td>1.02</td>
<td>1.26</td>
</tr>
<tr>
<td>Bakersfield</td>
<td>1.96</td>
<td>0.95</td>
<td>1.23</td>
</tr>
<tr>
<td>San Diego-Carlsbad-San Marcos</td>
<td>1.52</td>
<td>0.99</td>
<td>1.23</td>
</tr>
<tr>
<td>Riverside-San Bernardino-Ontario</td>
<td>1.85</td>
<td>0.92</td>
<td>1.23</td>
</tr>
<tr>
<td>Oakland-fremont-Hayward Metro</td>
<td>1.53</td>
<td>0.93</td>
<td>1.21</td>
</tr>
<tr>
<td>San Luis Obispo-Paso Robles</td>
<td>1.50</td>
<td>0.97</td>
<td>1.19</td>
</tr>
<tr>
<td>Visalia-Porterville</td>
<td>1.89</td>
<td>0.99</td>
<td>1.18</td>
</tr>
<tr>
<td>Redding</td>
<td>1.62</td>
<td>0.94</td>
<td>1.14</td>
</tr>
<tr>
<td>Santa Cruz-Watsonville</td>
<td>1.48</td>
<td>0.97</td>
<td>1.14</td>
</tr>
<tr>
<td>Santa Rosa-Petaluma</td>
<td>1.47</td>
<td>0.87</td>
<td>1.13</td>
</tr>
<tr>
<td>Fresno</td>
<td>1.78</td>
<td>0.91</td>
<td>1.10</td>
</tr>
<tr>
<td>Chico</td>
<td>1.56</td>
<td>0.96</td>
<td>1.10</td>
</tr>
<tr>
<td>Sacramento-Roseville-Arden-Arcade</td>
<td>1.57</td>
<td>0.82</td>
<td>1.07</td>
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<tr>
<td>Yuba</td>
<td>1.68</td>
<td>0.78</td>
<td>1.03</td>
</tr>
<tr>
<td>Salinas</td>
<td>1.68</td>
<td>0.76</td>
<td>0.95</td>
</tr>
<tr>
<td>Modesto</td>
<td>1.70</td>
<td>0.66</td>
<td>0.94</td>
</tr>
<tr>
<td>Stockton</td>
<td>1.67</td>
<td>0.67</td>
<td>0.94</td>
</tr>
<tr>
<td>Santa Barbara-Santa Maria</td>
<td>1.58</td>
<td>0.89</td>
<td>0.94</td>
</tr>
<tr>
<td>Merced</td>
<td>1.76</td>
<td>0.63</td>
<td>0.92</td>
</tr>
</tbody>
</table>

**WHAT THE CHART SHOWS:**

- The table offers a snapshot of real estate trends across the state at selected points in time, including the 2007 peak in house prices, the 2011 bottom, and the current market. Percent changes are relative to values in 2003.
- National house prices are 17 percent above 2003 levels and average prices in California have jumped 13 percent. Prices in most markets now are above 2003 levels.

**KEY MESSAGE:**

- Speculative conditions have been corrected across the state.

*Sources: FHFA; Standard & Poor’s. Updated through 2014 Q1.*
New Home Building

WHAT THE CHART SHOWS:
- The figure compares new home building in California with national trends.
- Home building activity is recovering in line with the national home building recovery.

KEY MESSAGES:
- With excesses clearing, the home building business is expected to continue to climb back to a more normal level of activity.

Source: Census Department. Updated through March 2014 (state) and April 2014 (US).
WHAT THE CHART SHOWS:

- Robust conditions in the multifamily sector—reflecting a shifting back from homeownership to renting and limited new construction—has been supporting a modest firming in residential rents.
- Residential rents in the San Francisco area have been rising at double the rate in southern California.

KEY MESSAGES:

- The ongoing recovery in the job market should open more opportunities for recent college graduates. College grads have found the job market quite challenging. The job market recovery will continue to unlock pent-up demand for living space.

**Office Markets**

**WHAT THE CHART SHOWS:**

- The figure illustrates trends in office vacancy rates in selected California markets, compared with the national office vacancy rate.
- Commercial real estate conditions are generally improving across the state. Oxnard stands out as an exception.

**KEY MESSAGES:**

- California’s improving economy is expected to lift the commercial real estate markets.

Office Markets

WHAT THE CHART SHOWS:

- The chart focuses on office vacancy rates in the Los Angeles area.
- Office conditions are stabilizing in the Los Angeles area.

