

# **Economic Update**

**LMID Advisory Group**

**April 24, 2014**

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**Employment Development Department**

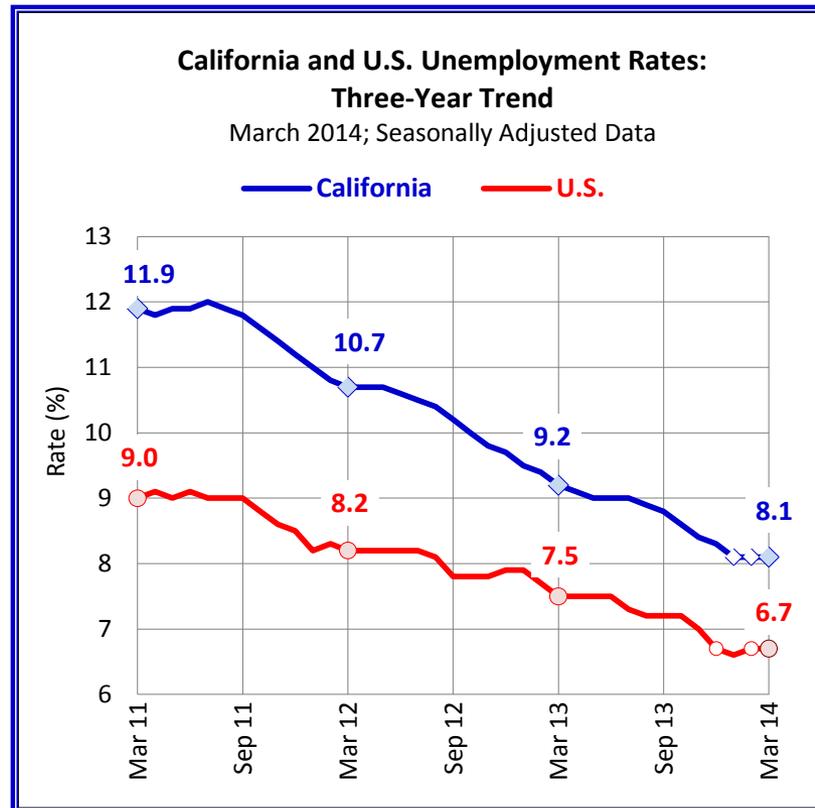
**Labor Market information Division**

## Nearing Full Recovery from Recession

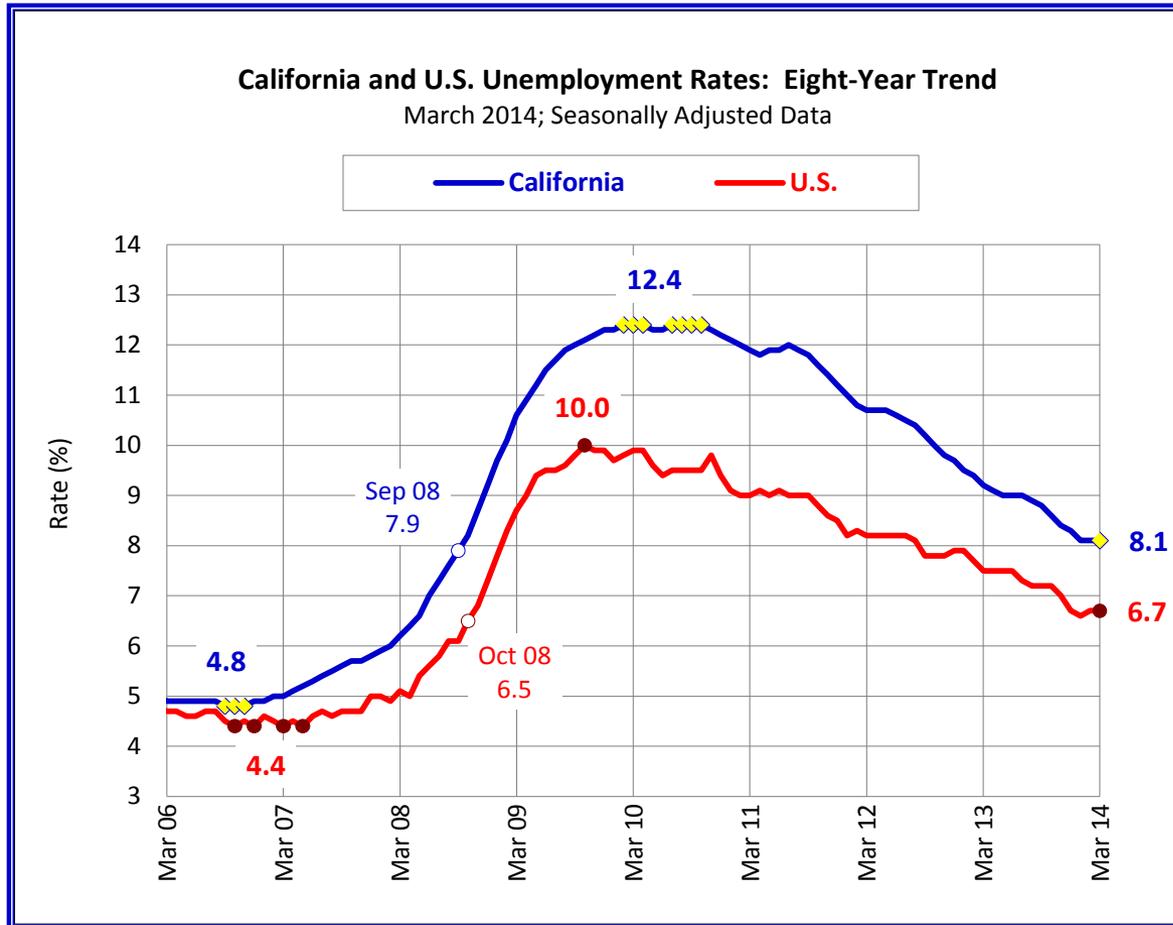
- It has been over four years (49 months) since total nonfarm payrolls in California and the nation bottomed out and began expanding.
- Job growth is expanding at a steady and sustained pace both nationally and in California, and shows little sign of slowing down.
- Unemployment continues to fall steadily.
- Both California and the nation are on the brink of recovering all the jobs that they lost during the Great Recession.
- While this is news to celebrate, full recovery of the jobs lost during the recession puts California's labor market back to where it was in July 2007 (nearly seven years ago) and the U.S. labor market back to where it was in January 2008 (just over six years ago).
- Full recovery does not equate to full employment because the population has continued to grow throughout the business cycle. Conditions are steadily improving, but there continues to be slack in the labor market.

## Unemployment Rate

Despite some sluggishness in recent months, unemployment continues to trend steadily downward in California and the nation. The U.S. rate held steady at 6.7 percent in March 2014, down 0.8 percentage point (ppt.) from one year ago and 3.3 ppt. from its October 2009 peak. California's unemployment rate held steady at 8.1 percent in March, down 1.1 ppt. from one year ago and 4.3 ppt. from its peak in July 2010 – October 2010 peak.

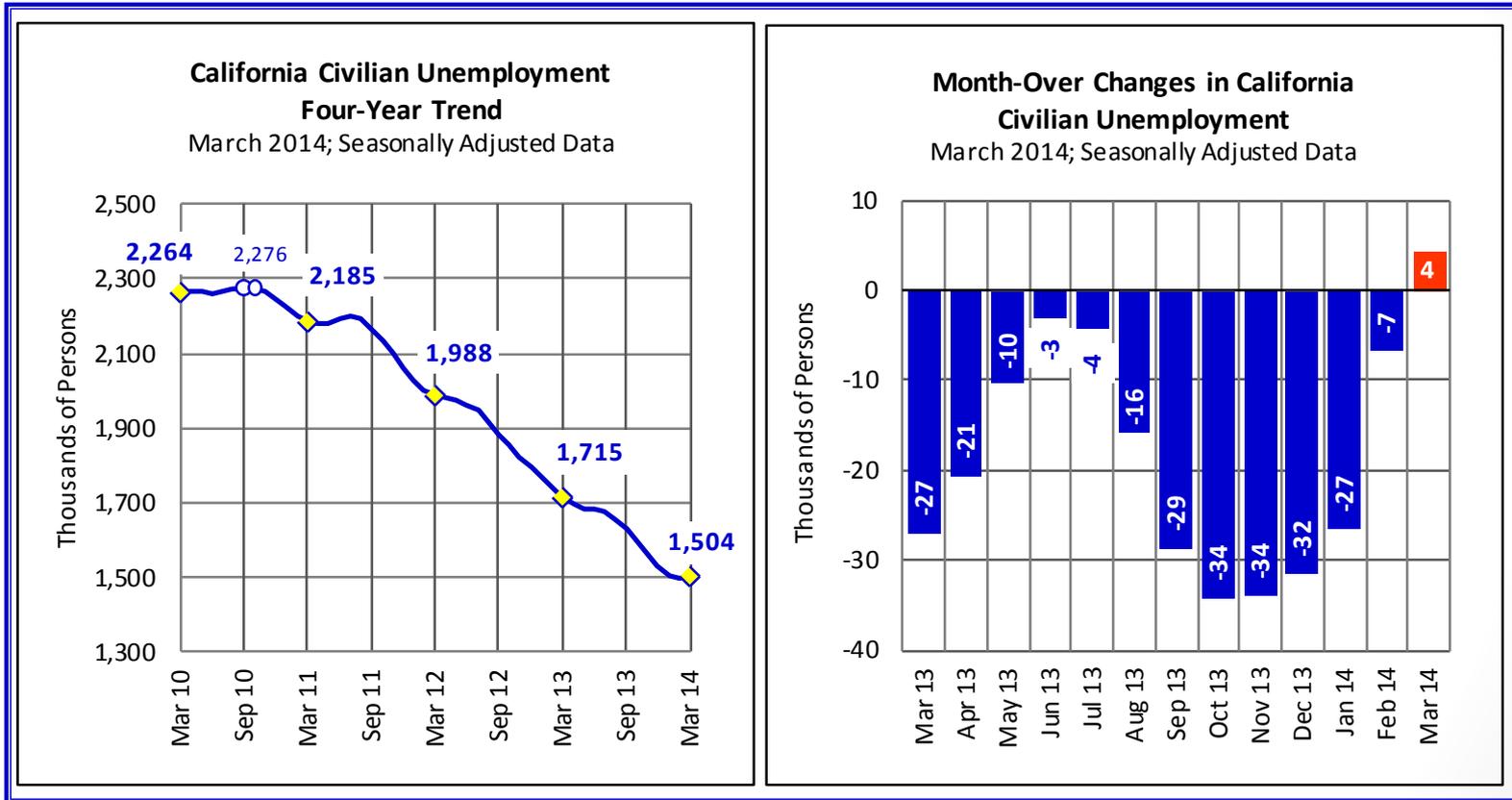


Although the California and U.S. unemployment rates stand at their lowest level in 5 <sup>1/2</sup> years, they have only returned a little more than halfway back to their pre-recession lows.



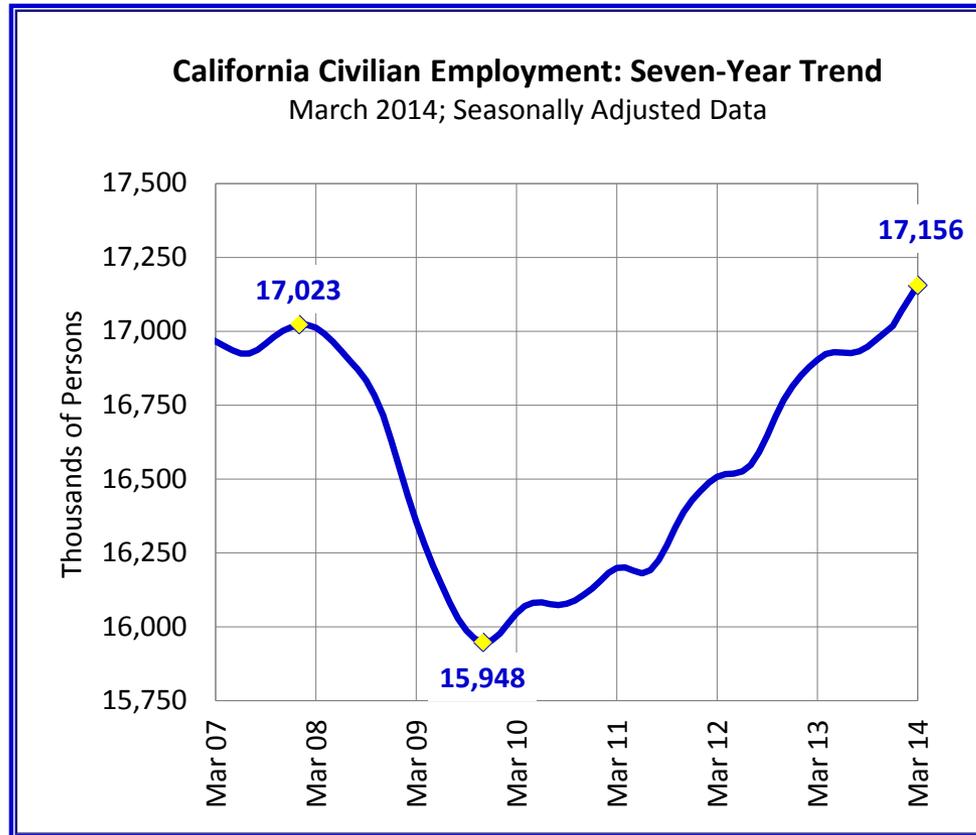
## Number of Unemployed Californians

The number of unemployed Californians rose by 4,000 in March 2014, snapping a streak of 31 consecutive months of decreases. There were 772,000 (33.9 percent) fewer unemployed Californians in March 2014 than there were at the recessionary peak in September and October 2010.



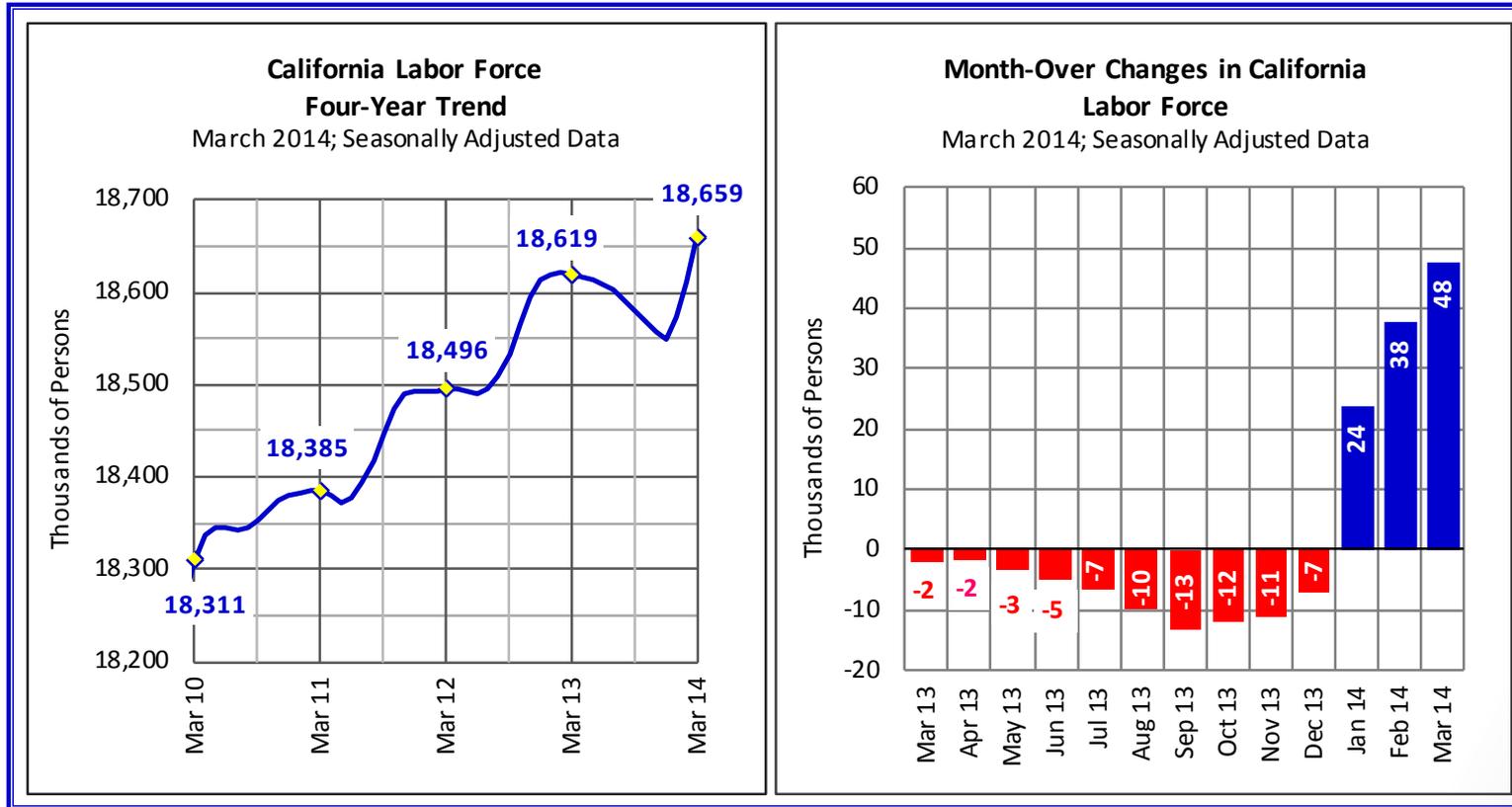
## Number of Employed Californians

California has more than recovered the civilian employment losses it experienced during the recession. There were 1,208,000 more employed Californians in March 2014 than there were at the recessionary low point in November 2009.



