

Economic Update

LMID Advisory Group

February 4, 2016

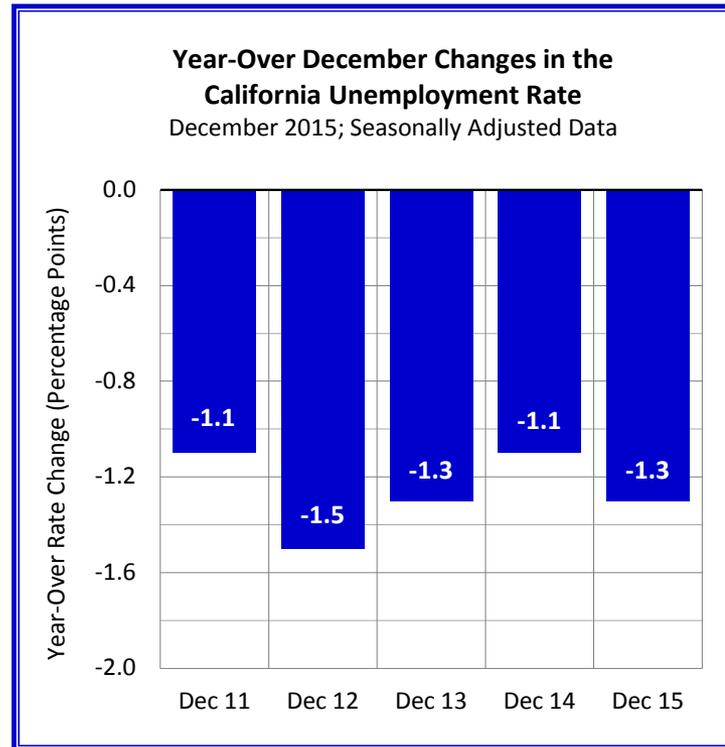
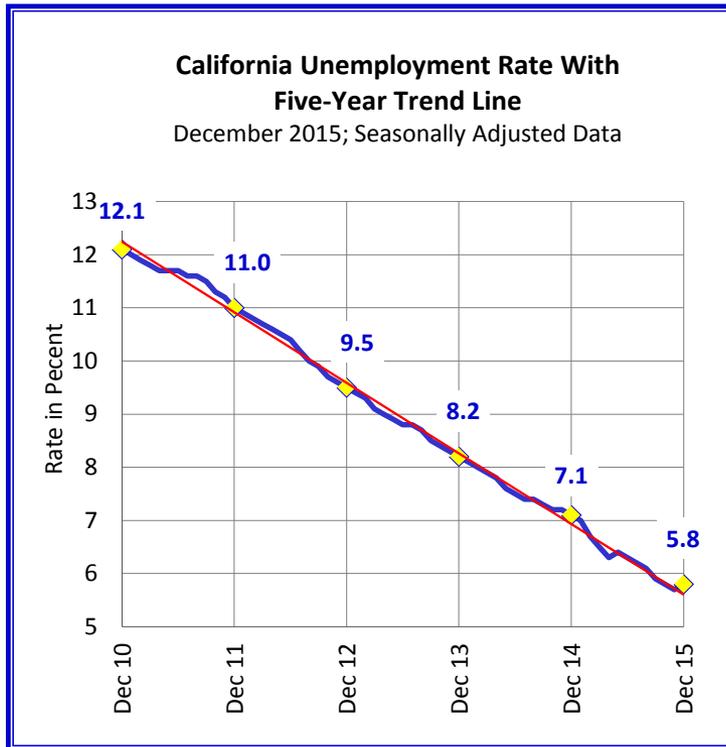
Paul Wessen

Employment Development Department

Labor Market information Division

Unemployment Rate

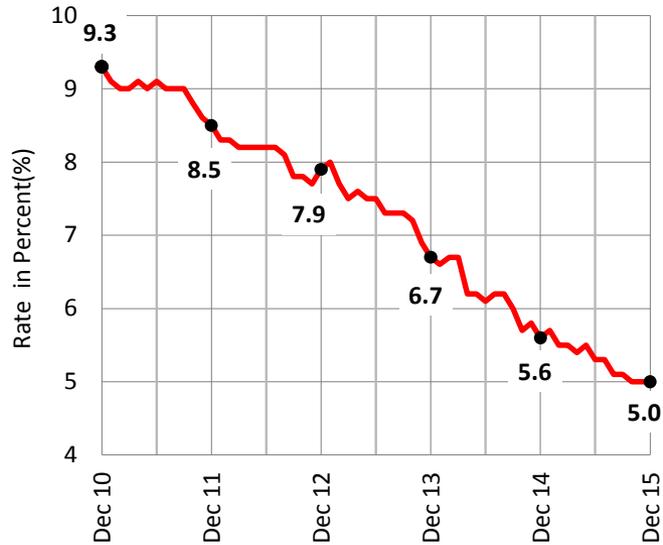
California's unemployment rate nudged up 0.1 percentage point to 5.8 percent in December 2015. This was only the second time in the last 63 months that California has experienced an unemployment rate increase. The other increase occurred in May 2015. California's unemployment rate has decreased at a rapid but consistent pace over the last five years, as shown by the trend line in the chart below.



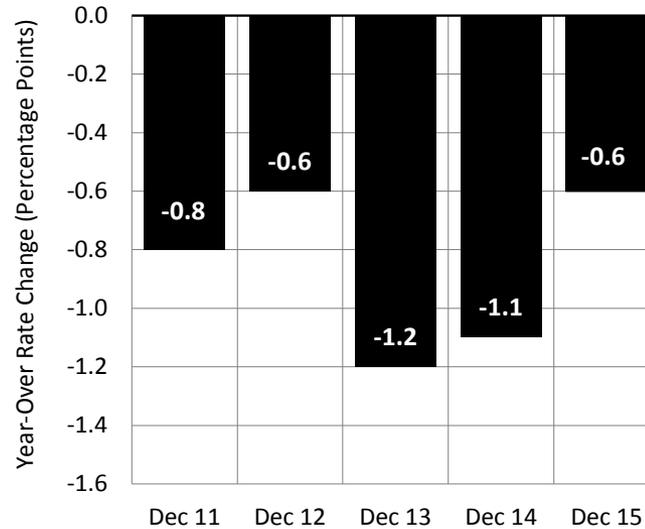
Unemployment Rate

The U.S. unemployment rate was 5.0 percent in December 2015, which is the same it has been for three months. The U.S. rate has decreased at a slower rate than California's over the last five years.

U.S. Unemployment Rate: Five-Year Trend
December 2015; Seasonally Adjusted Data

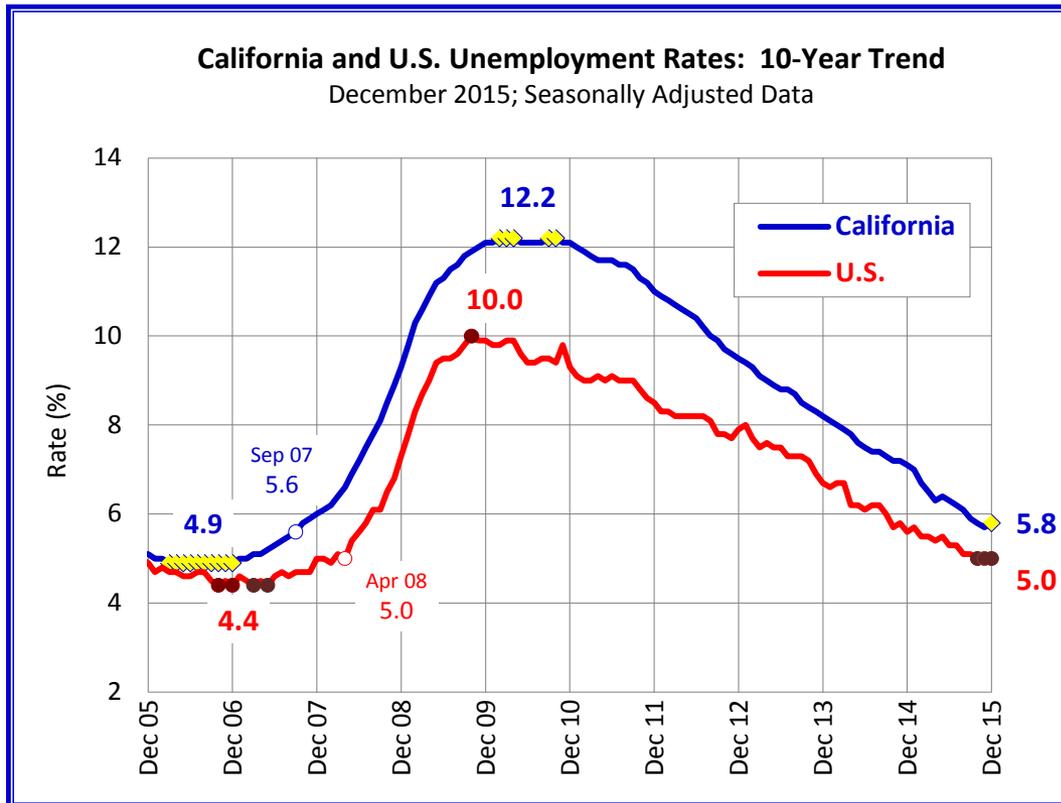


Year-Over Changes in the U.S. Unemployment Rate
December 2015; Seasonally Adjusted Data