KEY MESSAGES:

- Stable commercial real estate conditions echo the gradual improvement in California’s economy.

Office Markets

WHAT THE CHART SHOWS:
- The chart focuses on office vacancy rates in southern California.
- Office conditions are improving gradually.

KEY MESSAGES:
- Stable commercial real estate conditions echo the gradual improvement in California’s economy.

Office Markets

What the chart shows:
- The chart focuses on office vacancy rates in northern California.
- Office market conditions in San Francisco are very robust, owing to the technology boom in Silicon Valley.

Key Messages:
- Solid commercial real estate conditions echo the gradual improvement in California’s economy.

The figure illustrates trends in total state tax receipts, including sales taxes, license taxes, income taxes, and other taxes. Tax receipts are back on the track they were on before the recession, benefiting from California's progressive tax code.

Recovering sales taxes are a sign that the economy is on the mend.

State Sales Tax Receipts

WHAT THE CHART SHOWS:
- The figure illustrates trends in state and gross receipts taxes.
- Sales tax receipts have returned to levels seen before the recession.

KEY MESSAGES:
- Retail activity is beginning to stir, as indicated by the recent upturn in the four quarter moving average of sales tax receipts.

Bankruptcies

What the Chart Shows:

- The figure illustrates trends in bankruptcy filings by businesses and persons relative to the number of filings in 2007 Q4, prior to the recession.
- Business bankruptcies are back to normal and so are personal bankruptcies.

Key Messages:

- Indicators of financial stress are a useful coincident indication of economic distress.
- Financial stresses are receding quickly in California.

Source: Administrative Office of the U.S. Courts; Updated through March 2014.
Energy activity in the Monterey Shale Formation (also known as the Miocene Monterey Formation), which extends from northern California down to the Los Angeles area and is estimated to contain 300 billion barrels of oil and 1.5 – 2.0 trillion cubic feet of natural gas. The field spans Kern, Orange, Ventura, Monterey and Santa Barbara Counties. Oil has been extracted slowly from the Monterey Shale since the late 1800s, owing to low recovery rates, but the new technologies have boosted production and lowered costs.

**KEY MESSAGES:**
- California’s energy sector is providing new economic support

The Federal Reserve Bank of San Francisco’s survey of the high tech industry has eased over the past couple of years but is in positive territory, indicating that the revival of the high-tech sector is contributing to the state’s GDP growth.

Tech activity remains moderately strong.

Silicon Valley likely will remain an important driver of California’s economy.

Sources: Federal Reserve Bank of San Francisco; US Department of Commerce. Updated through April 2014 (surveys) and 2014 Q1 (GDP).

Note: diffusion indexes represent the percentage of respondents seeing an increase in activity plus one half of the percentage reporting no change in activity.
Private Business Surveys, Manufacturing

WHAT THE CHART SHOWS:

• Selected business conditions indexes, based on a survey of purchasing managers, are highly correlated with the state’s real GDP growth.
• Positive survey readings indicate that California’s manufacturing sector has the wind at its back.

KEY MESSAGES:

• Diffusion indexes, like those based on responses from purchasing managers, are a timely indicator of activity in the state and these are rebounding.
• The state’s factory barometer points to ongoing recovery in manufacturing, but perhaps at a moderate pace.

Sources: Institute of Supply Management; US Department of Commerce. Updated through 2014 Q1 (survey) and 2014 Q1 (GDP).

Note: diffusion indexes represent the percentage of respondents seeing an increase in activity plus one half of the percentage reporting no change in activity.
WHAT THE CHART SHOWS:

- Selected business conditions indexes of the state’s purchasing managers indicate that high-tech activity remains robust.
- The high-tech sector is expanding, if at a slightly slower pace than it was.

KEY MESSAGES:

- Diffusion indexes, like those based on responses from purchasing managers, are signaling a pickup in the economy’s business sector.

Sources: Institute of Supply Management; US Department of Commerce. Updated through 2014 Q1 (survey) and 2014 Q1 (GDP).
WHAT THE CHART SHOWS:

- Surveys of activity in Orange County signaled a moderate easing late last year, but the readings continue to point to strong expansion.
- Orange County’s economy suffered in the housing debacle, like the rest of the state, and this is reflected in the business barometers based on surveys of purchasing managers.
- Recent readings continue to point to continued recovery in the year ahead.

KEY MESSAGES:

- With the state’s housing excesses correcting more quickly than in other areas, most communities are recovering.