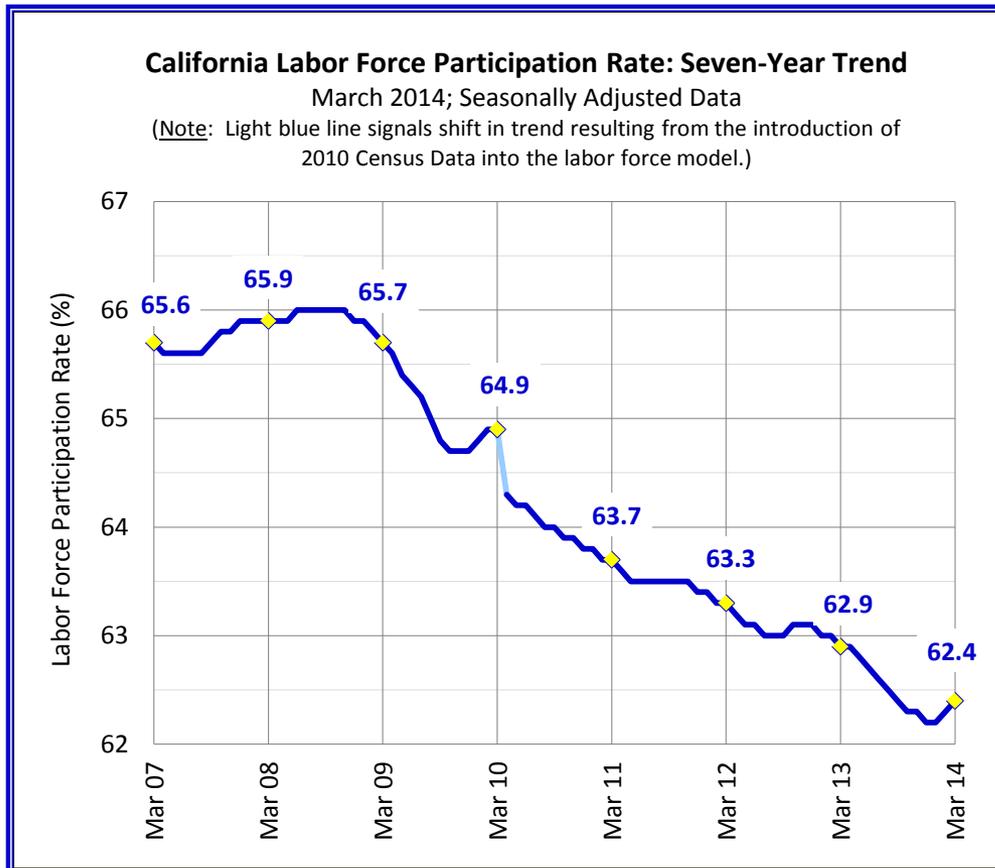
## California Labor Force

After 10 consecutive months of contraction, California has now experienced three consecutive months of labor force growth, with the increase over the period totaling 109,000 persons. However, year-over labor force growth in California totaled just 40,000 persons (0.2 percent) in March.

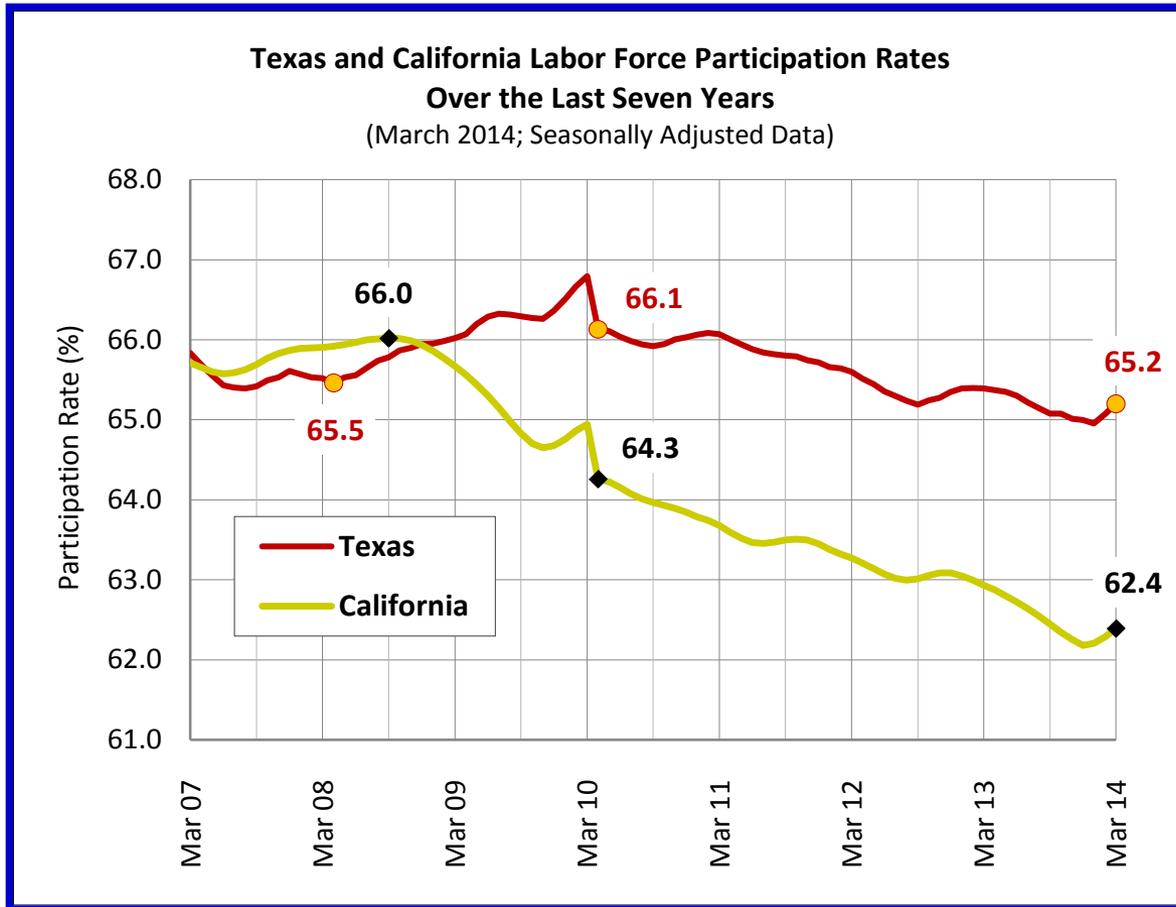


## Labor Force Participation Rate (LFPR)

In February and March 2014, California experienced its first back-to-back increases in its LFPR in just over four years. However, the rate is still trending downward, falling 0.5 ppt. over the last year, and 1.9 ppt. since April 2010. Labor force participation isn't supposed to drop precipitously when the economy is expanding (see Texas).



## Labor Force Participation Rate (LFPR)



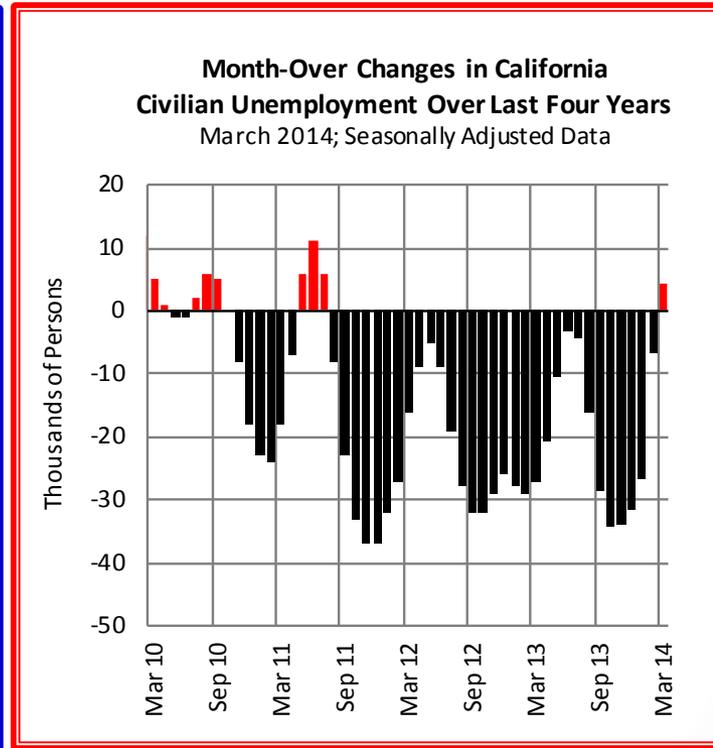
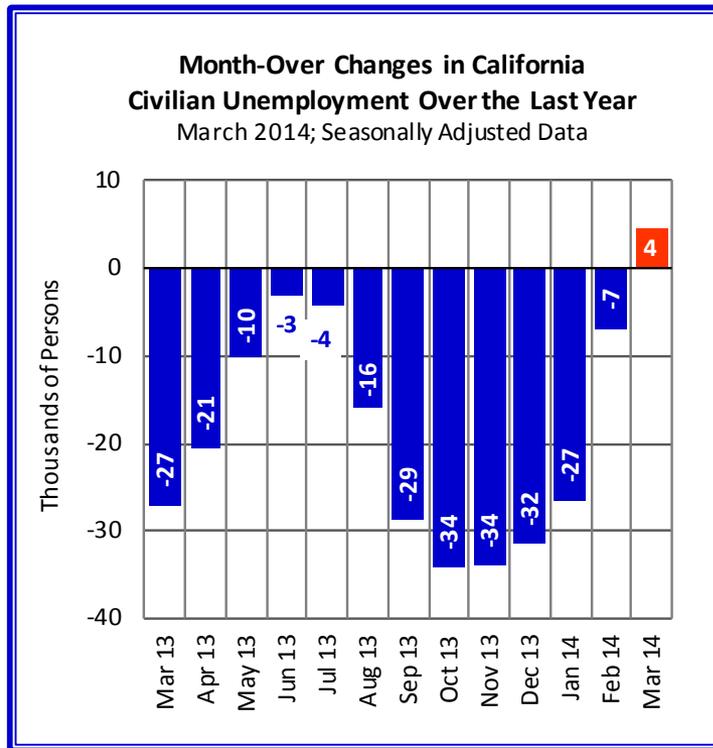
## What about the last three months?

Is the trend of falling unemployment in California stalling out? After four years of expansion, is the California labor force finally starting to draw in an influx of workers from the sidelines?

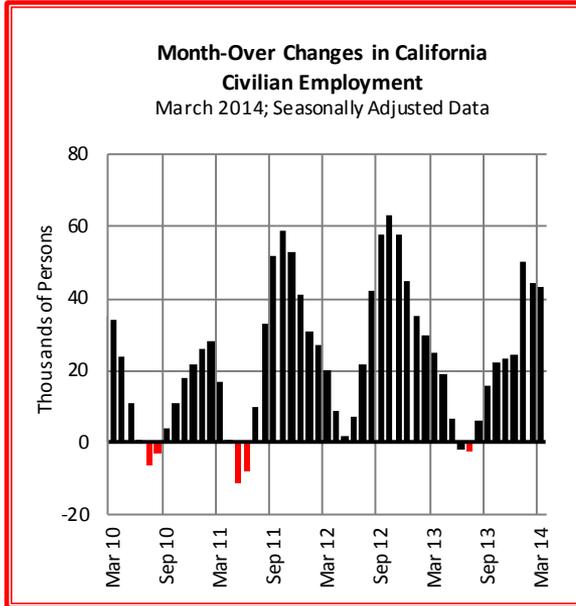
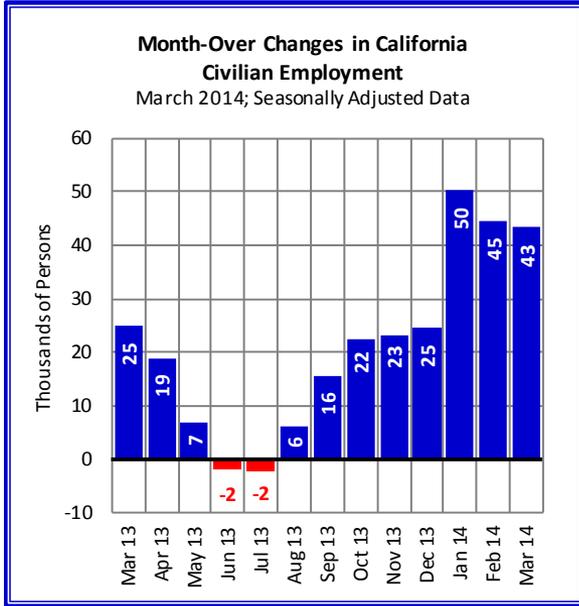
- Really can't say because: 1) data points are too few, and 2) there are recurring patterns in the data.

➔ *No reason as yet to conclude that there has been any change to prevailing trend.*

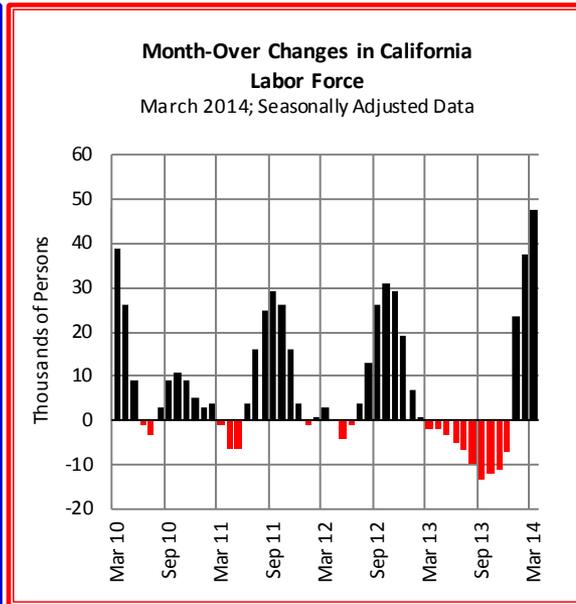
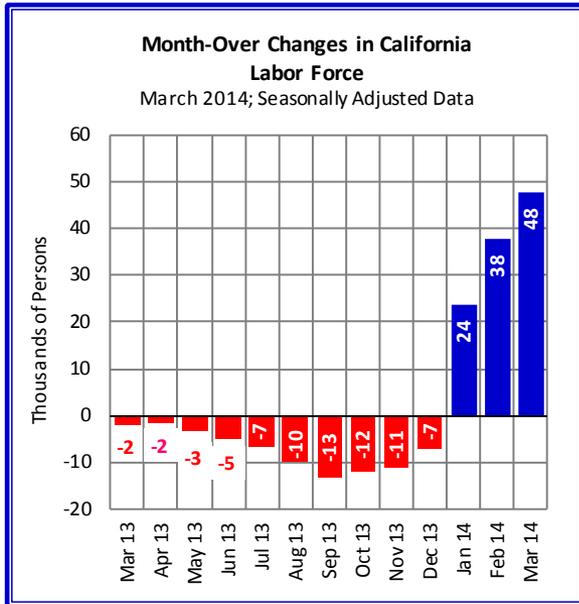
### California Civilian Unemployment



## California Civilian Employment



## California Labor Force



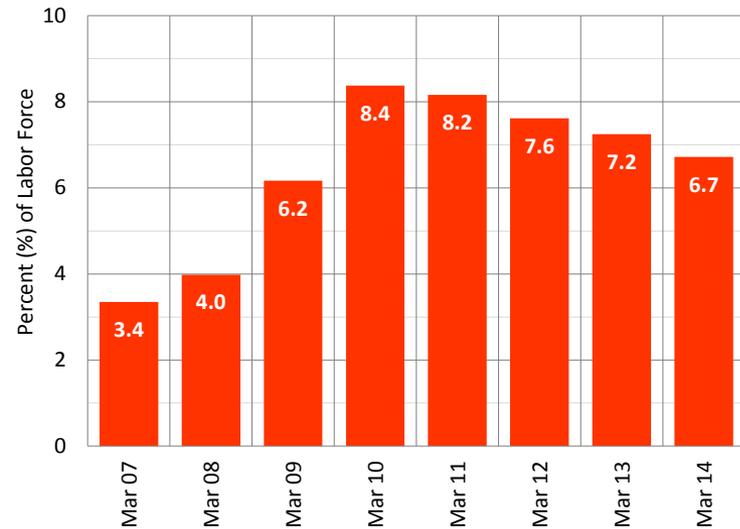
## Californians Who Work Part-Time for Economic Reasons (Underemployment)

Underemployment, defined as the number of workers who are unable to work as many hours as they would like, remains elevated in California, but is trending downward.