Unemployment Rate

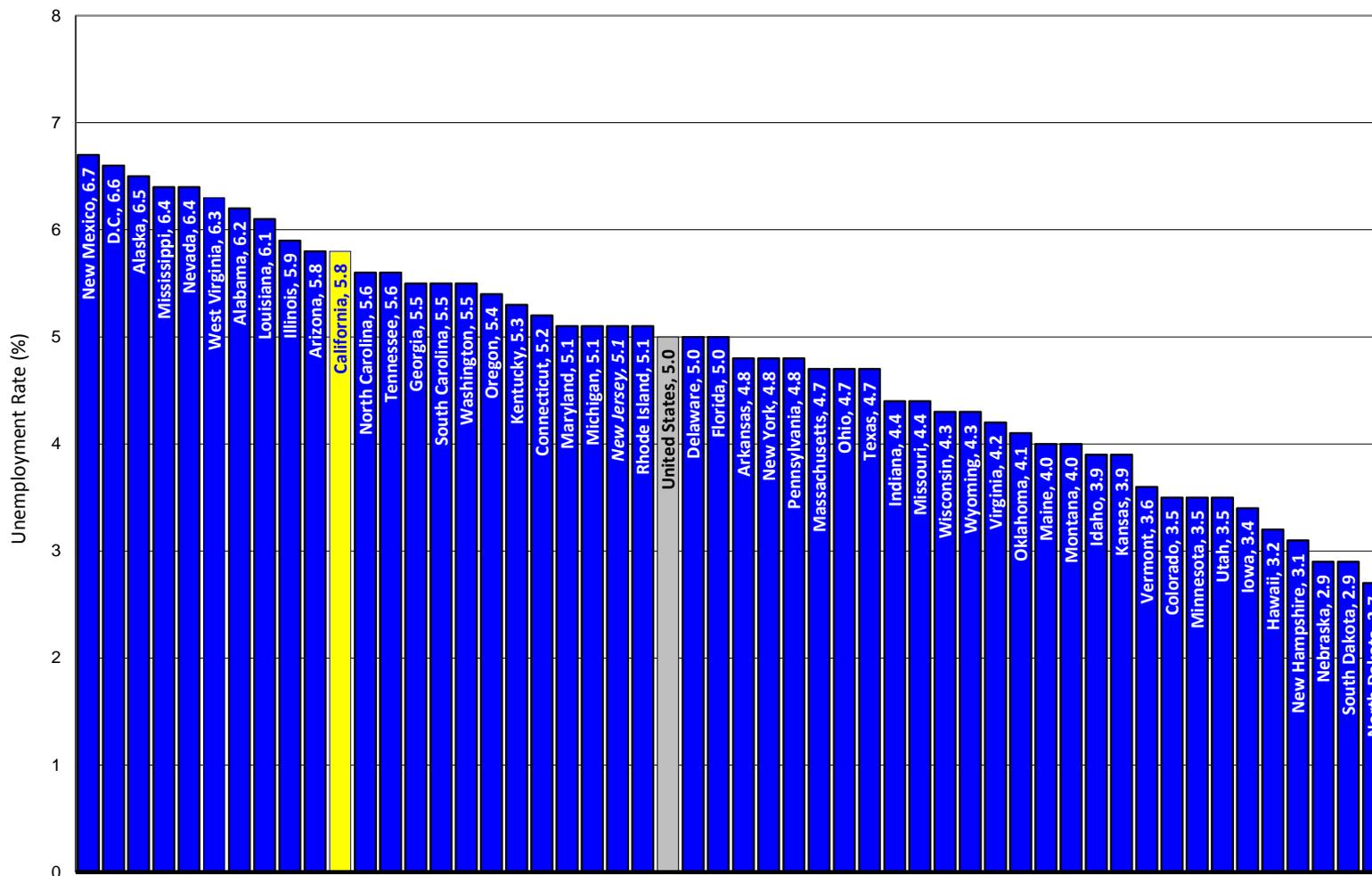
Unemployment in California and the nation is at an eight-year low. In December 2015, California's unemployment rate was 6.4 percentage points lower than its recessionary peak and had closed to within 0.9 percentage point of its pre-recession low. The U.S. rate was 5.0 percentage points lower than its recessionary peak and had closed to within 0.6 percentage point of its pre-recession low.



In December 2015, California tied with Arizona to have the nation's 10th highest unemployment rate. It had the nation's second highest rate at the height of the recession.

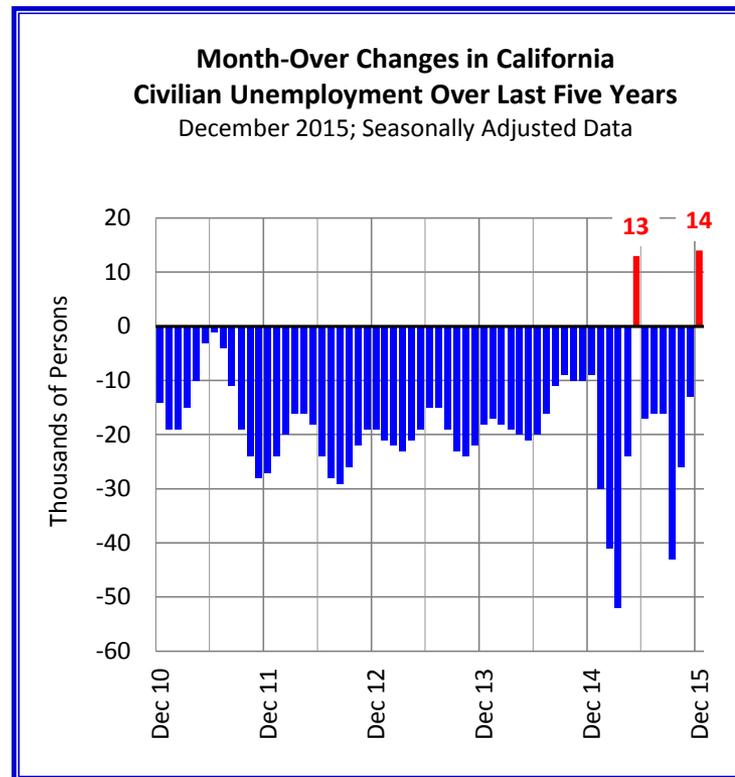
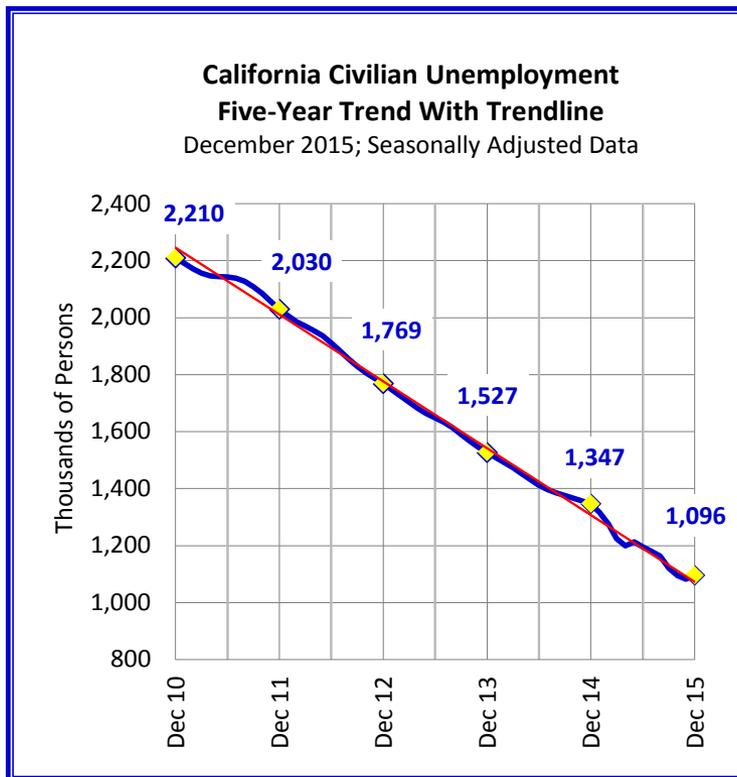
State Unemployment Rates, December 2015

(Seasonally Adjusted Data)



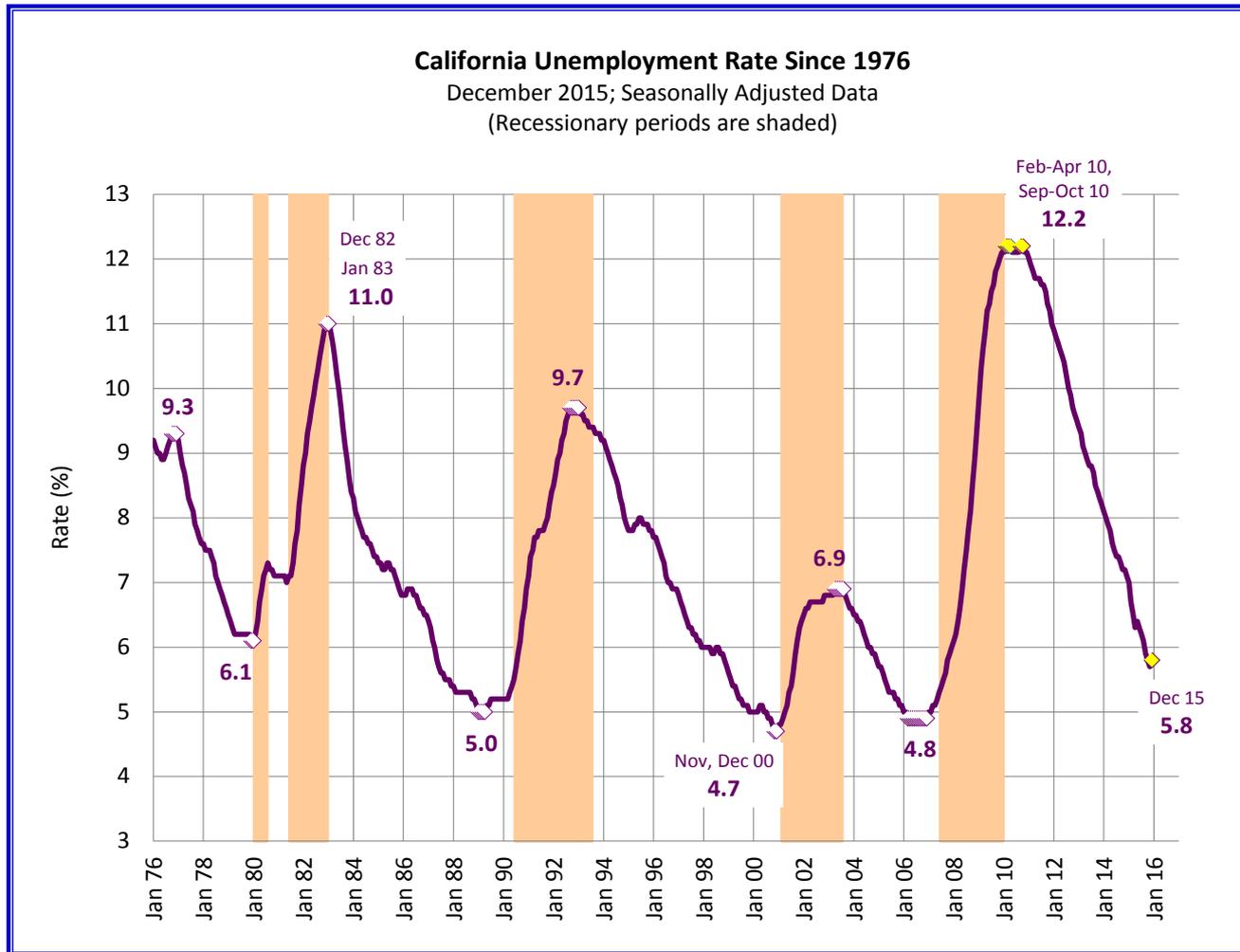
Civilian Unemployment

The number of unemployed Californians increased for just the second time in the last 62 months in December 2015, rising by 14,000 persons to 1,096,000. From its peak in October 2010 through December 2015, the number of unemployed Californians fell by 1,135,000 persons. During the recession, the number of unemployed Californians increased by 1,372,000 from September 2006 through October 2010.