Sources: Institute of Supply Management; US Department of Commerce. Updated through 2014 Q1 (survey) and 2014 Q1 (GDP).

Note: diffusion indexes represent the percentage of respondents seeing an increase in activity plus one half of the percentage reporting no change in activity.
Initial Jobless Claims

**WHAT THE CHART SHOWS:**
- The figure tracks layoffs in California and the national level of claims.
- Weekly layoffs, both the state and national tallies, are illustrated in the figure as a ratio to the level of layoffs in the fourth quarter of 2007, prior to the recession.
- Layoffs jumped temporarily owing mostly to technical issues related to the state’s computer systems. Layoffs have since fallen back to normal.

**KEY MESSAGES:**
- Weekly jobless claims figures are reported on a timely basis and so will signal a real-time shift in economic activity.
- The normal level of layoffs indicates that California’s economy is well on the road to recovery.

*Source: US Department of Labor. Updated through May 17, 2014 (state) and May 24, 2014 (US).*
Economic Growth

WHAT THE CHART SHOWS:

- Real GDP growth in California (the line in the figure) is superimposed on top of US real GDP growth (bars in the figure).
- California’s economy now is beginning to pace the national growth pace.

KEY MESSAGES:

- The forecast calls for faster economic growth in 2014 and 2015.

Source: US Department of Commerce. Updated through 2012 (state) and 2014 Q1 (US). Quarterly estimates for states after 2012 are interpolated from employment figures (through April 2014), based on the historical correlation of state and national employment changes.
WHAT THE CHART SHOWS:

- The figure illustrates the evolution of real GDP of the state and the overall US economy since the fourth quarter of 2000, the peak of the previous business cycle—that is, at any point in time the lines trace the ratio of real GDP to its level in 2000 Q4.
- California’s economy has been on the mend since the end of 2009. Like the national economy, California’s real GDP has already eclipsed the peak of the last business cycle.

KEY MESSAGES:

- California’s economy is expected to continue to recover in 2014 and 2015.

Source: US Department of Commerce. Updated through 2012 (state) and 2014 Q1 (US). Quarterly estimates for states after 2012 are interpolated from employment figures (through April 2014), based on the historical correlation of state and national employment changes.
Employment Growth

WHAT THE CHART SHOWS:

- A comparison of job growth in California versus the nation.
- Hiring has been slightly stronger than the national average but recently has moderated slightly.

KEY MESSAGES:

- The recent revival in the state’s job market appears to have good forward momentum.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Employment in Relative Terms

WHAT THE CHART SHOWS:

- The figure shows the evolution of the job count since 2000 Q4, the peak of the previous business cycle. Lines represent the ratio of employment to the 2000 Q4 level.
- California now has recovered or replaced all of the jobs lost in the recent recession. That’s impressive, considering the real estate excesses that have weighed on the state.

KEY MESSAGES:

- California’s job situation is forecast to continue to improve.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Employment in Absolute Terms

WHAT THE CHART SHOWS:

- Trends in the actual employment count in the state (left scale) and the level of employment in the overall economy (right scale).
- In proportionate terms, the recession took a bigger toll on California’s job market, reflecting the damage from real estate speculation.
- Despite lingering real estate drags, California’s businesses are once again adding workers.

KEY MESSAGES:

- Legacy housing drags aren’t preventing a new recovery, even in California.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Intrastate Employment

WHAT THE CHART SHOWS:
- Job trends in selected communities.
- The state's economic performance is echoed broadly, judging by employment conditions.

KEY MESSAGES:
- California is seeing a synchronized recovery across the state.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
WHAT THE CHART SHOWS:

- Job trends in the Bay Area.
- Hiring is robust in the Bay Area.

KEY MESSAGES:

- Economic activity in the San Francisco area likely will remain strong.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
WHAT THE CHART SHOWS:
- Job trends in the LA area.
- Employment in the LA area is beginning to edge up.

KEY MESSAGES:
- LA's job market is likely to continue to improve this year and the next.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
WHAT THE CHART SHOWS:

- Job trends in southern California.
- Employment in the San Diego and Irvine area is rebounding.

KEY MESSAGES:

- Real estate drags are rapidly fading from memory.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Unemployment rose more in California than it did nationally during the recession.

Unemployment is receding quickly.

The unemployment rate is the single best indicator of the relative economic performance of a region.

California is on the mend indicating that the real estate excesses have been largely corrected.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).