**Californians Who Work Part Time for Economic Reasons: March 2006 - March 2014**  
(12-month Average of Current Population Survey Data)

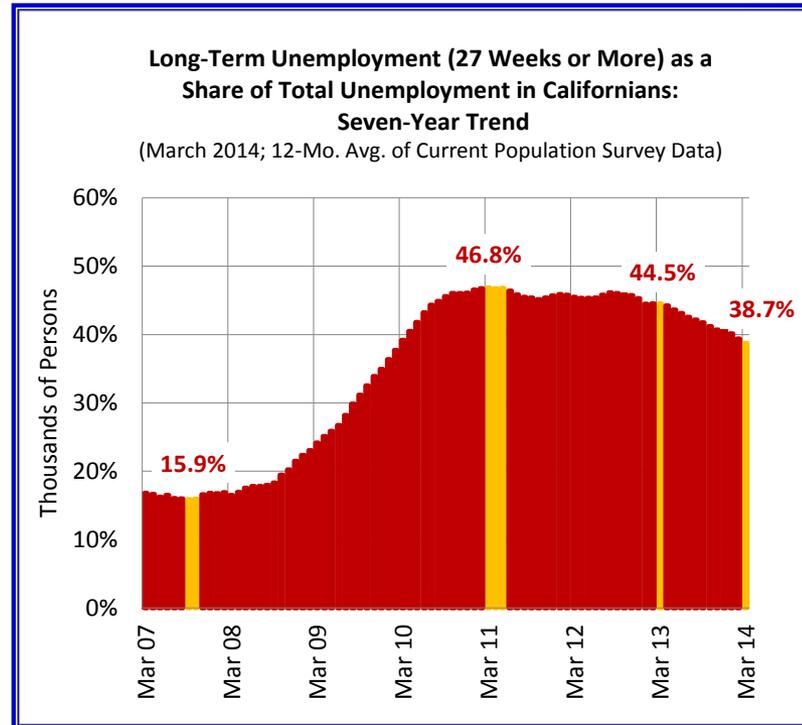
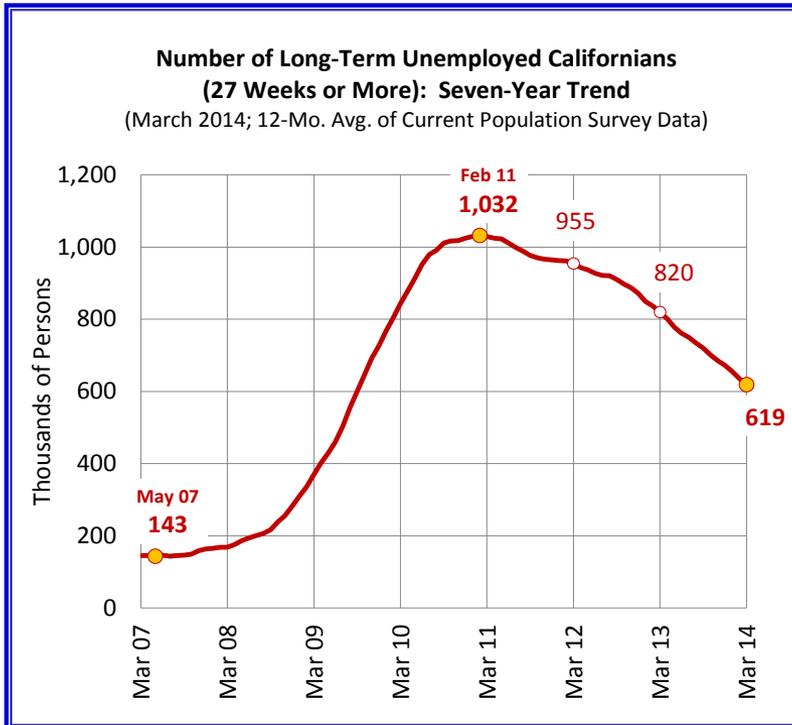


**PART-TIME FOR ECONOMIC REASONS RATE**  
Californians Who Work Part Time for Economic Reasons as a Percent of the Labor Force: March 2007 - March 2014  
(12-Month Average of Current Population Survey Data)



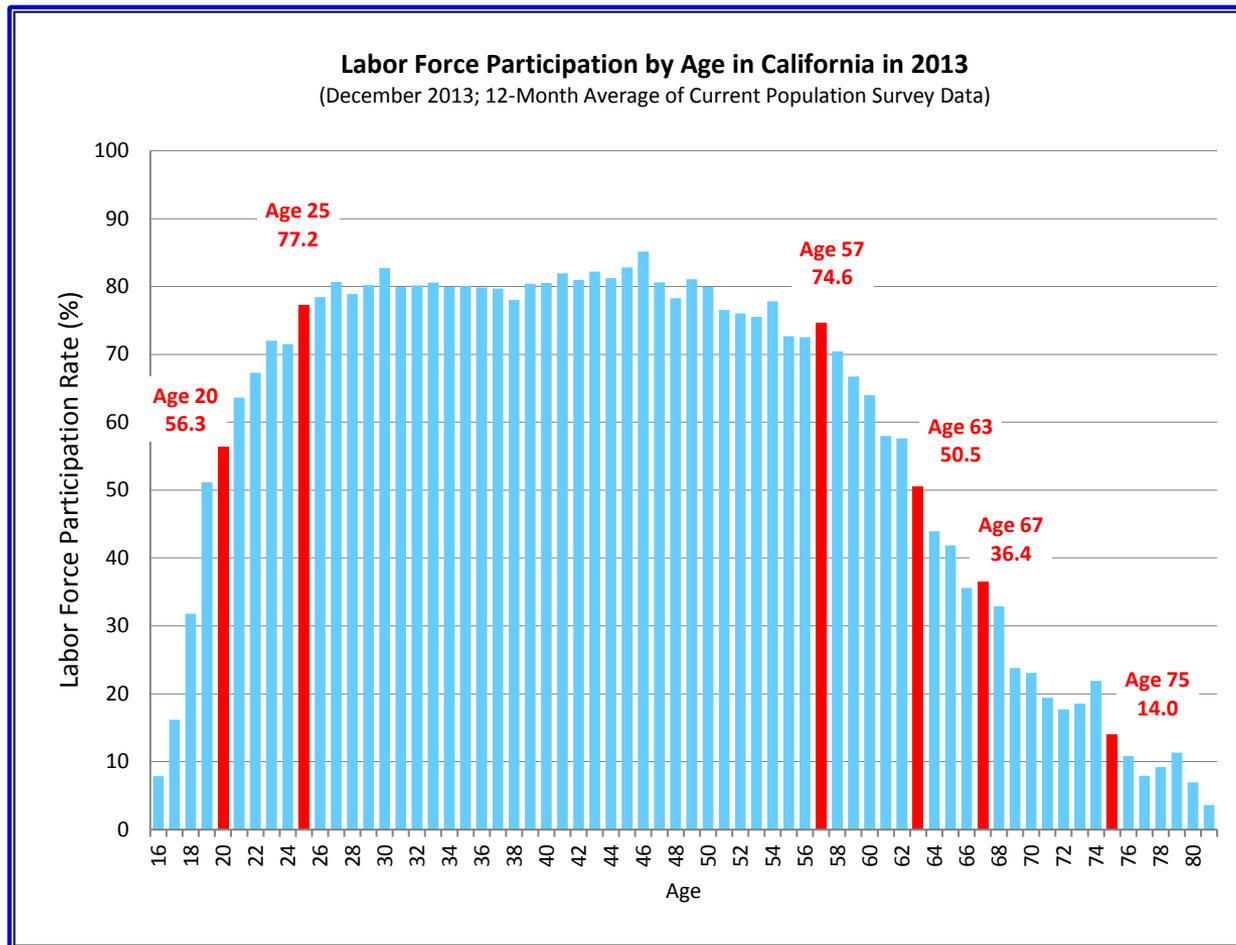
## Long-Term Unemployment (Unemployed 27 weeks or more)

Long-term unemployment in California also remains elevated, but has begun to trend downward at what appears to be an accelerating rate.



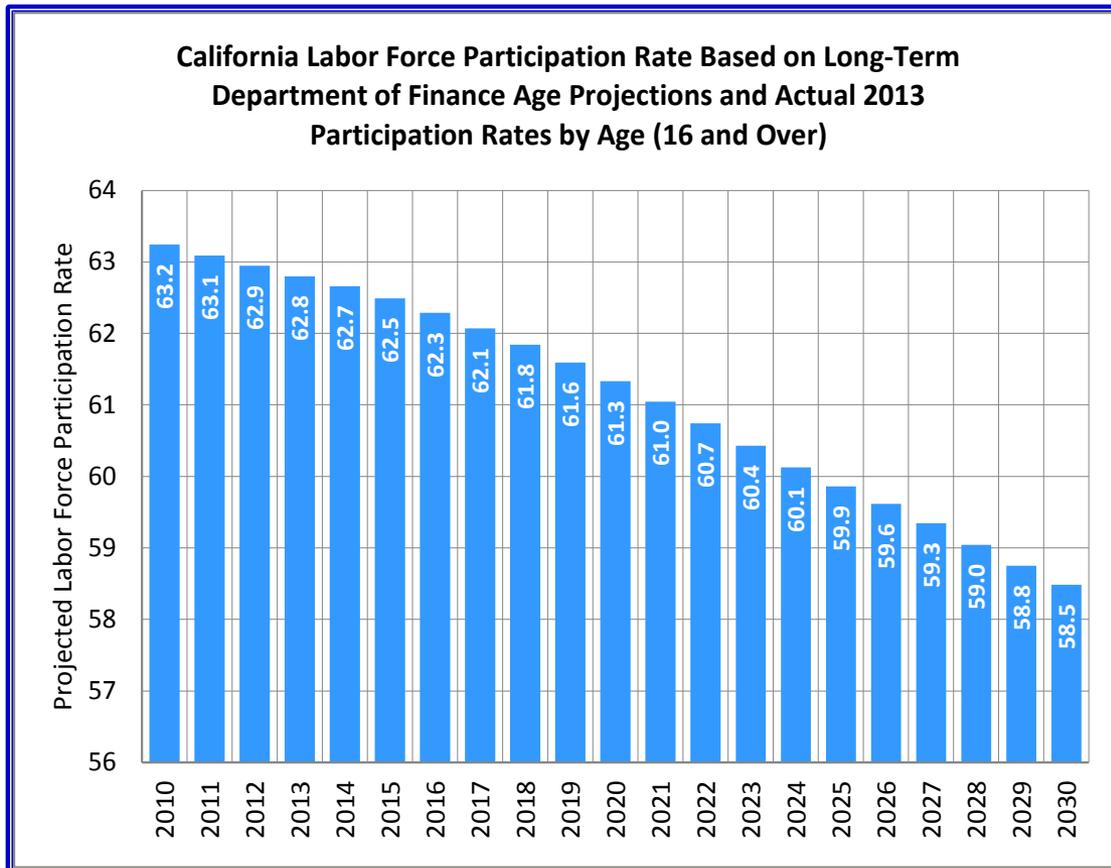
## California's Declining Labor Force Participation Rate: What Role do Demographics Play?

California's labor force participation continues to decline even as the economy expands. To what degree are aging and retiring baby boomers pulling the rate down?



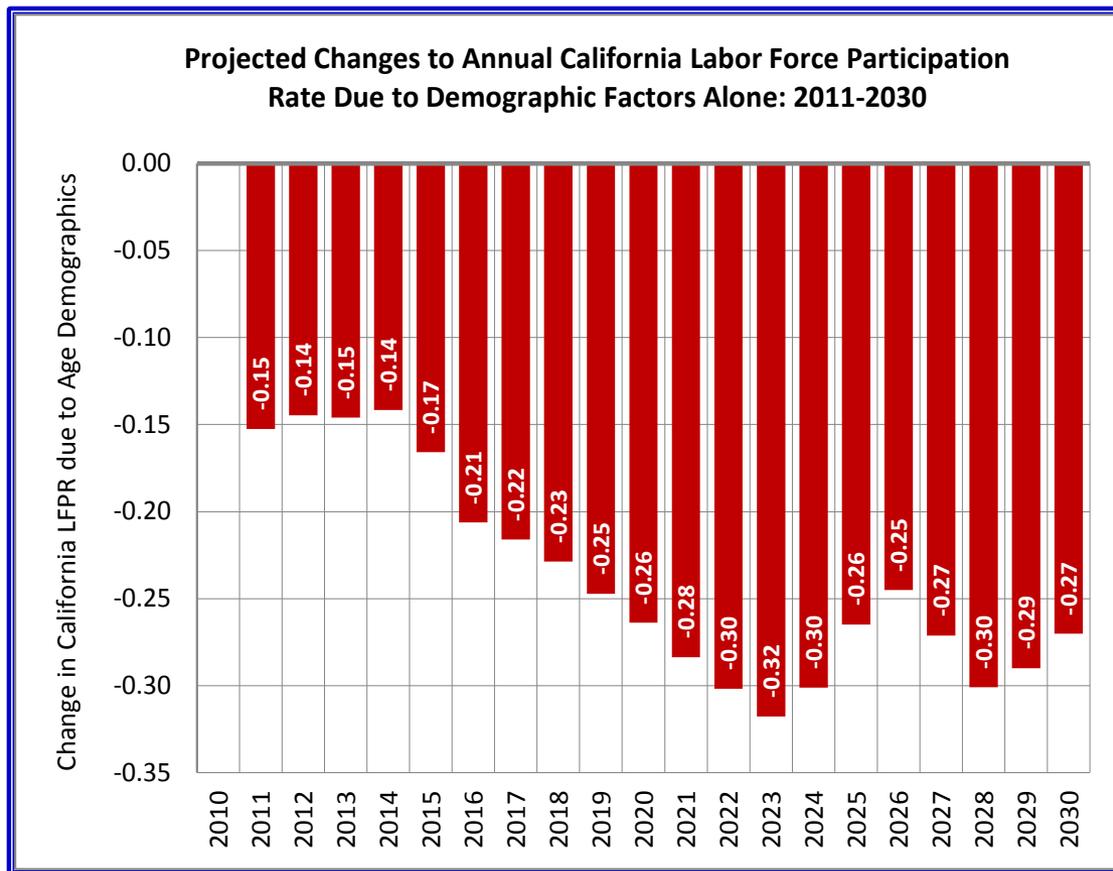
\* The California Department of Finance publishes population by age projections for the years 2010 through 2060, from which estimates of California's working age population by age can be calculated.