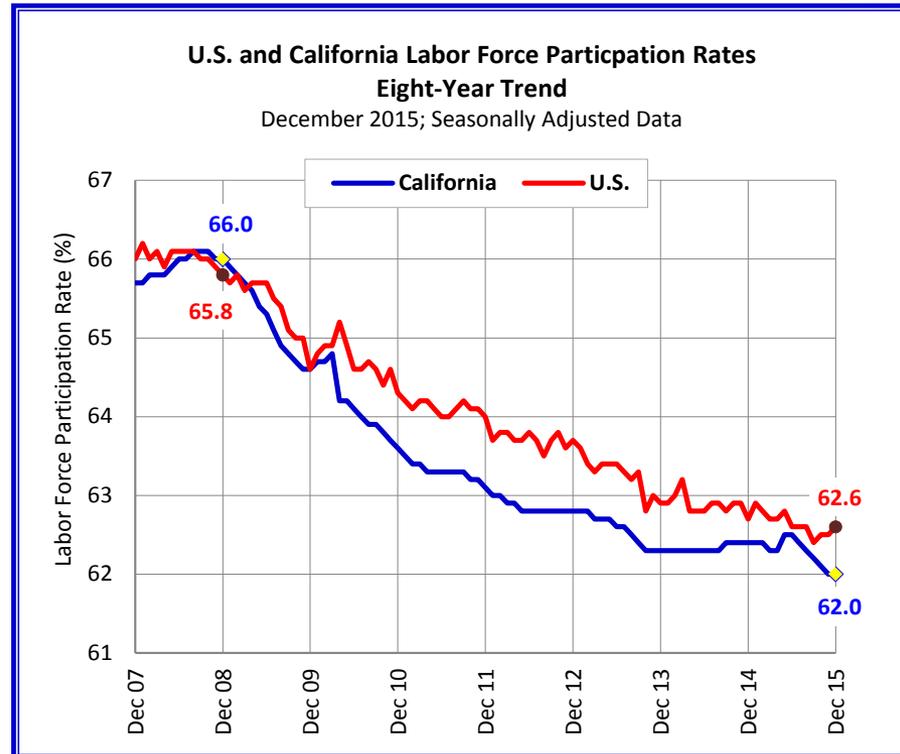
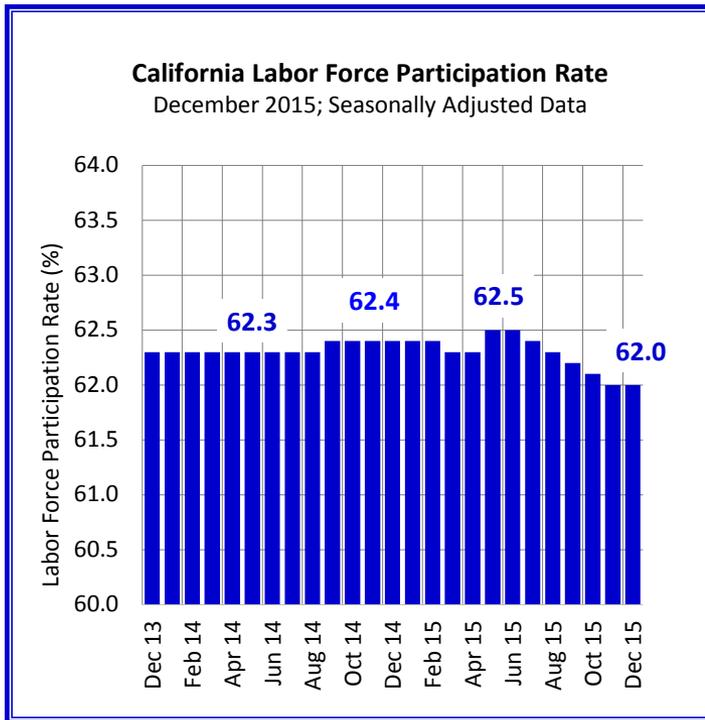
California Unemployment Rate Since 1976

How much longer can the decreasing trend last?



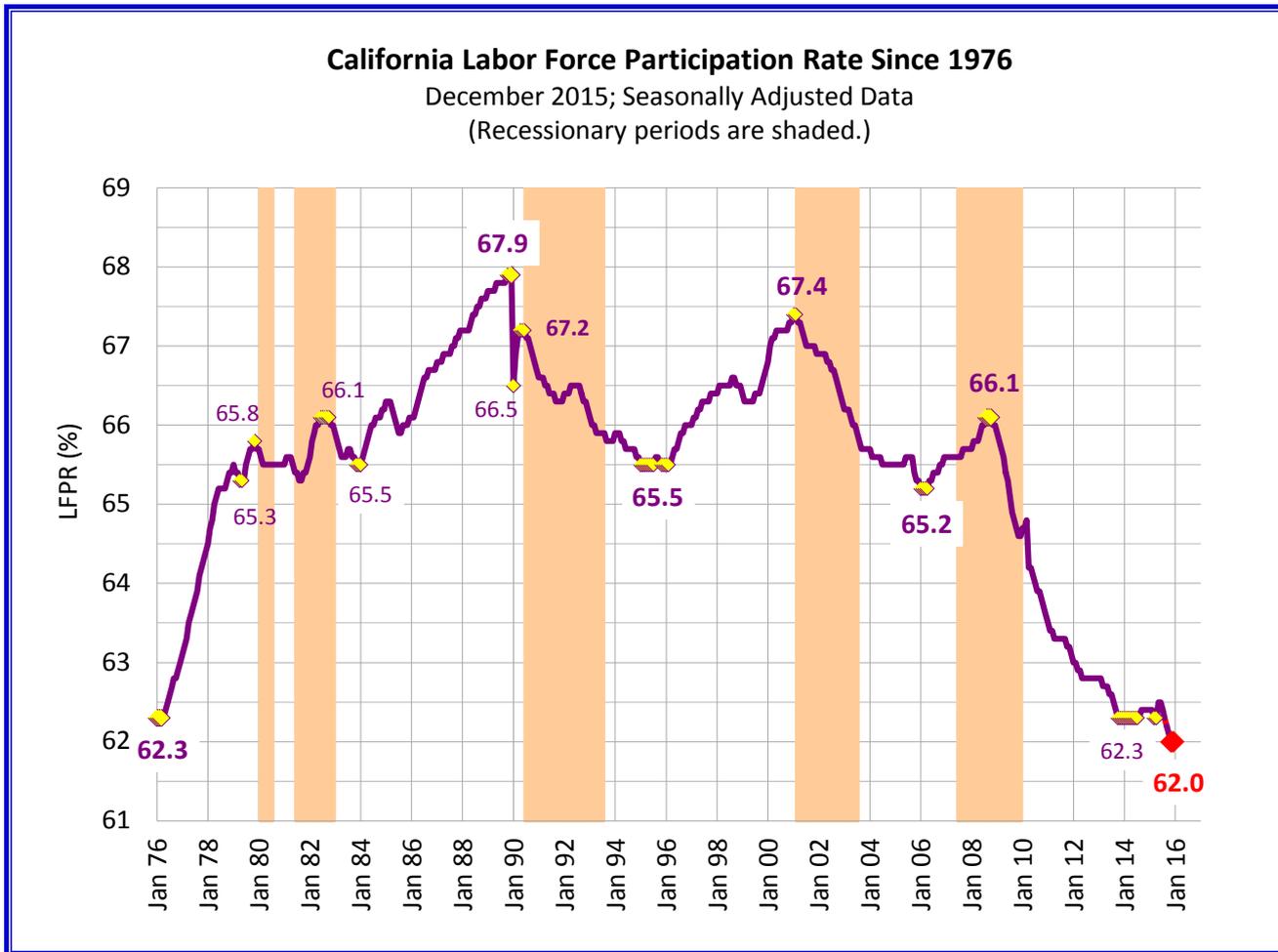
Labor Force Participation Rates

After a lengthy period of stability, the labor force participation rate in California has fallen in recent months. Several years of sustained economic expansion have not reversed a long-term trend of falling labor force participation in California and the nation.



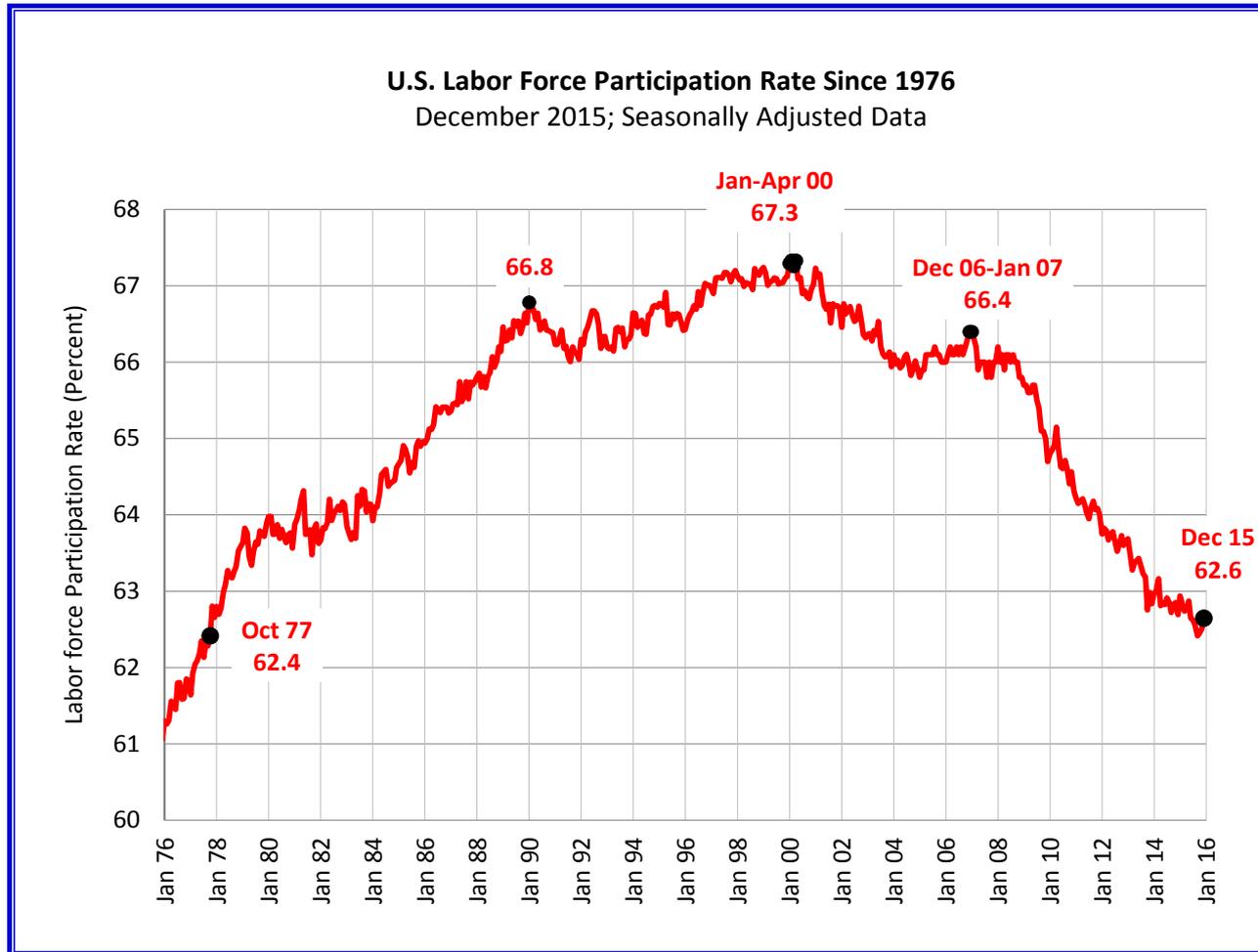
Labor Force Participation

At just 62.0 percent, California's labor force participation rate in November and December 2015 was the lowest on record in a series dating back to the beginning of 1976.



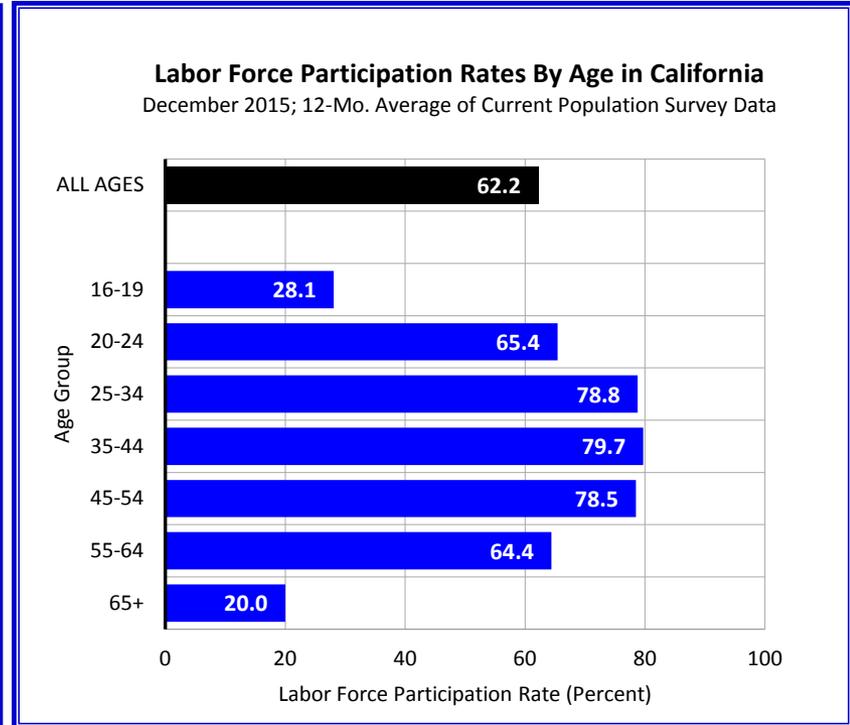
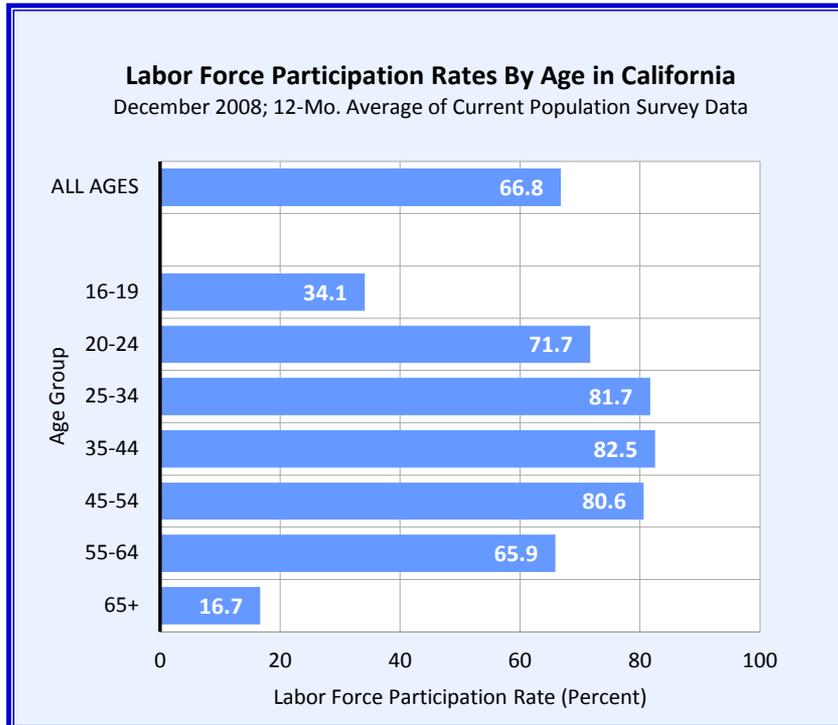
Labor Force Participation

The U.S. labor force participation rate is hovering at its lowest level in over 38 years.



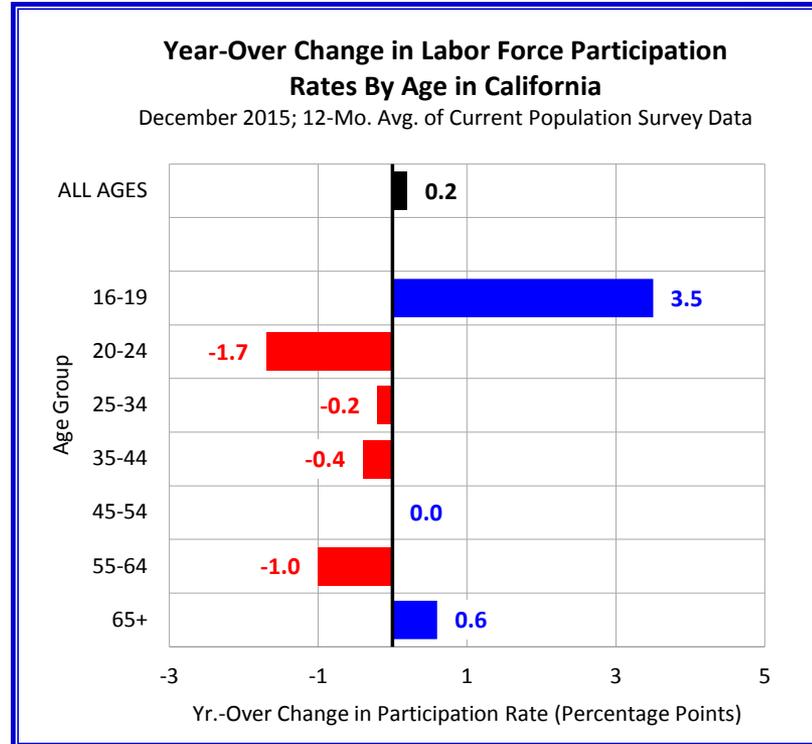
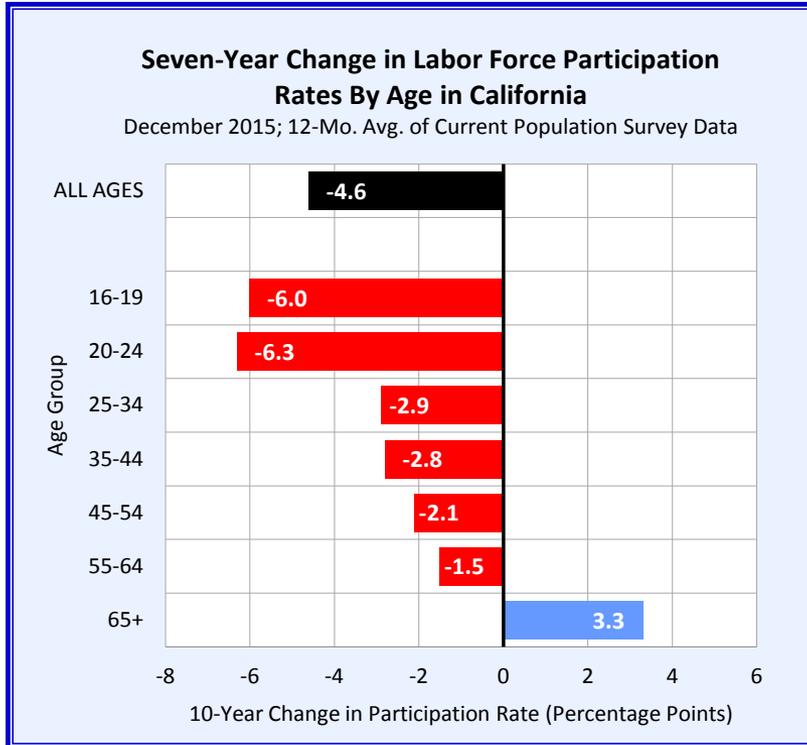
Do historically labor force participation rates signal weakness within the labor market or are demographic factors at play?