\* Applying 2013 LFPR by age estimates to the DOF age estimates allows one to project annual labor force totals and labor force participation rates based solely on changing age demographics.



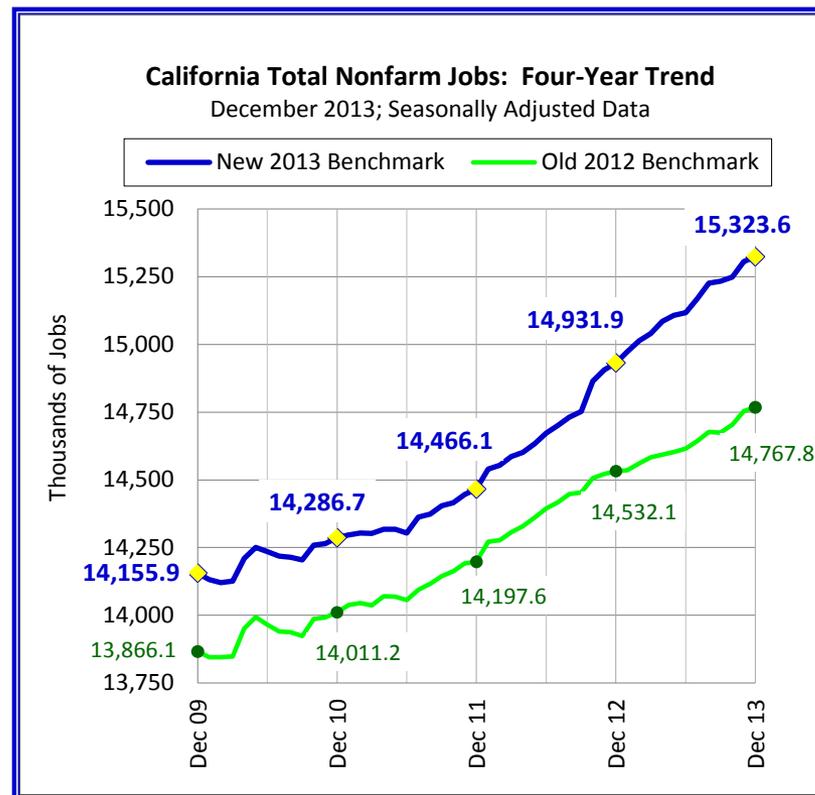
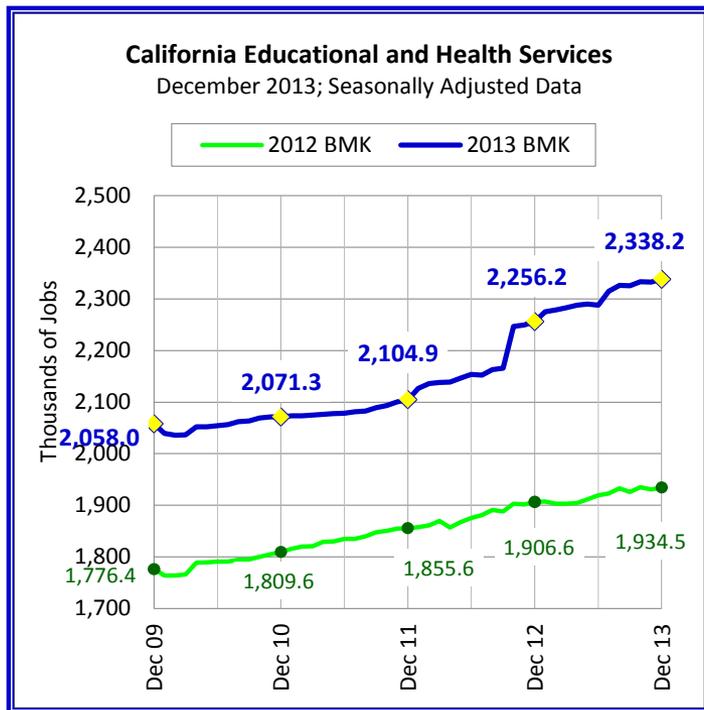
➔ Demographics have played a contributing role in the trend of declining labor force participation in California in recent years, and will assume a larger role in the years to come.

➔ Economic factors are the principle factor in the decline. Restructuring within the economy (i.e., the ongoing transition to a microchip and knowledge-based post-industrial economy) is altering traditional labor force participation patterns of workers and, as often occurs during transition, marginalizing many.



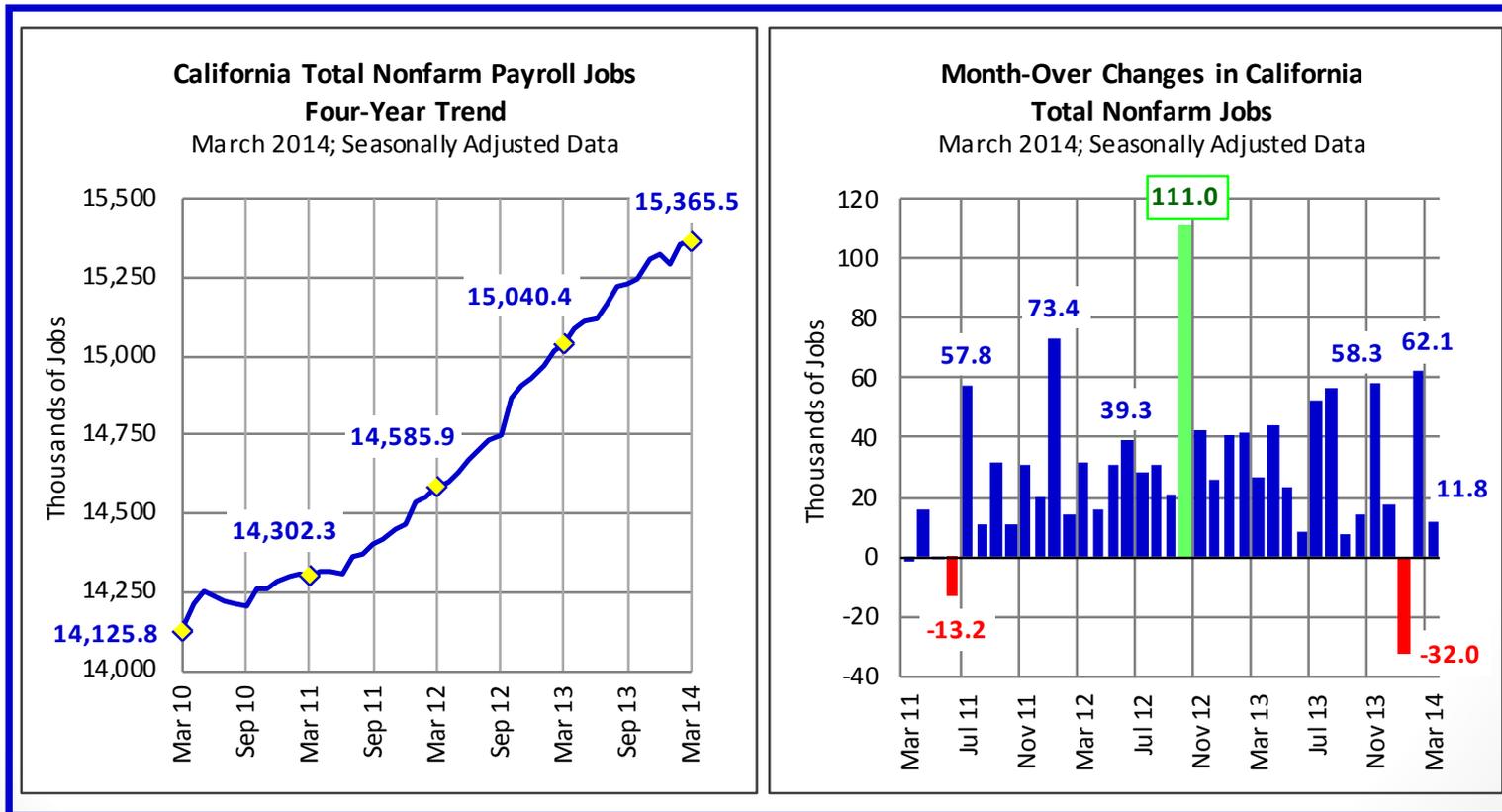
## Total Nonfarm Payrolls

\* California total nonfarm payrolls were revised up sharply during 2013 benchmark revisions. Not only did monthly estimates underestimate the amount of growth that actually occurred, but there was a major programmatic change. In-home supportive services (IHSS) jobs, which for a variety of technical reasons had been excluded from California's total nonfarm job estimates, are now counted in the individual and family services industry within the educational and health services sector. Their inclusion necessitated historical revisions back to 1990. These revisions in turn rolled up into higher levels of data aggregation, including total nonfarm payroll estimates.



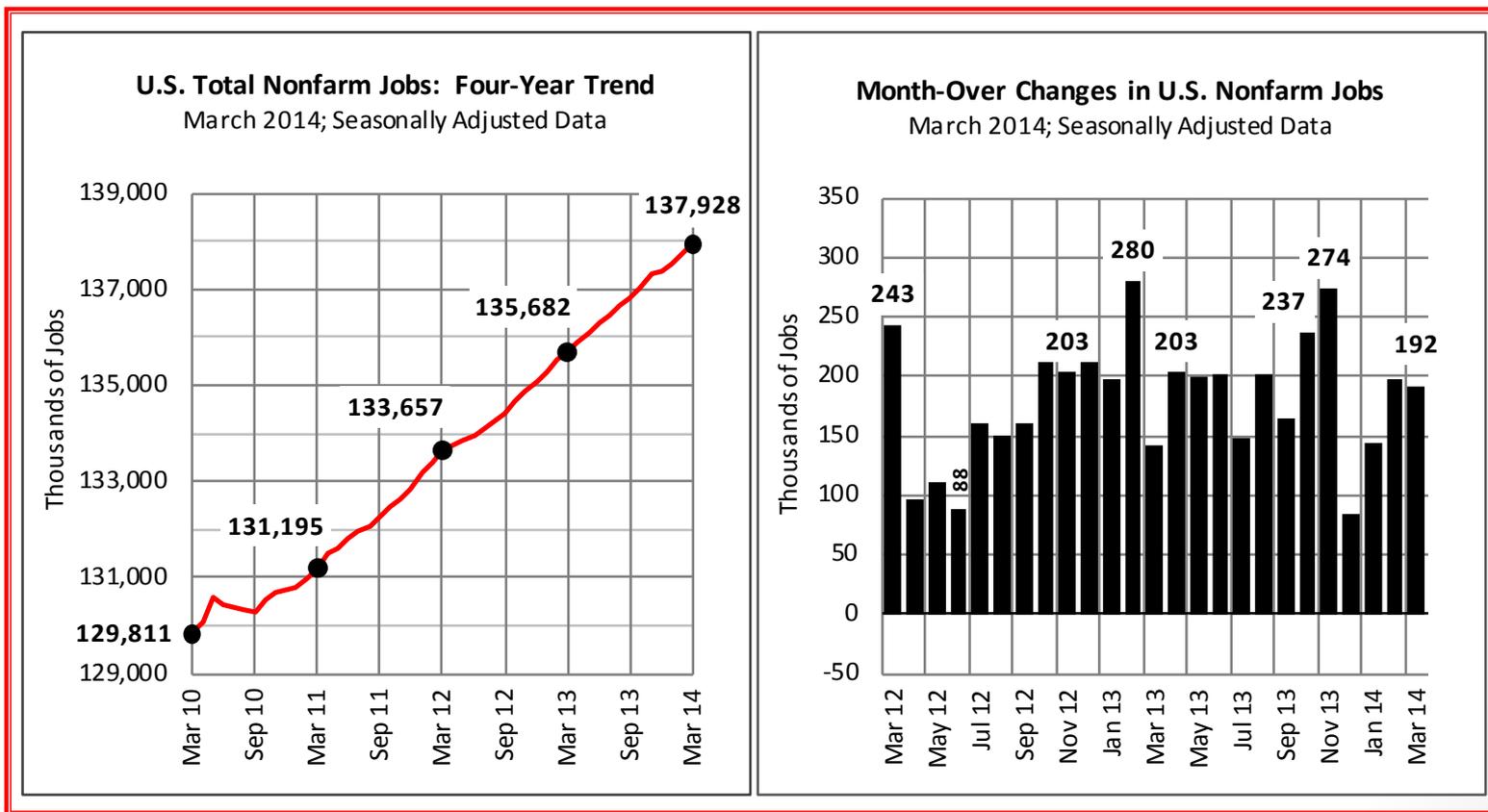
## California Nonfarm Payrolls

California gained 11,800 jobs in March 2014. This was the state's 32<sup>nd</sup> job gain in the last 33 months. Thus far, 2014 is off to a rocky, but ultimately subdued start. Job gains over the first quarter 2014 totaled 41,900 jobs, for an average of 14,000 jobs per month. This compares to net gains of 90,100 jobs (30,000 jobs/mo.) and 117,100 jobs (39,000 jobs/mo.) in the fourth and third quarters of 2013, respectively. However, the jury remains out as to how significant the apparent slowdown in California's recent job growth might be. Much of California's job growth during the current expansion has occurred in monthly bursts so the situation could easily change in coming months.



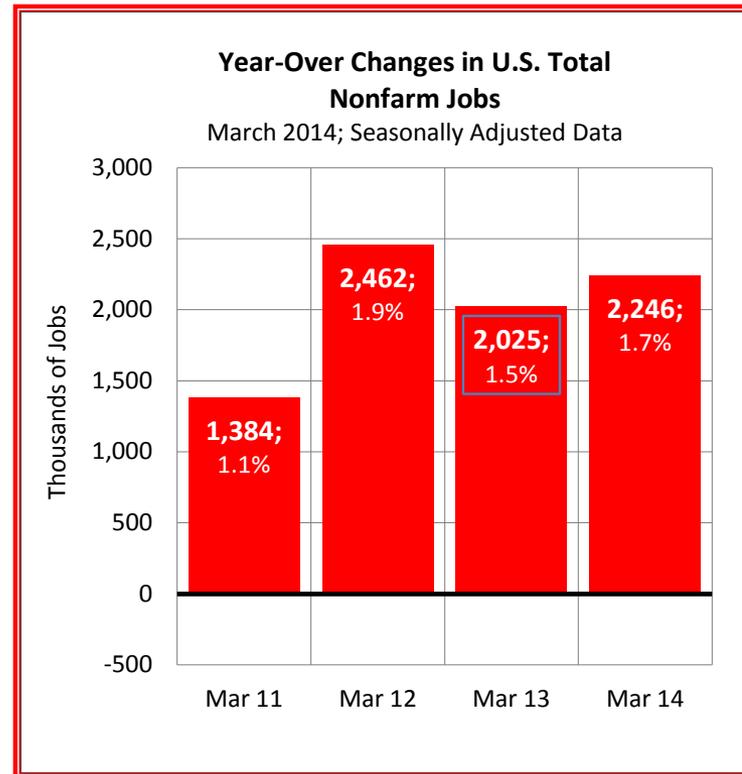
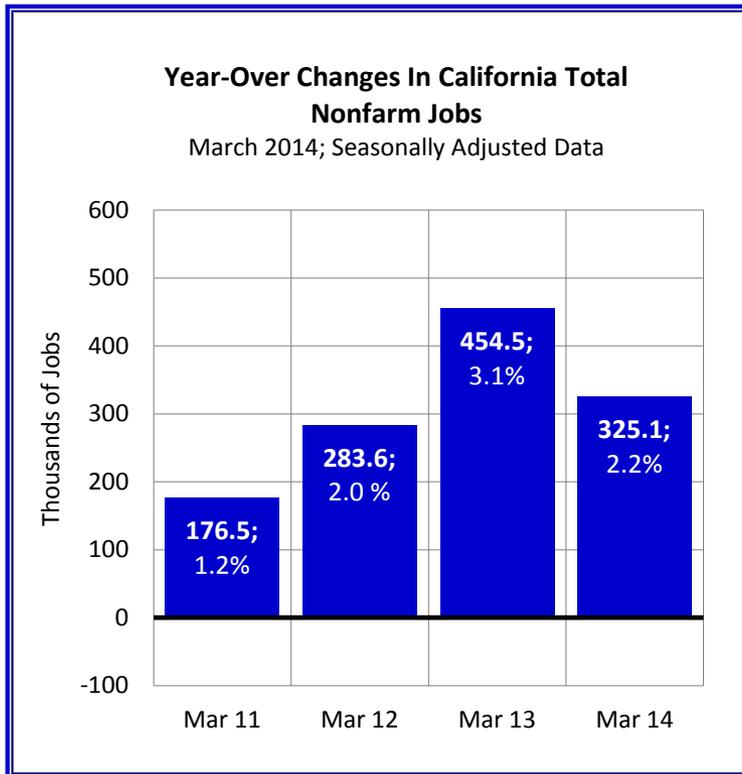
## United States

The nation gained 192,000 jobs in March 2014, and has now gained jobs in 42 consecutive months. There is no evidence that the nation suffered a slowdown in first quarter 2014 job growth comparable to that in California. The nation gained 533,000 jobs during the first quarter of 2014. This compares to gains of 595,000 and 515,000 jobs in the third and fourth quarter of 2013, respectively. A strong national economy always benefits California's.