Labor Force Participation Rates by Age in California



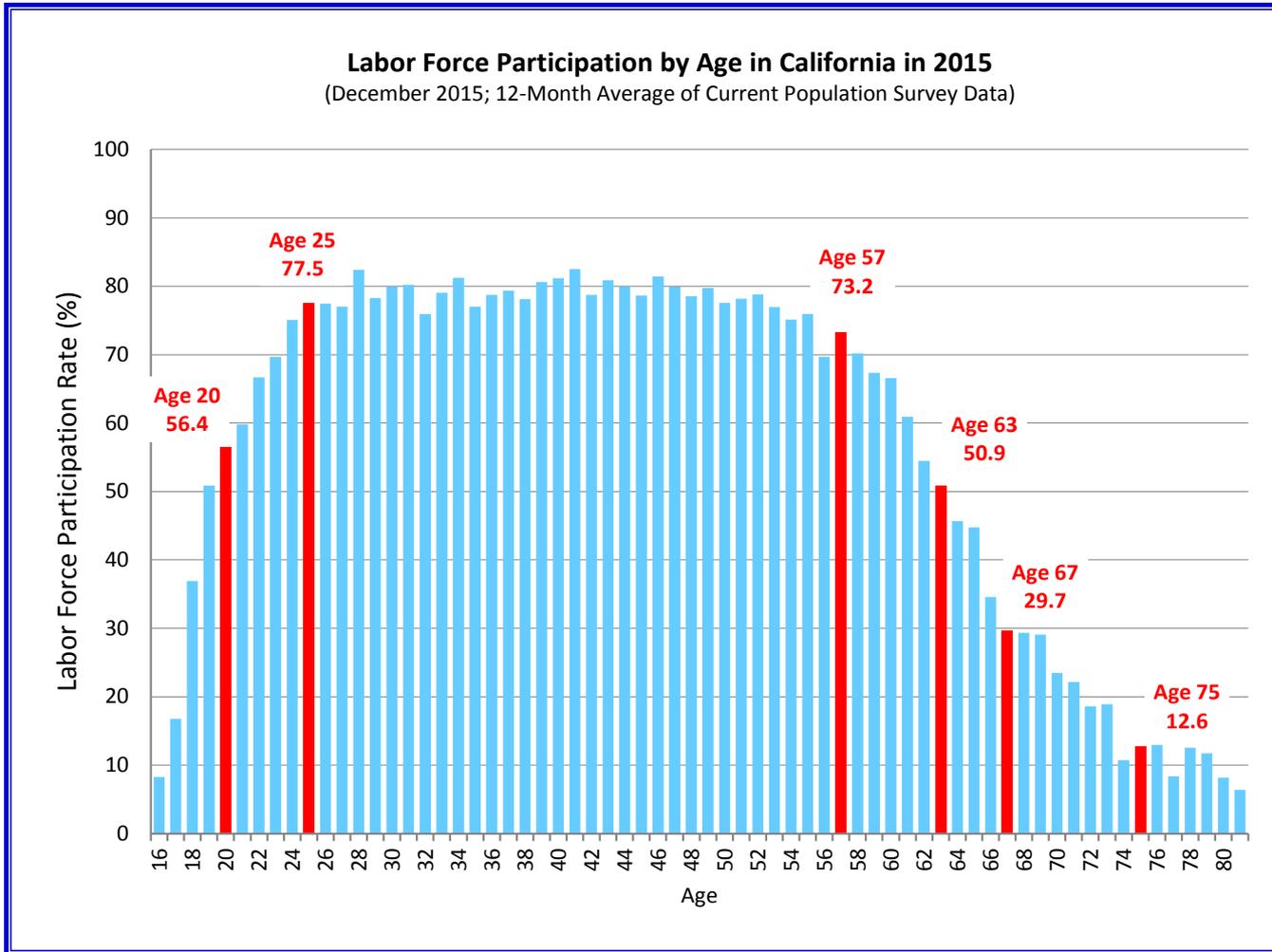
Labor Force Participation Rates by Age in California: Year-Over and Seven-Year Change

Declining labor force participation among prime working age groups suggests that there is still some lingering disillusionment in the labor market...



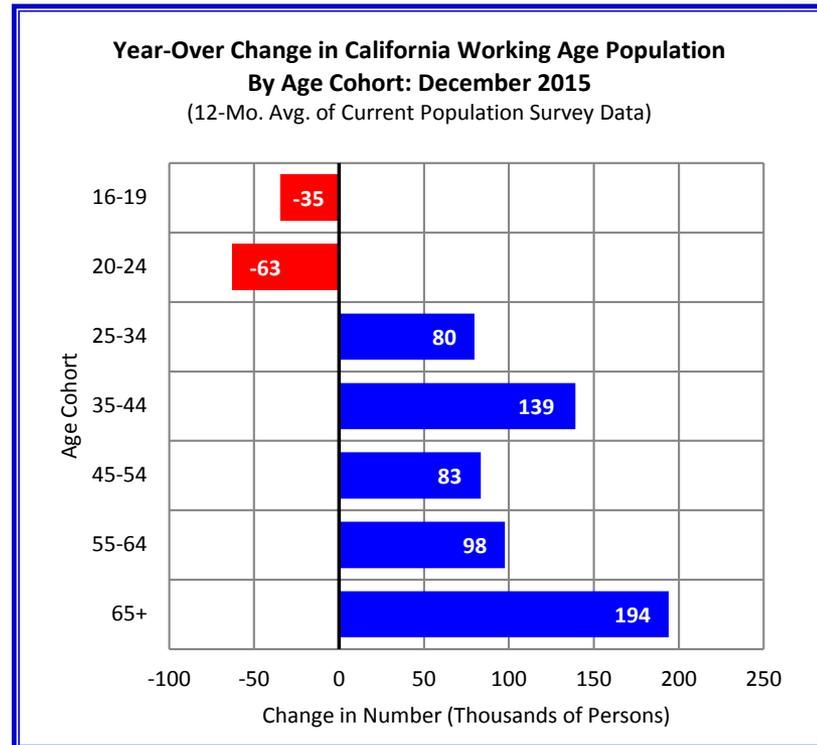
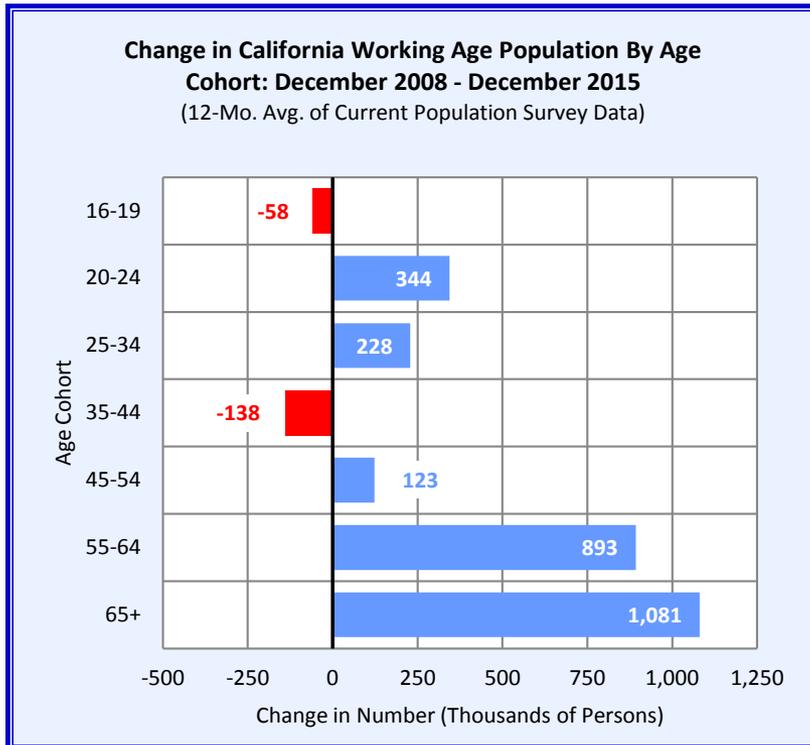
Labor Force Participation Rates by Age in California

...but demographic changes play a large role in the story.



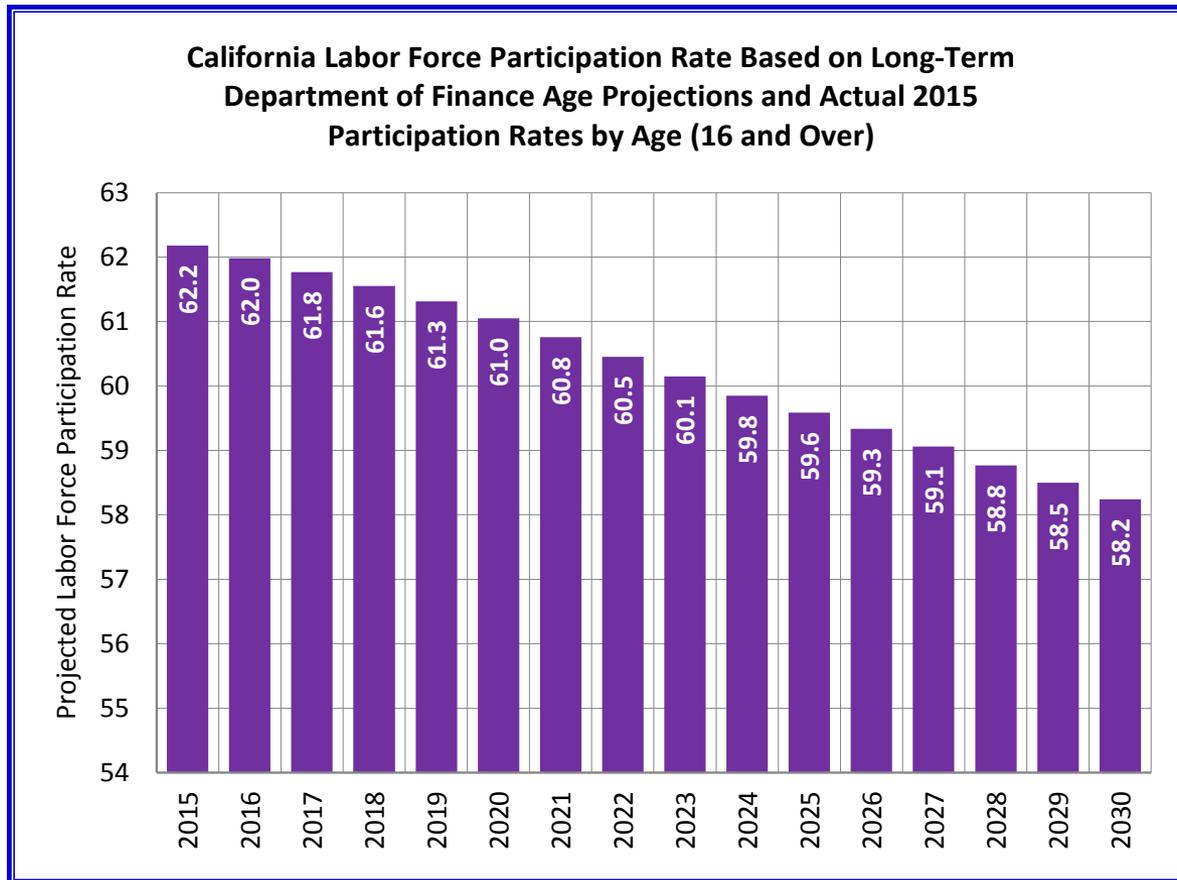
California Working Age Population by Age Cohort: Year-Over and Seven-Year Change

- * California's working age population grew by 2.9 million persons from Dec. 2008 to Dec. 2015.
- * It grew by 335,000 persons over the year ending in December 2015.



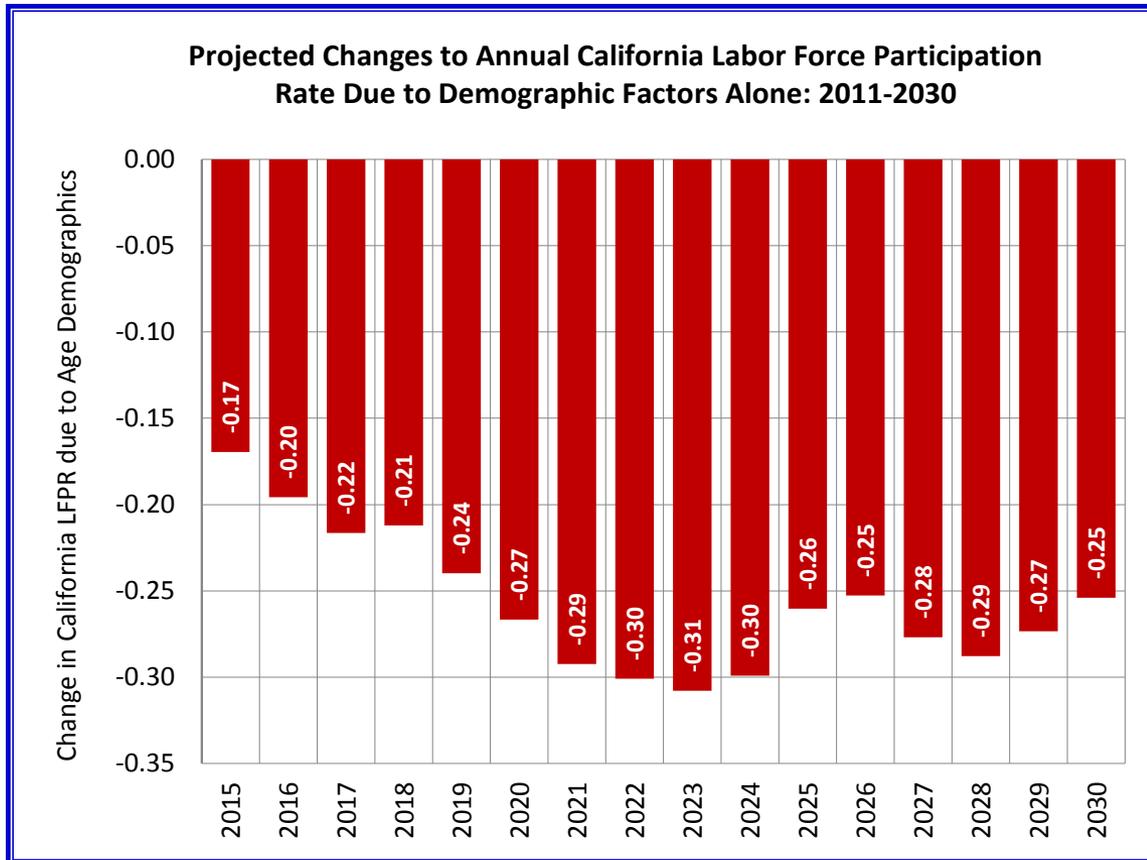
Effect of Demographic Factors on the California LFPR through 2030

* Applying the 2015 LFPR by age data to long-run population by age projections by the California Department of Finance approximates the impact demographic factors will have on the overall Labor force participation rate.



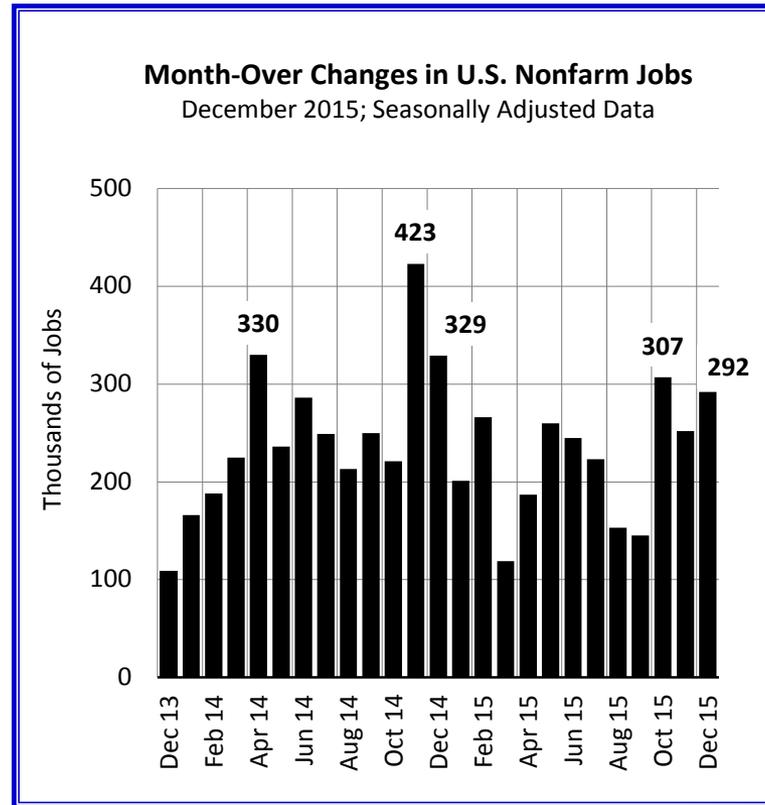
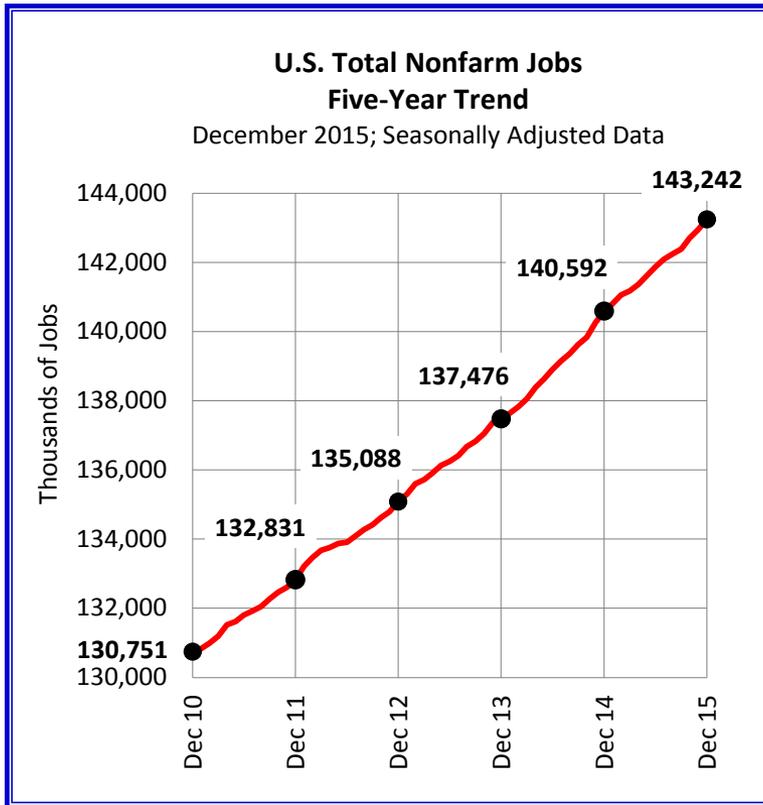
Effect of Demographic Factors on the California LFP Rate through 2030

Demographic factors have exerted downward pressure on the LFP rate over the last several years and will continue to do so well into the future.