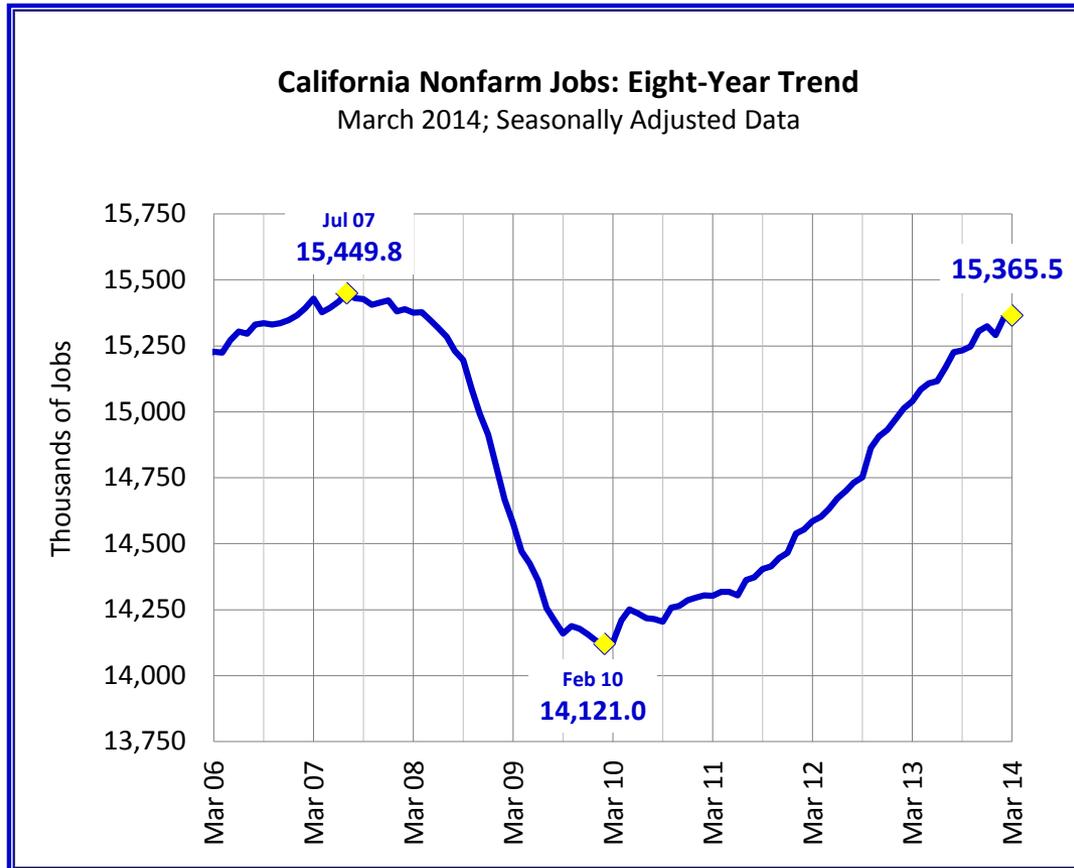
## Year-Over Nonfarm Job Growth, March 2014

The pace of year-over job growth in California is well off the pace of last year. However, the March 2013 year-over gain reflects a record-shattering 111,000-job gain in October 2012 (roughly 80,000 of which IHSS jobs) which magnifies the difference. The nation's pace job growth has been remarkably consistent; moderate but steady.



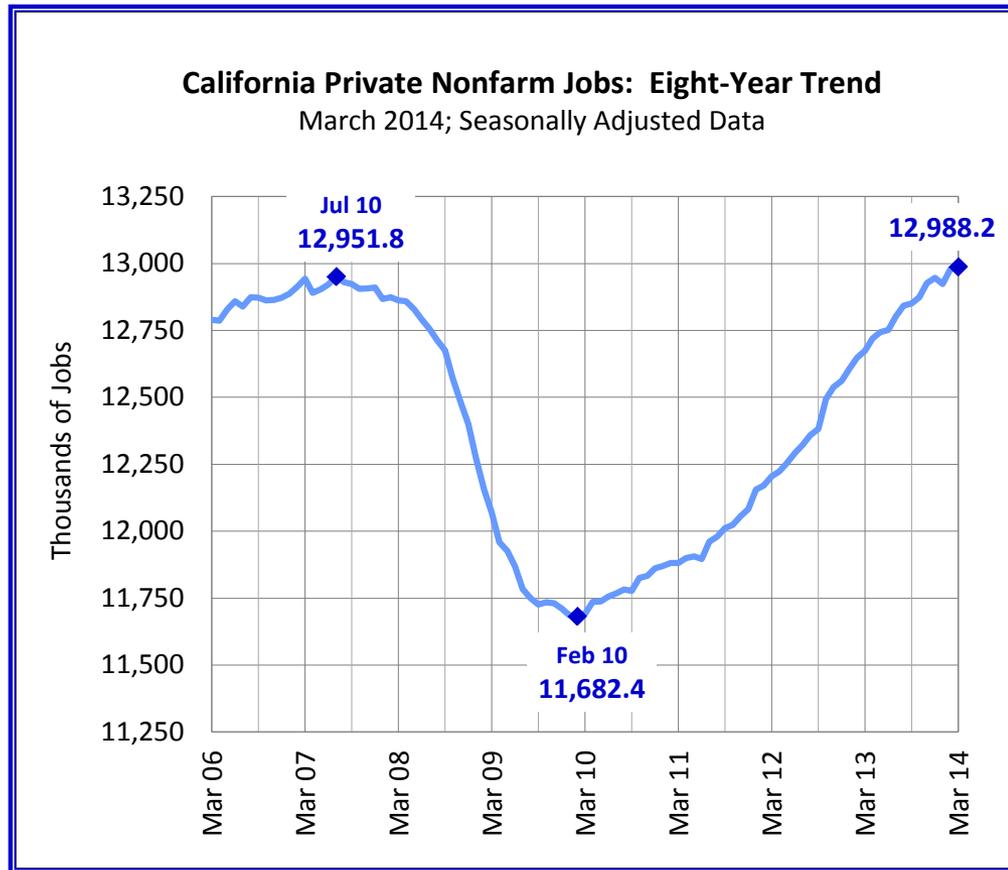
## The Road to Full Recovery.

From the recessionary low in February 2010 through March 2014, California gained 1,244,500 total nonfarm jobs. However, California still fell 84,300 jobs short of equaling its July 2007 peak in total nonfarm employment. Forty-nine months into the current recovery, California has regained 93.7 percent of the 1,328,800 nonfarm jobs it lost during the 31 months of the July 2007-February 2010 recession.



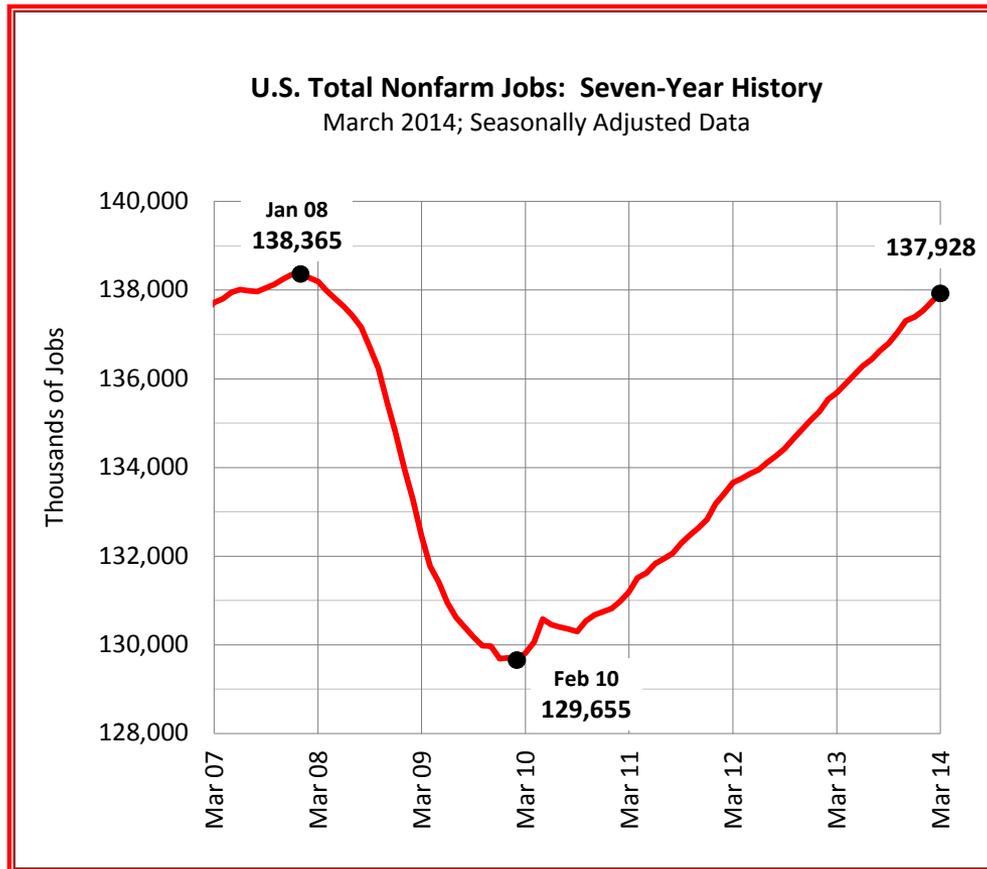
## The Road to Full Recovery.

California's private sector gained 1,305,000 private nonfarm jobs from its recessionary low in February 2010 through March 2014. In February 2014, California finally recovered all of the 1,269,400 private sector jobs that it lost during the July 2007-February 2010 recession.



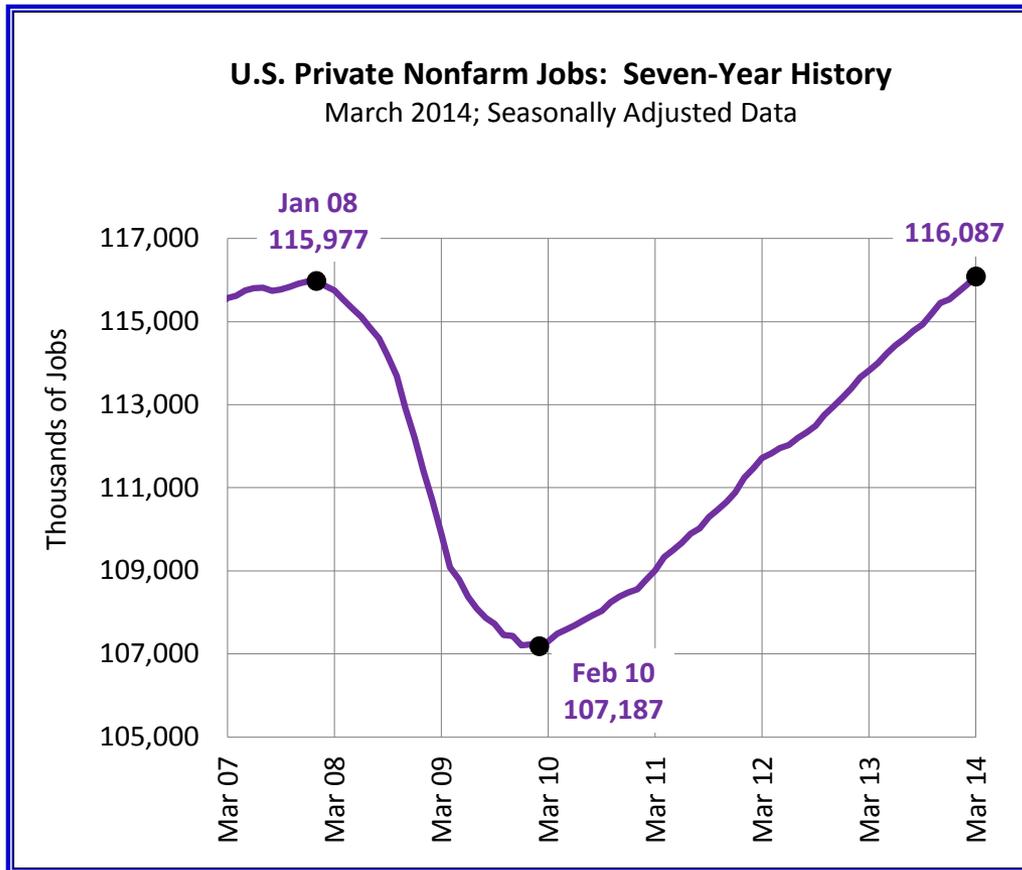
## The Road to Full Recovery

The nation gained 8.3 million nonfarm payroll jobs from February 2010 through March 2014, but remains 437,000 jobs shy of its pre-recession peak in January 2008. As of March 2014, the nation had recovered 95.0 percent of the 8.7 million total nonfarm jobs it lost during the recession (from January 2008 through February 2010).



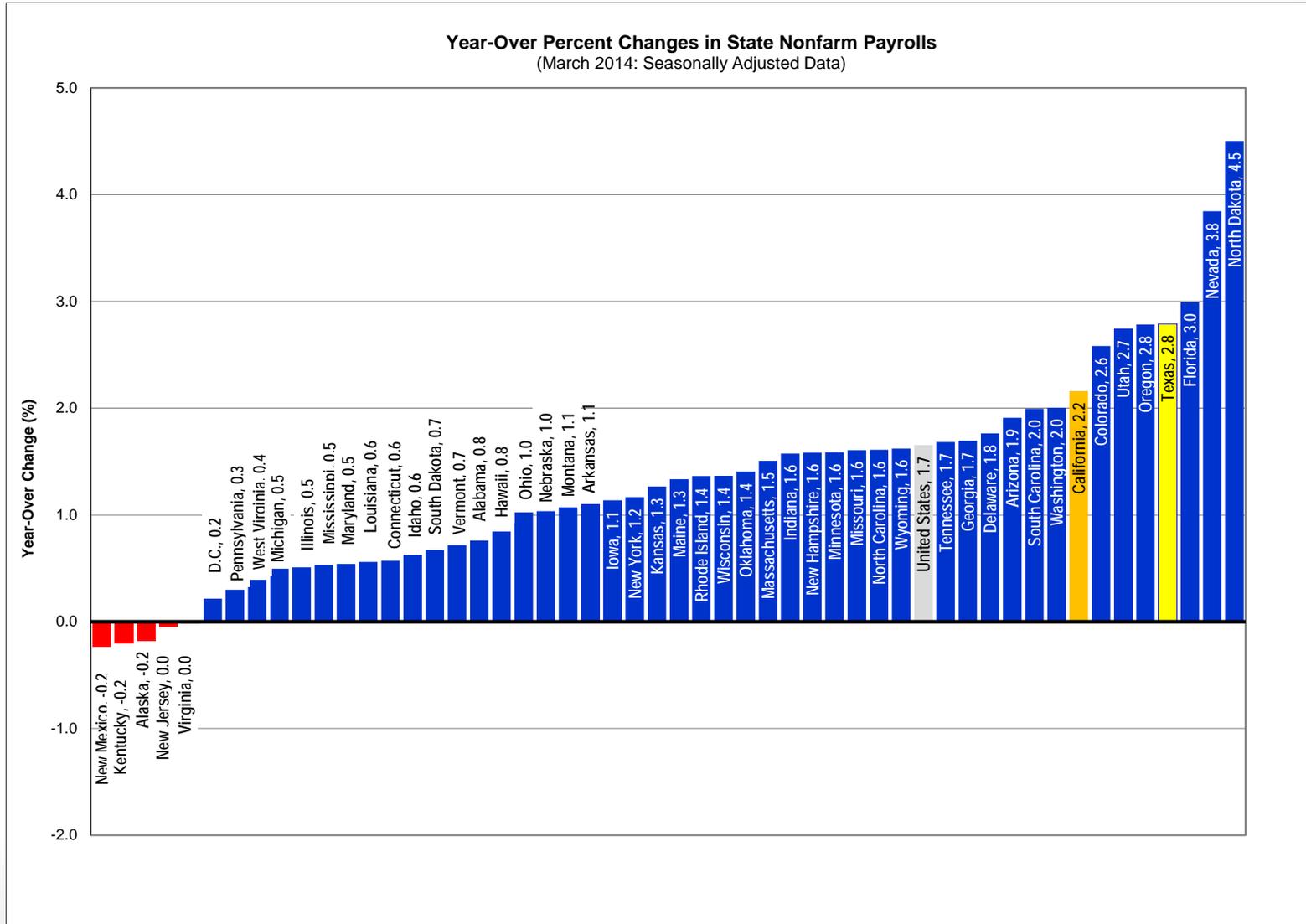
## The Road to Full Recovery.