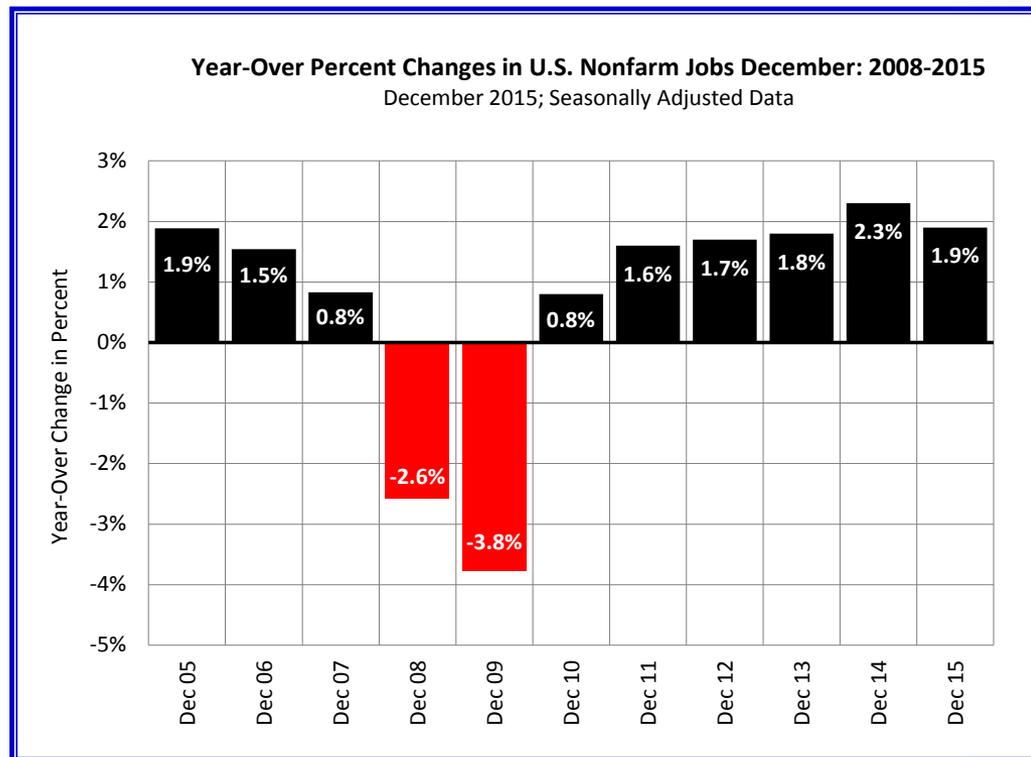
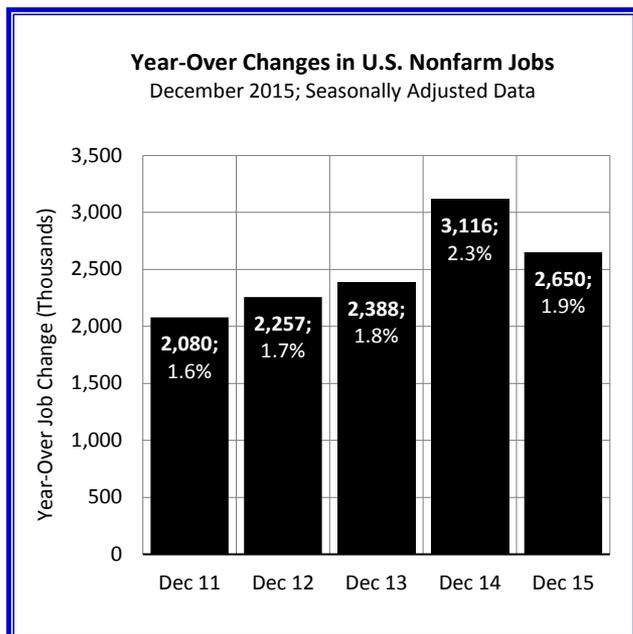
U.S. Total Nonfarm Payrolls, December 2015

The U.S. added 292,000 nonfarm jobs in December 2015. This was the nation's 63rd consecutive month of job growth and its fifth largest job gain over the last 25 months. The U.S. closed 2015 on a comparatively strong note, gaining 851,000 nonfarm jobs in the months of October through December 2015. This was its best three-month job gain since January 2015 (953,000).



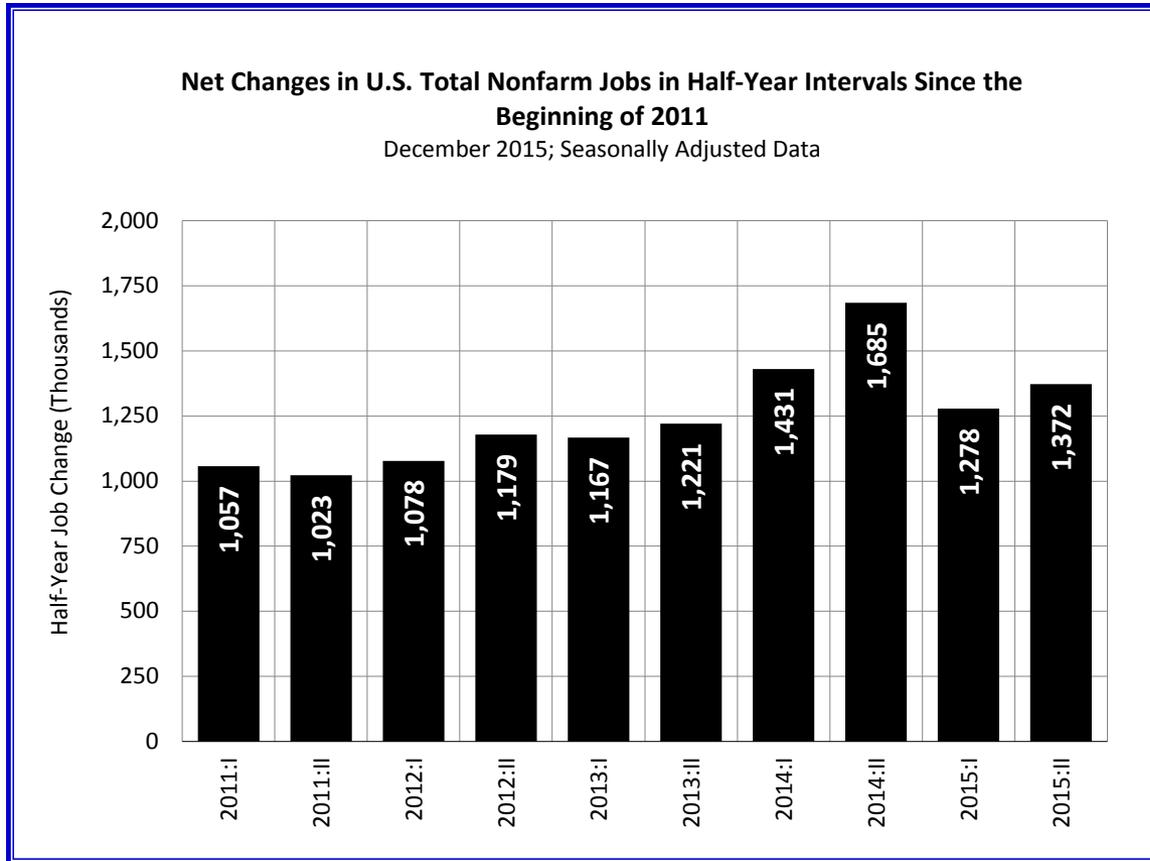
U.S. Total Nonfarm Payrolls, December 2015

The nation gained 2,650,000 nonfarm jobs over the course of 2015, a gain of 1.9 percent. Although this was below the pace of job growth that occurred in 2014, it was stronger job growth than any other year since 2005.



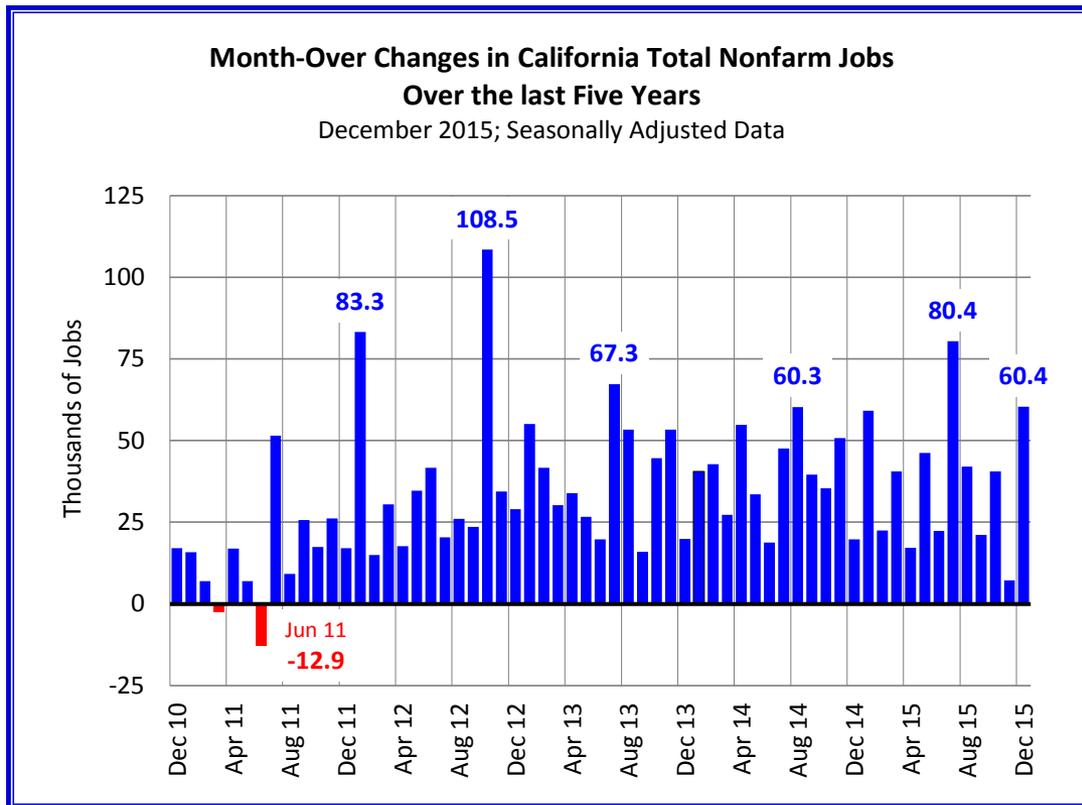
U.S. Total Nonfarm Payrolls: Half-Year Changes in Jobs

The pace of national job growth shows no signs of a slowdown. If anything, U.S. job growth strengthened in the second half of 2015.