In March 2014, the U.S. private sector finally recovered all of the 8.7 million private sector jobs it lost during the Great Recession period (from January 2008 through February 2010). The nation's private sector job gains totaled 8.9 million from February 2010 through March 2014.



## States Data

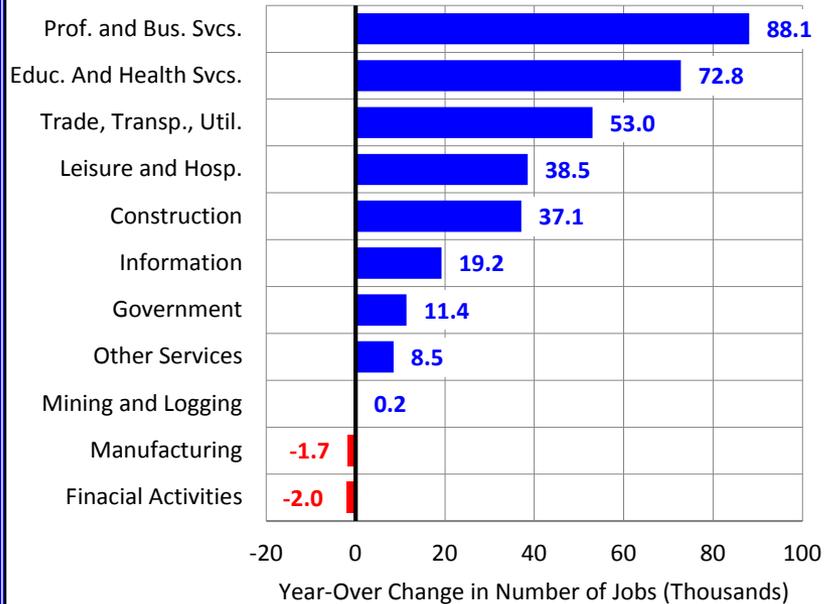
California's 325,100-job year-over gain in March 2014 was the largest of any state. Texas ranked second, with a year-over gain of 310,000 jobs. California's 2.2 percent year-over job gain ranked eighth among states—0.6 ppt. less than 4<sup>th</sup> ranked Texas.



## Year-Over Industry Job Growth in California and Texas, March 2014

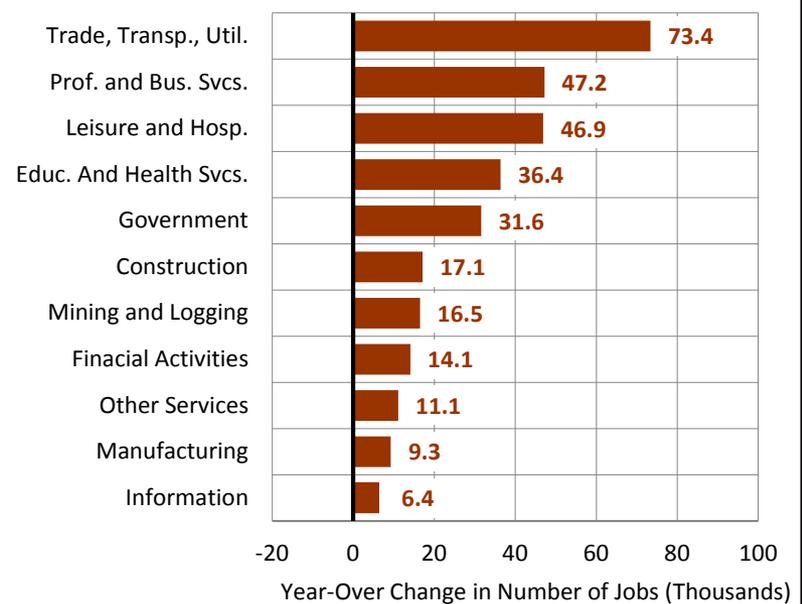
### Year-Over Changes in California Industry Jobs

(March 2014; Seasonally Adjusted Data)



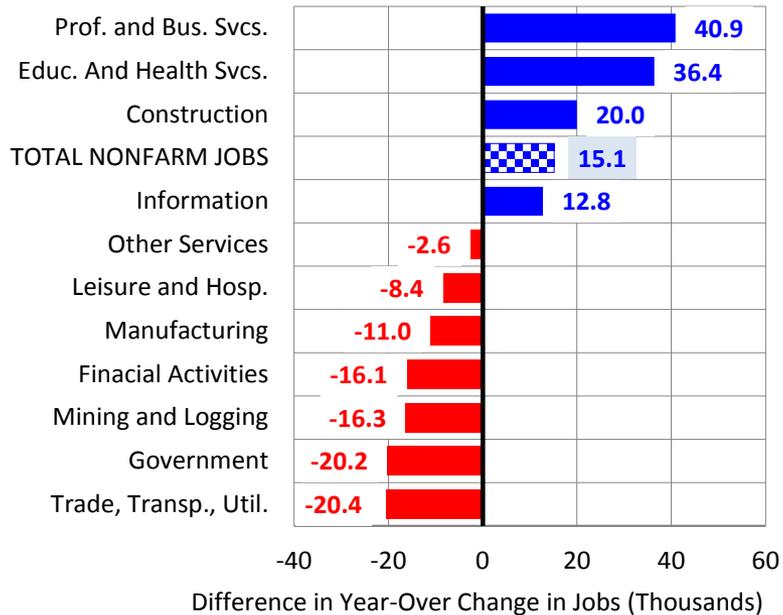
### Year-Over Changes in Texas Industry Jobs

(March 2014; Seasonally Adjusted Data)

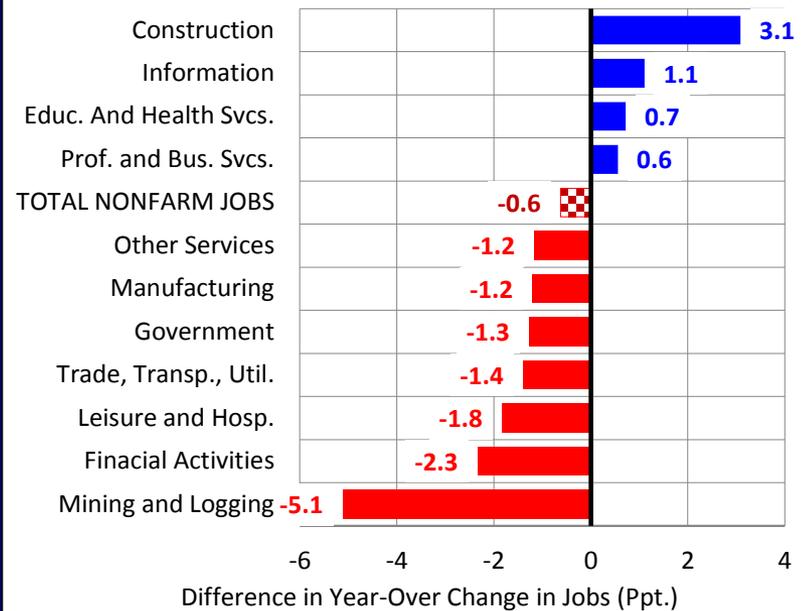


## Difference in Year-Over Industry Growth in March 2014: California less Texas

**California and Texas Year-Over Industry Job Changes Compared: California less Texas**  
(March 2014; Seasonally Adjusted Data)



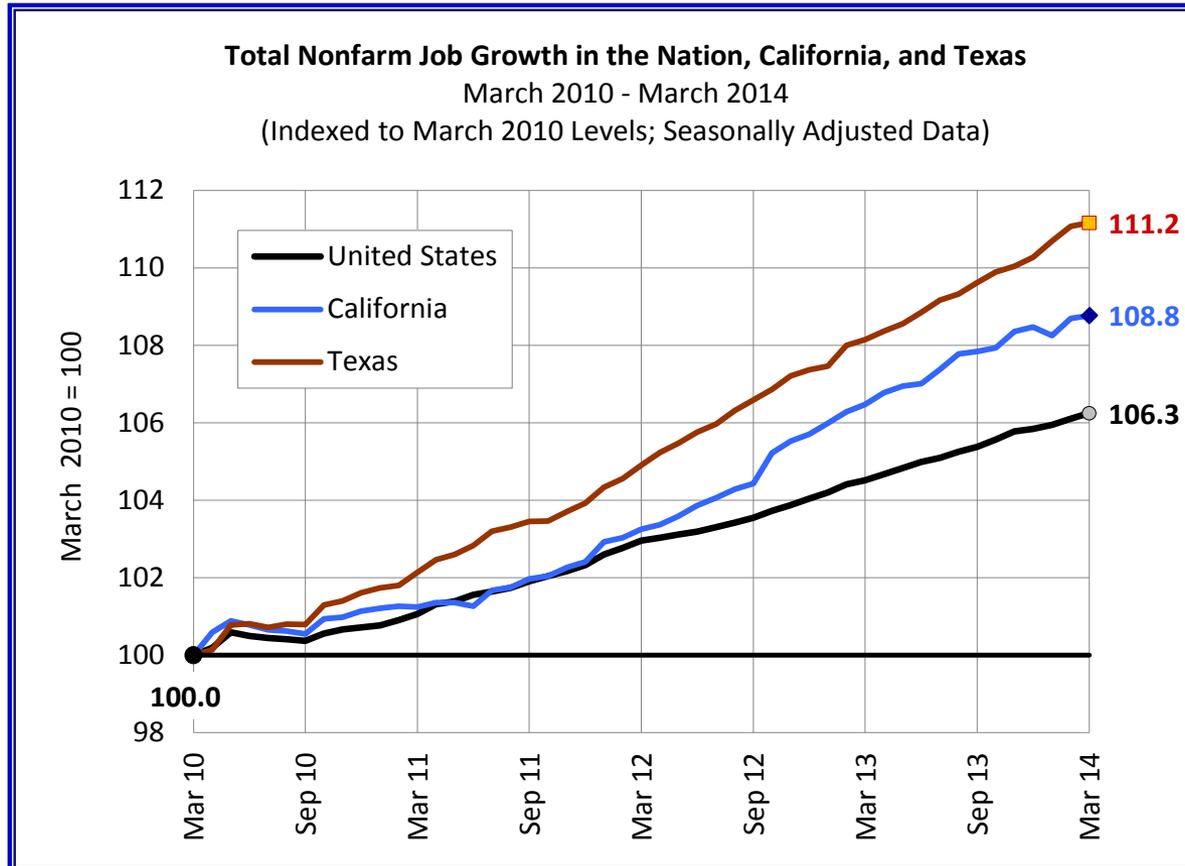
**California and Texas Year-Over Industry Job Changes in Percent Compared: California less Texas**  
(March 2014; Seasonally Adjusted Data)



## Total Nonfarm Job Growth in California, Texas, and the Nation: March 2010 - March 2014

\* California's four-year nonfarm job gains totaled 1,239,700 in March 2014, a gain of 8.8 percent.

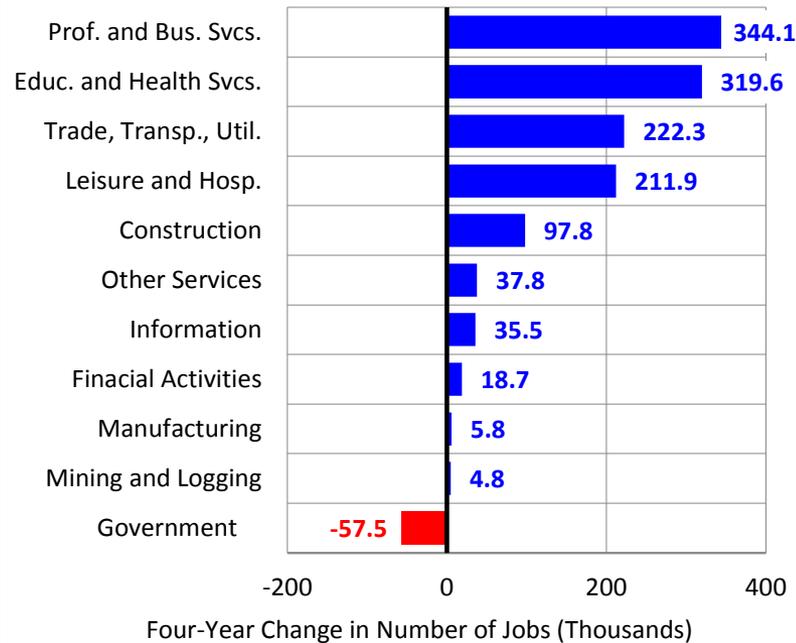
\* Texas' four-year nonfarm job gains totaled 1,146,800 in March 2014, a gain of 11.2 percent.



## Four-Year Change in California and Texas Industry Sector Jobs, March 2014

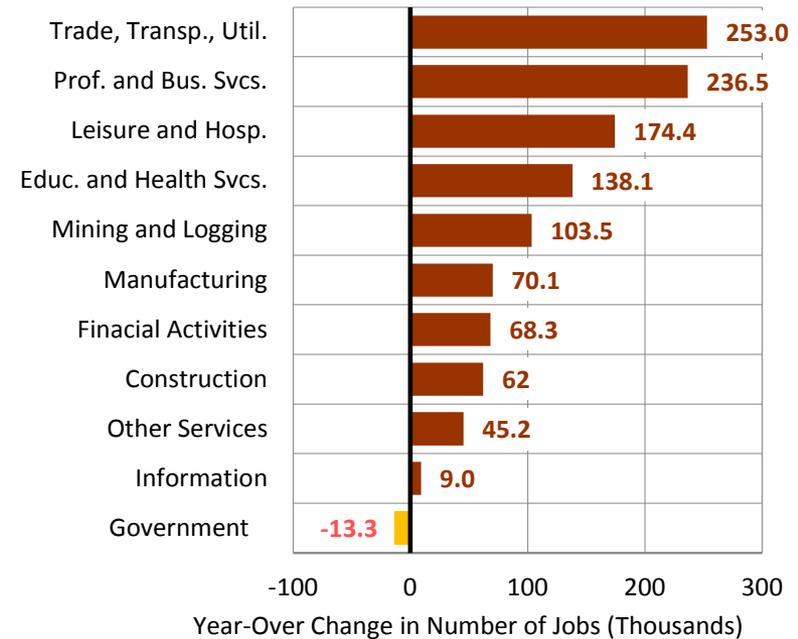
### Four-Year Change in California Industry Jobs

(March 2014; Seasonally Adjusted Data)



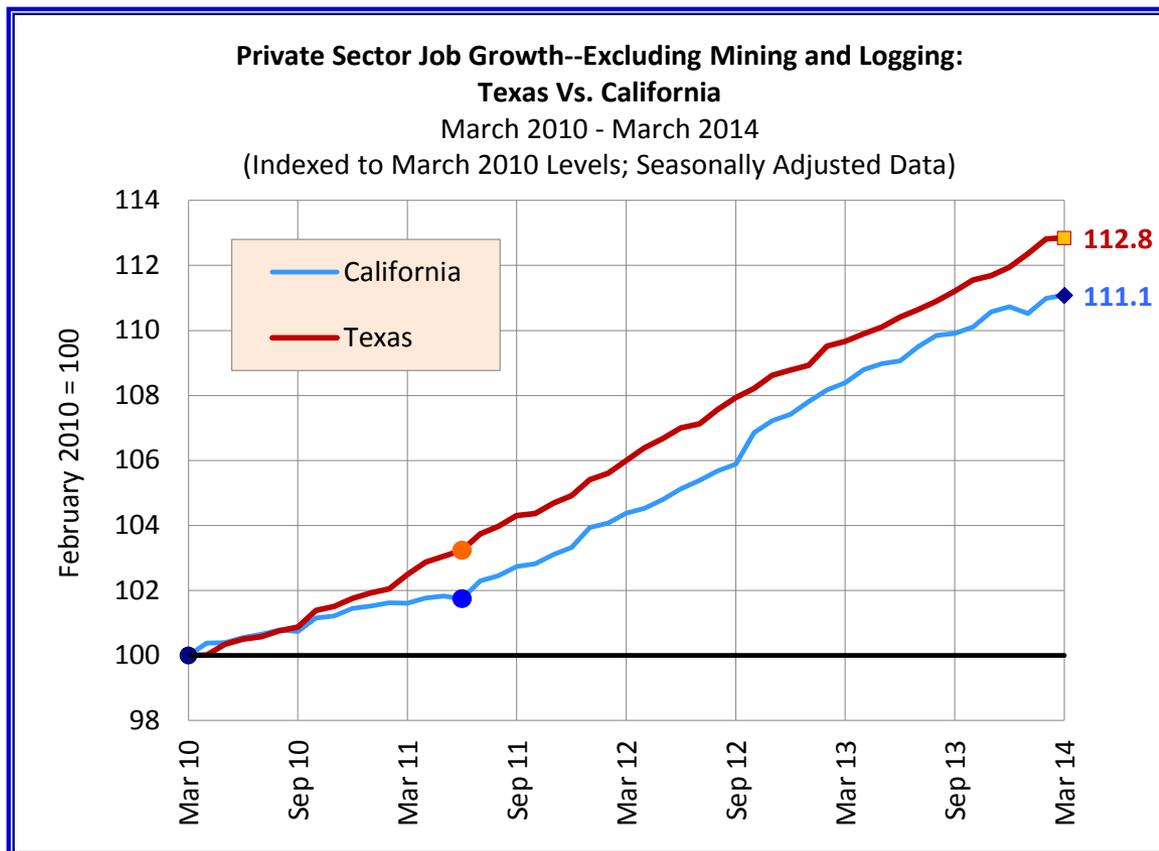
### Four-Year Changes in Texas Industry Jobs

(March 2014; Seasonally Adjusted Data)



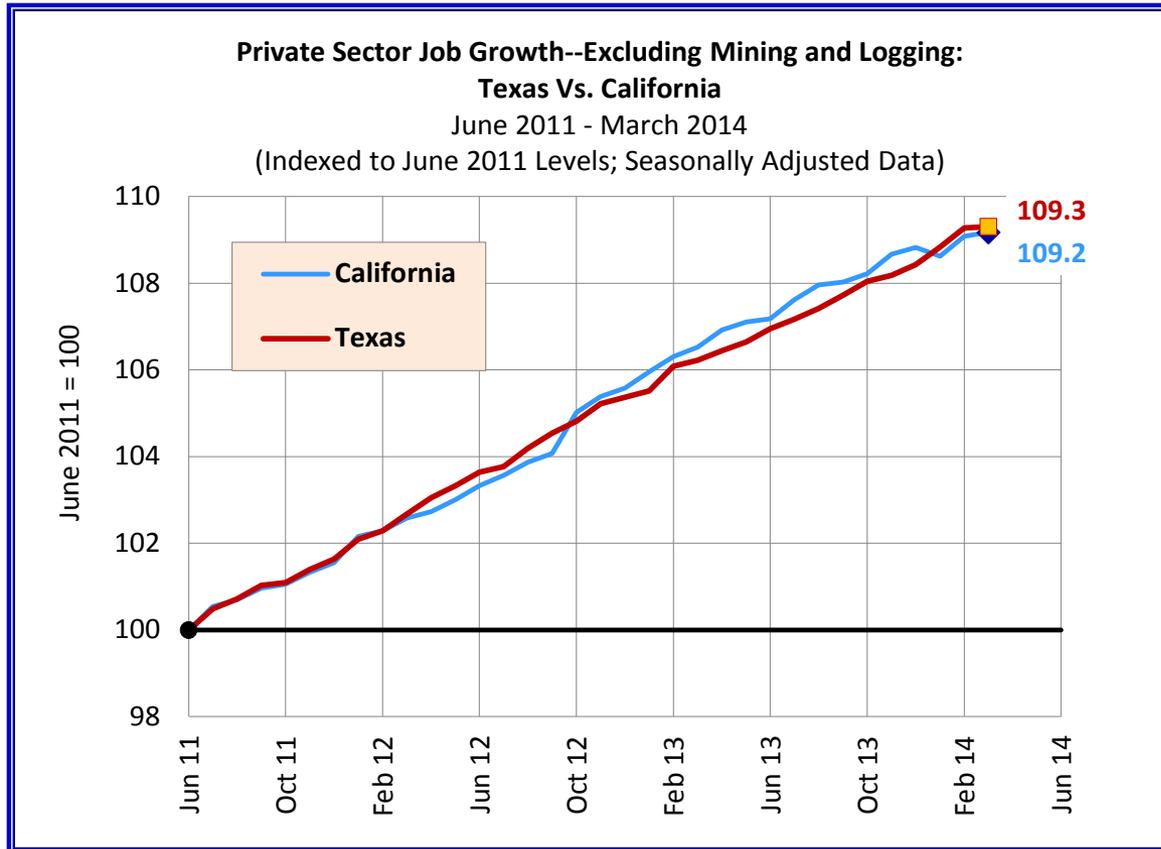
The energy sector has clearly been a boon to Texas economy. The Texas government sector has also fared better than California's over the last four years. How does private sector job growth excluding energy (mining and logging) in California and Texas stack up over the last four years?

➔ Job growth in Texas has still outpaced California's but the gap has narrowed.



## How about over the last 32 months, or since June 2011?

➔ The non-energy private sectors of Texas and California have grown at a nearly identical pace.

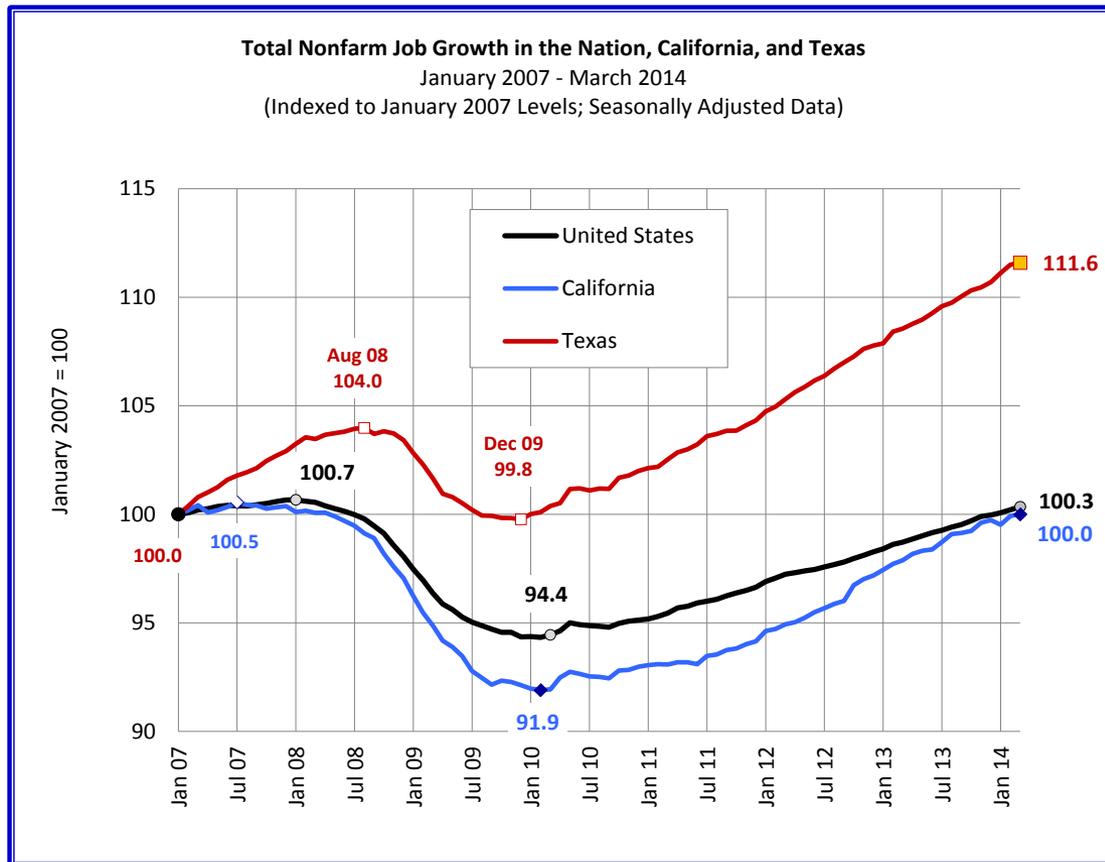


## How have California, Texas, and the nation fared during the current business cycle?

While Texas experienced a bad recession, it was nevertheless much milder than in California and the nation. As a result, the Texas economy was able to recover more quickly and resume expanding.

\* Peak-to-trough job losses in Texas (8/08 to 12/09): 431,000 jobs (4.1 percent)

\* Peak-to-trough job losses in California (07/07 to 2/10): 1,328,800 (9.1 percent)

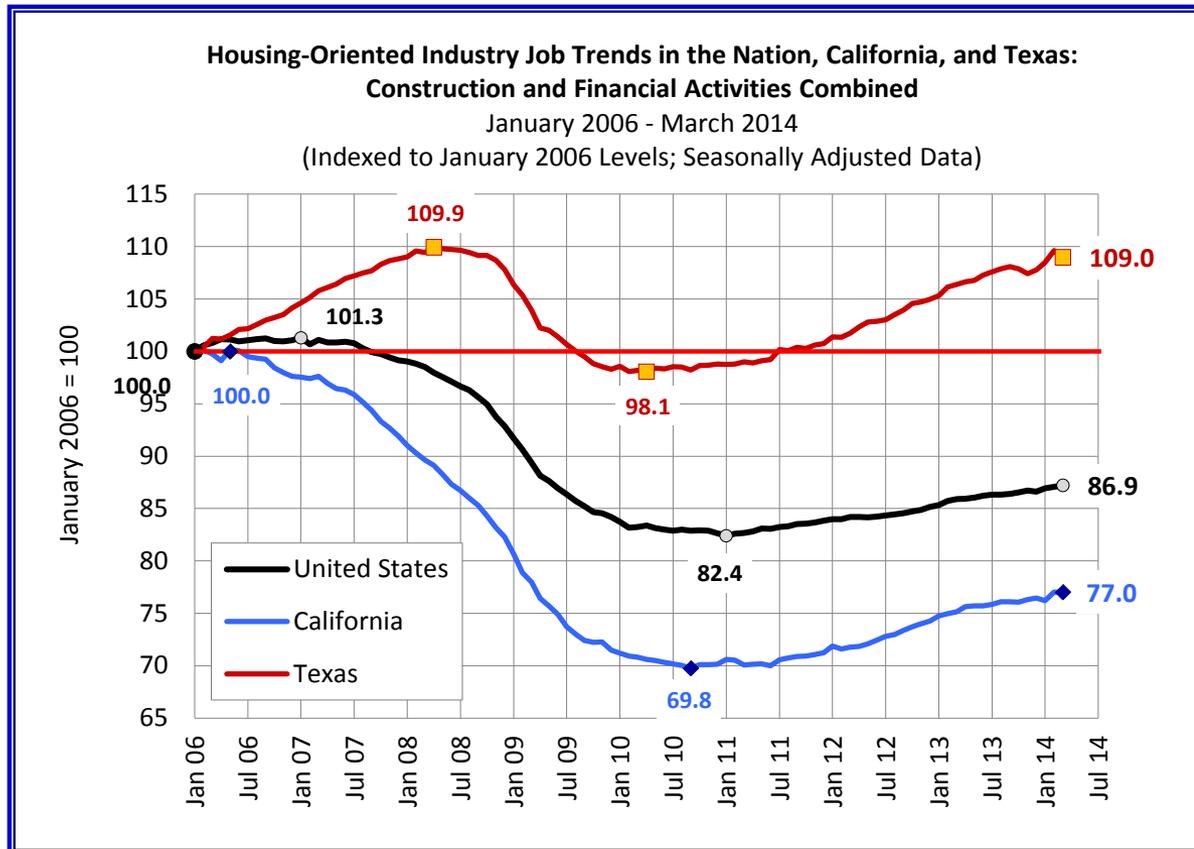


## Primary Recession Effect: Housing and Finance (Construction and financial activities jobs)

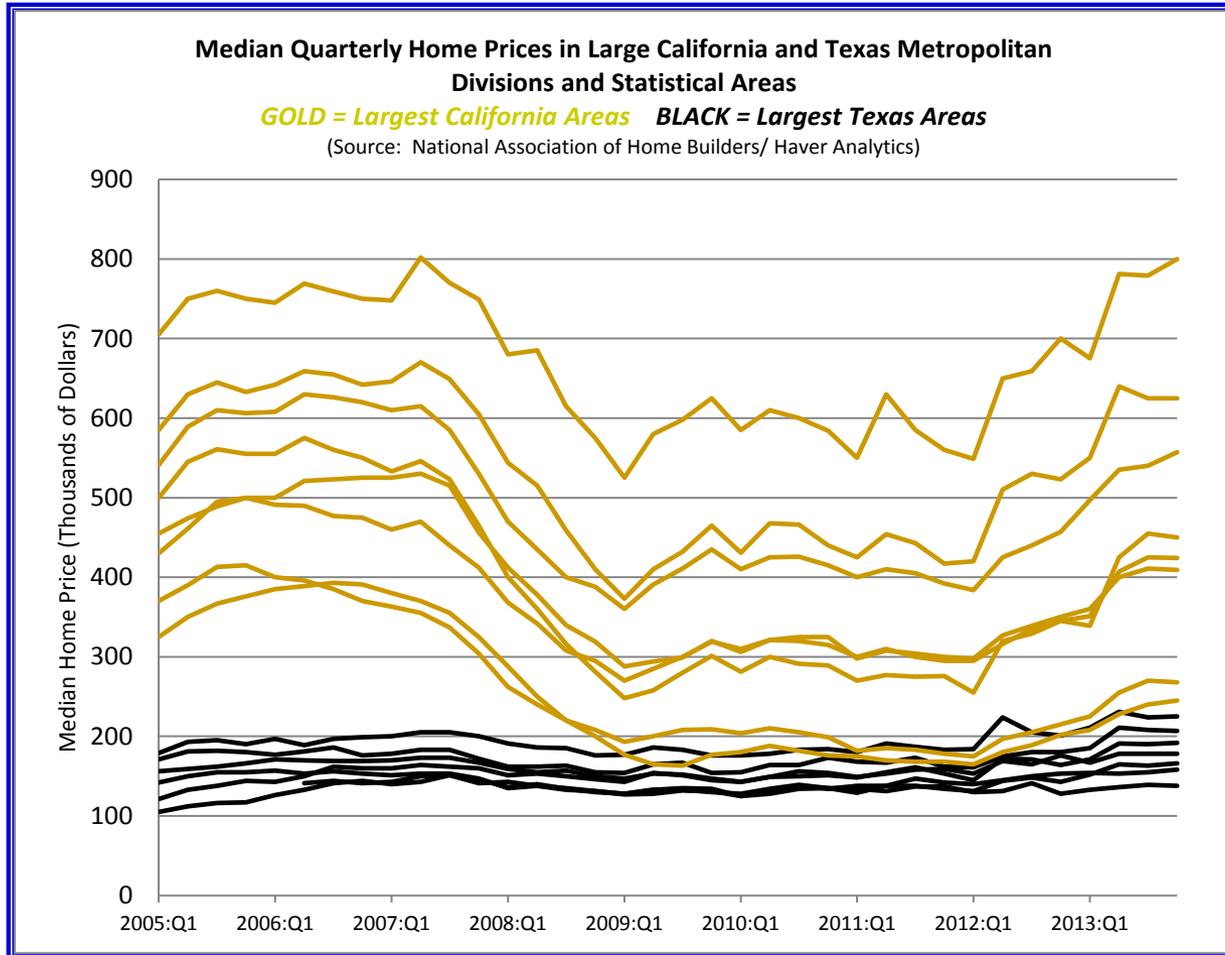
While California was the epicenter of the housing crisis, Texas escaped comparatively unscathed.

\* Peak-to-trough job losses in Texas (4/08 to 4/10): 431,000 jobs (10.8 percent)

\* Peak-to-trough job losses in California (03/07 to 9/10): 521,900 (28.5 percent)



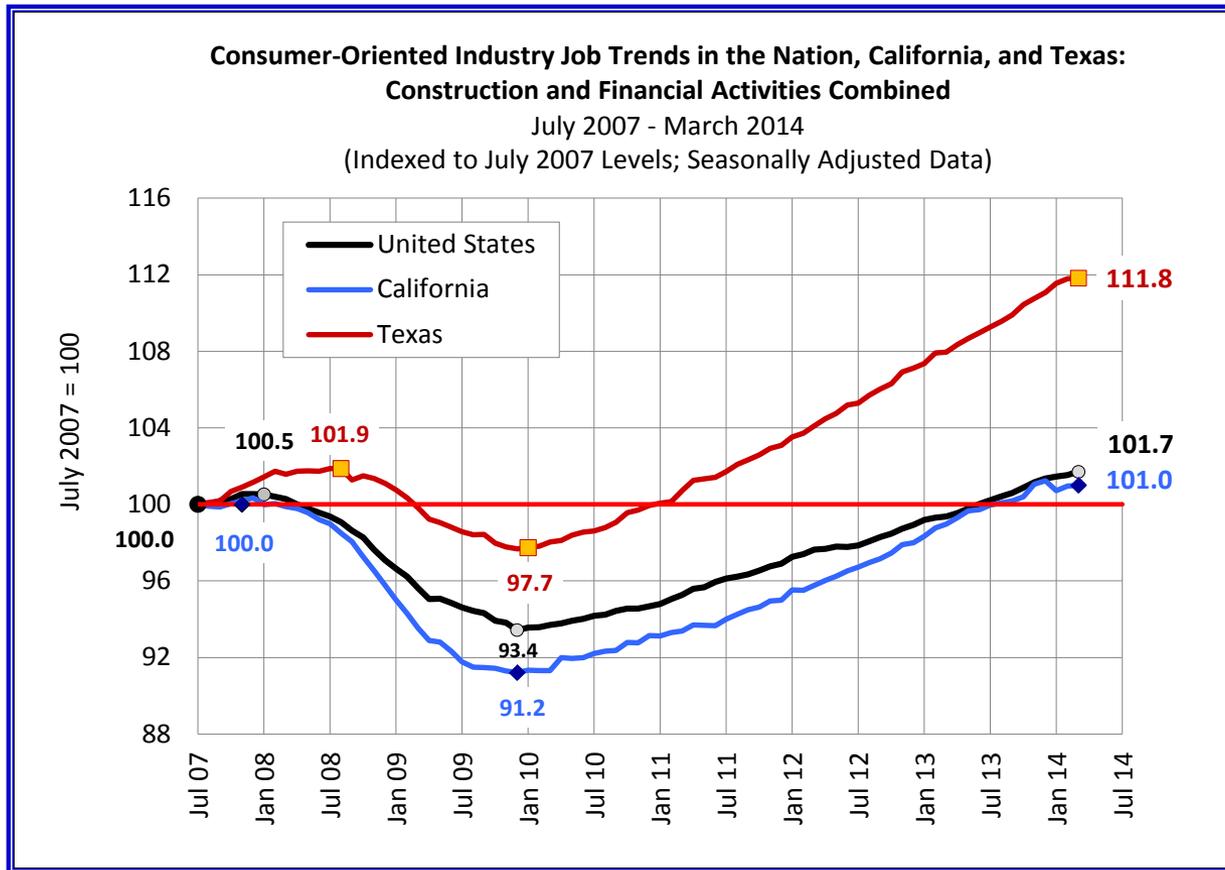
## Median Home Prices in Large Texas and California Areas Since 2005



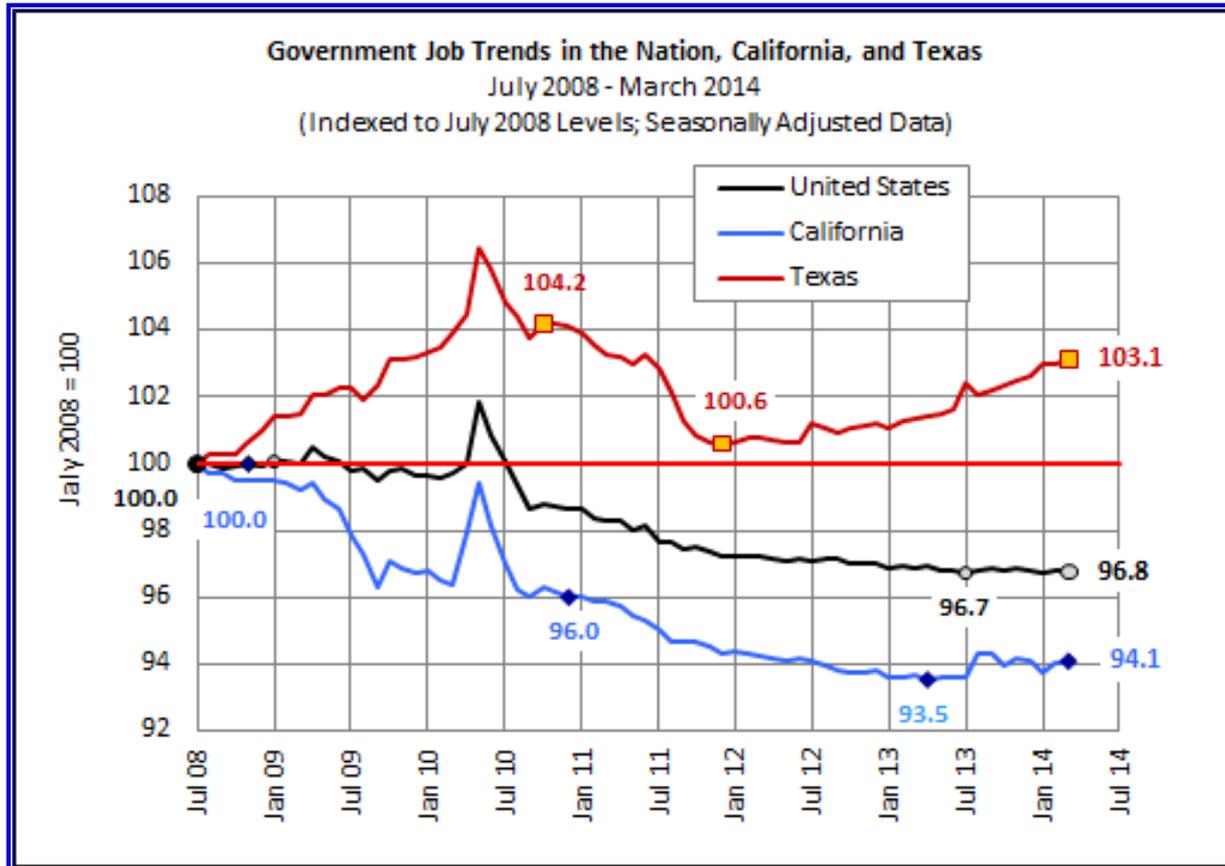
## Secondary Recession Effect: The Consumer Economy (Trade, transportation, and utilities; and leisure and hospitality jobs)

\* Peak-to-trough job losses in Texas (7/08 to 12/10): 129,900 jobs (4.1 percent)

\* Peak-to-trough job losses in California (11/07 to 12/09): 402,000 (9.0 percent)



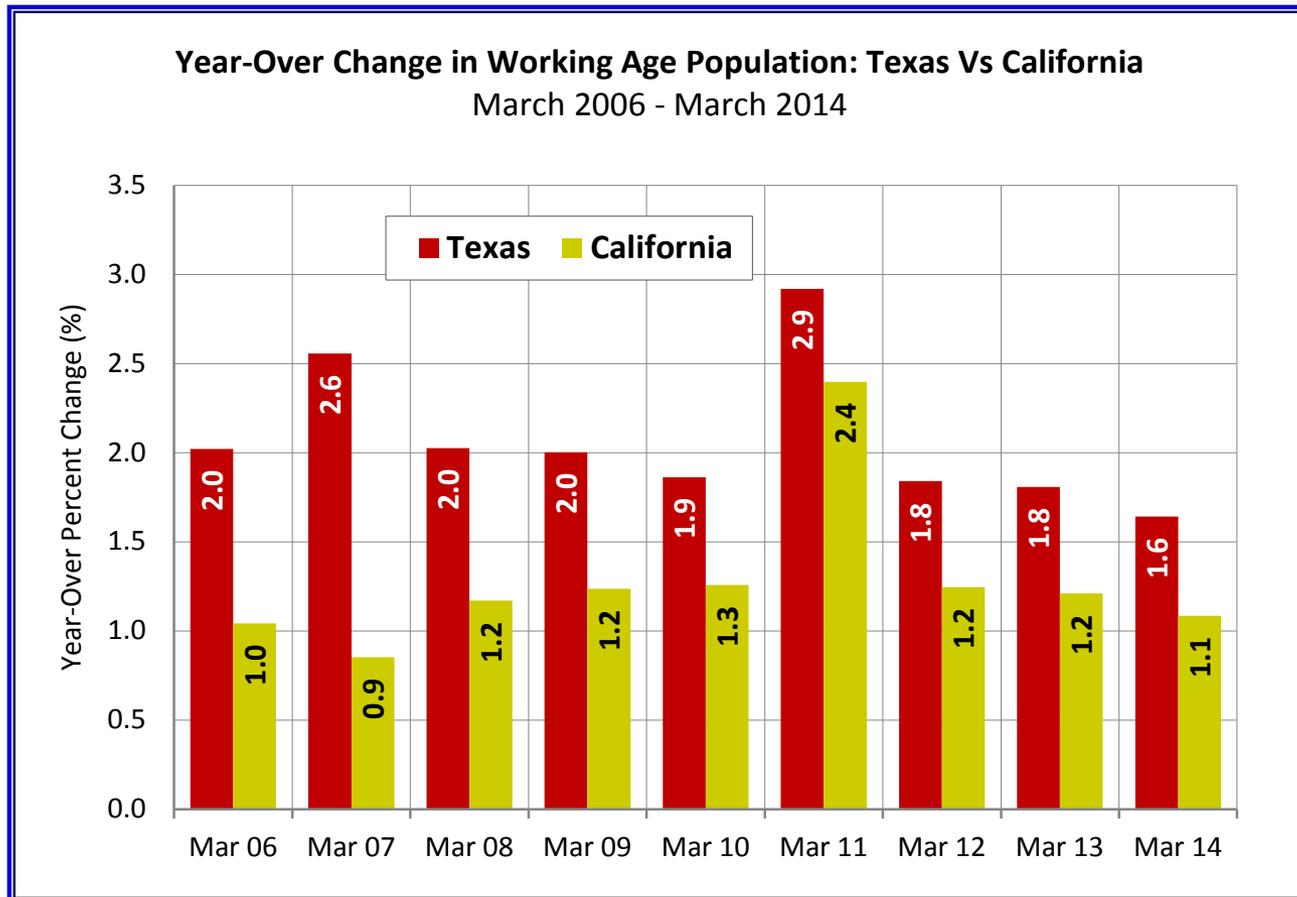
## Tertiary Recession Effects: The Public Sector (Government Jobs)



## What else is different between California and Texas?

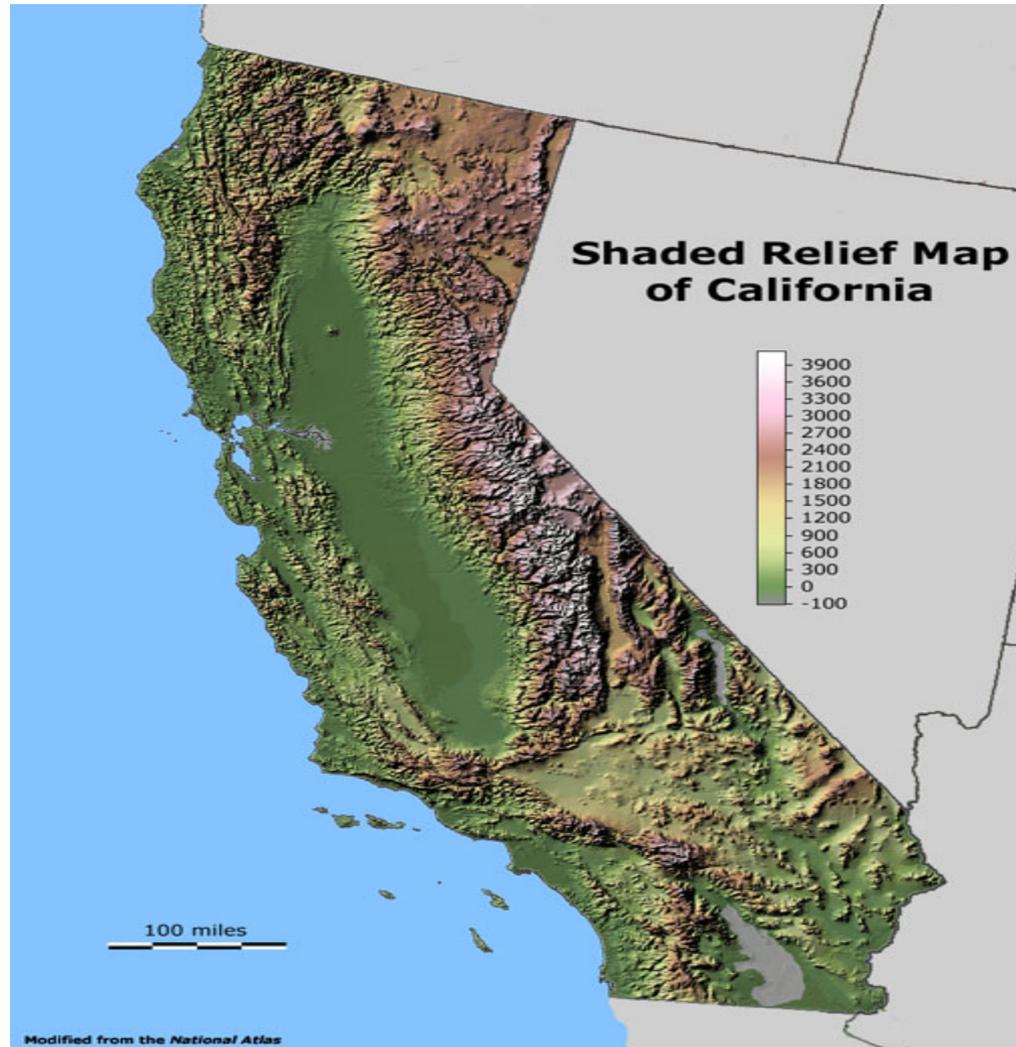
Texas has stronger population growth, which generates more economic activity.

- \* Affordable housing and lower cost of living.
- \* Educated workers attracted from other states.



What is most fundamentally different between Texas and California? Geography (land).

California is full...



What is most fundamentally different between Texas and California? Geography (land).

Texas is not...