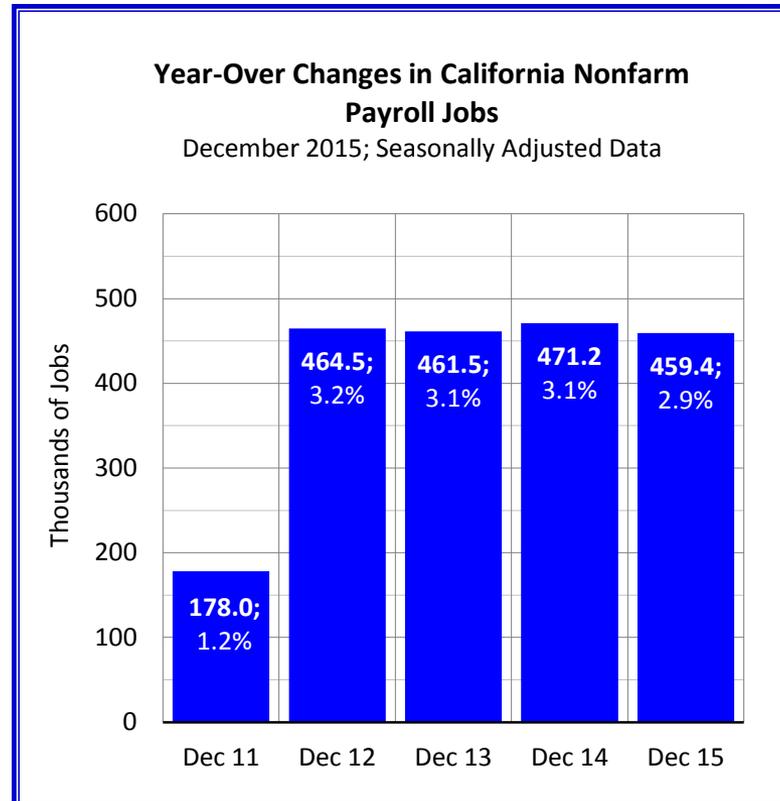
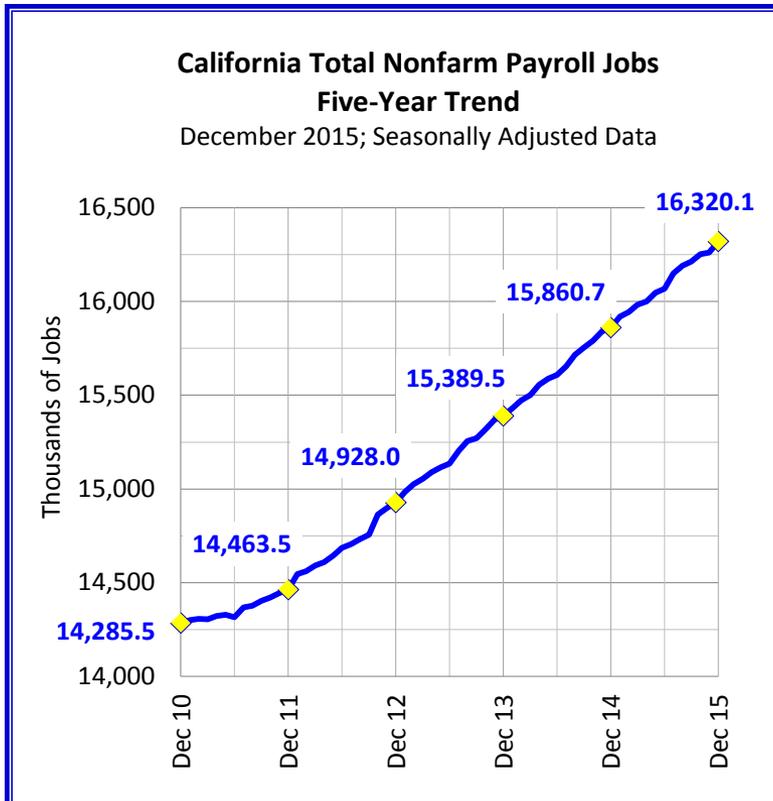
California Total Nonfarm Payrolls, December 2015

California gained 60,400 nonfarm jobs in December 2015, following a gain of just 7,200 jobs in November. California has now gained jobs in 54 consecutive months. Whereas the November 2015 job gain was the weakest of these 54 gains, the December gain was the fifth largest. Whenever it seems like job growth in California may be flagging, things revert back to trend with a strong gain.

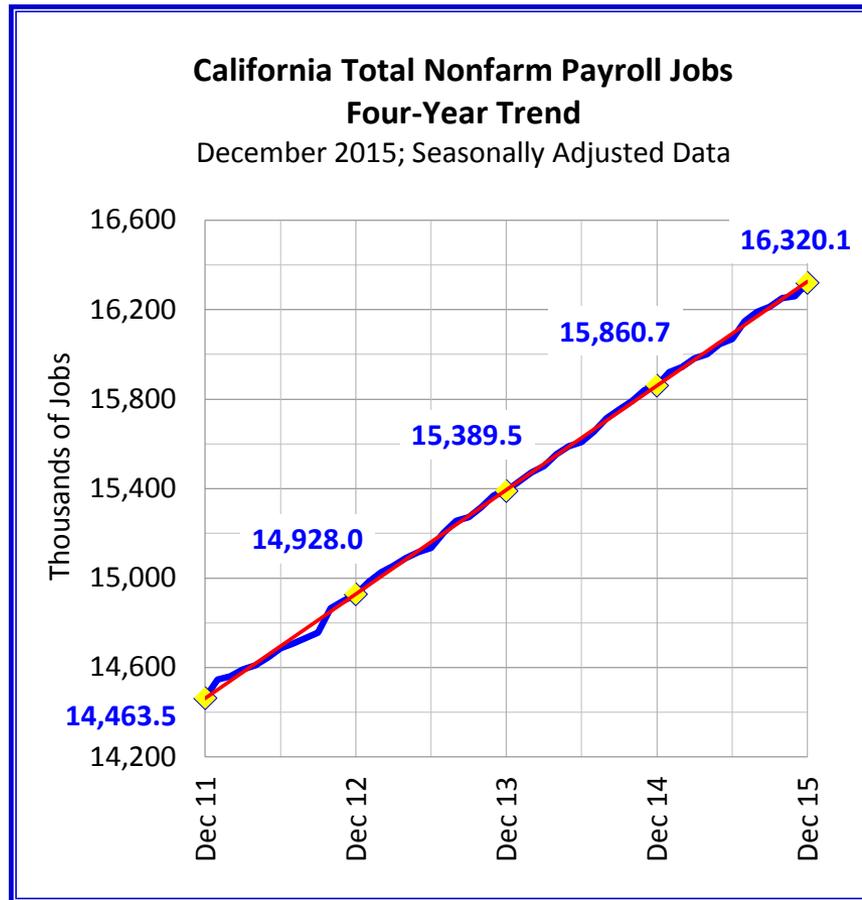


California Total Nonfarm Payrolls, December 2015

California gained 459,400 nonfarm jobs over the year ending in December 2015, a gain of 2.9 percent. California has enjoyed a remarkably consistent pace of job growth over the last four years. Year-over December job gains during this period have varied by just 11,800 jobs.

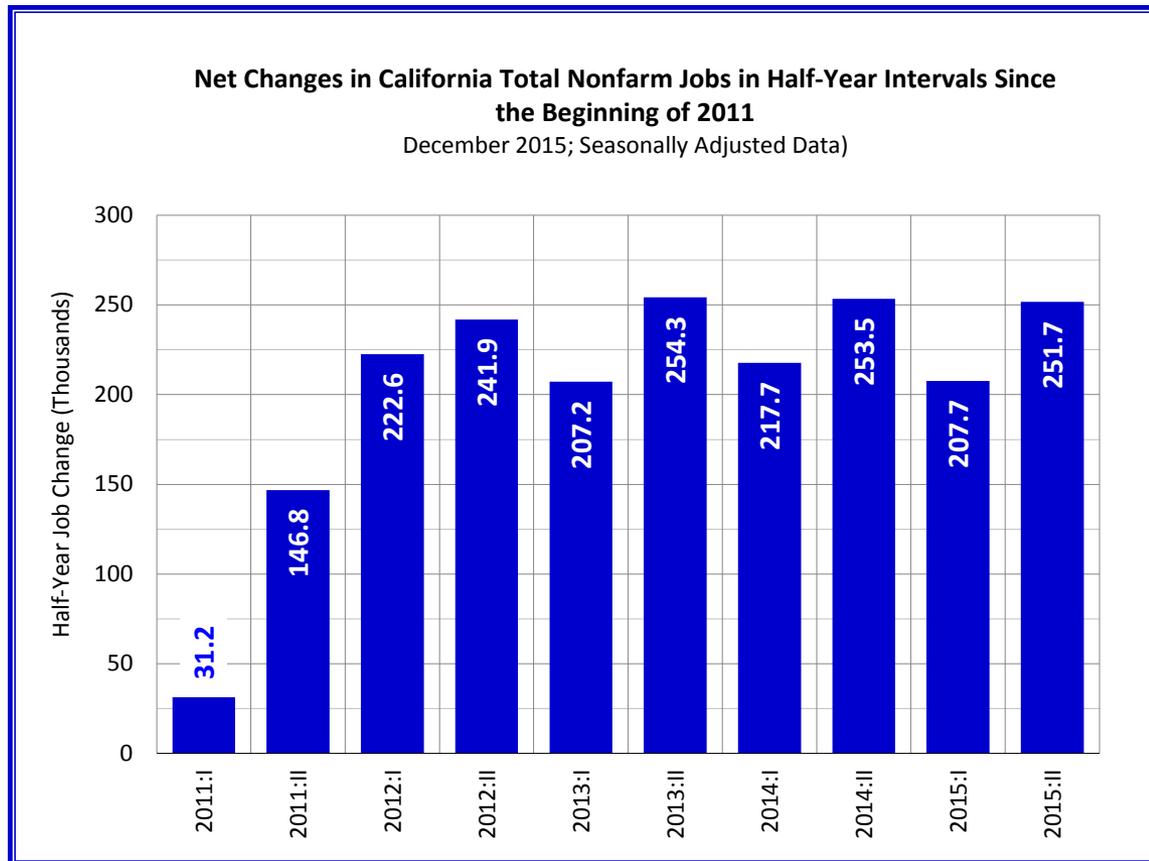


In fact, California's pace of job growth has been so consistent, the trend line fitted to the four-year path of total nonfarm employment is barely visible.



California Total Nonfarm Payrolls: Half-year Changes in Jobs

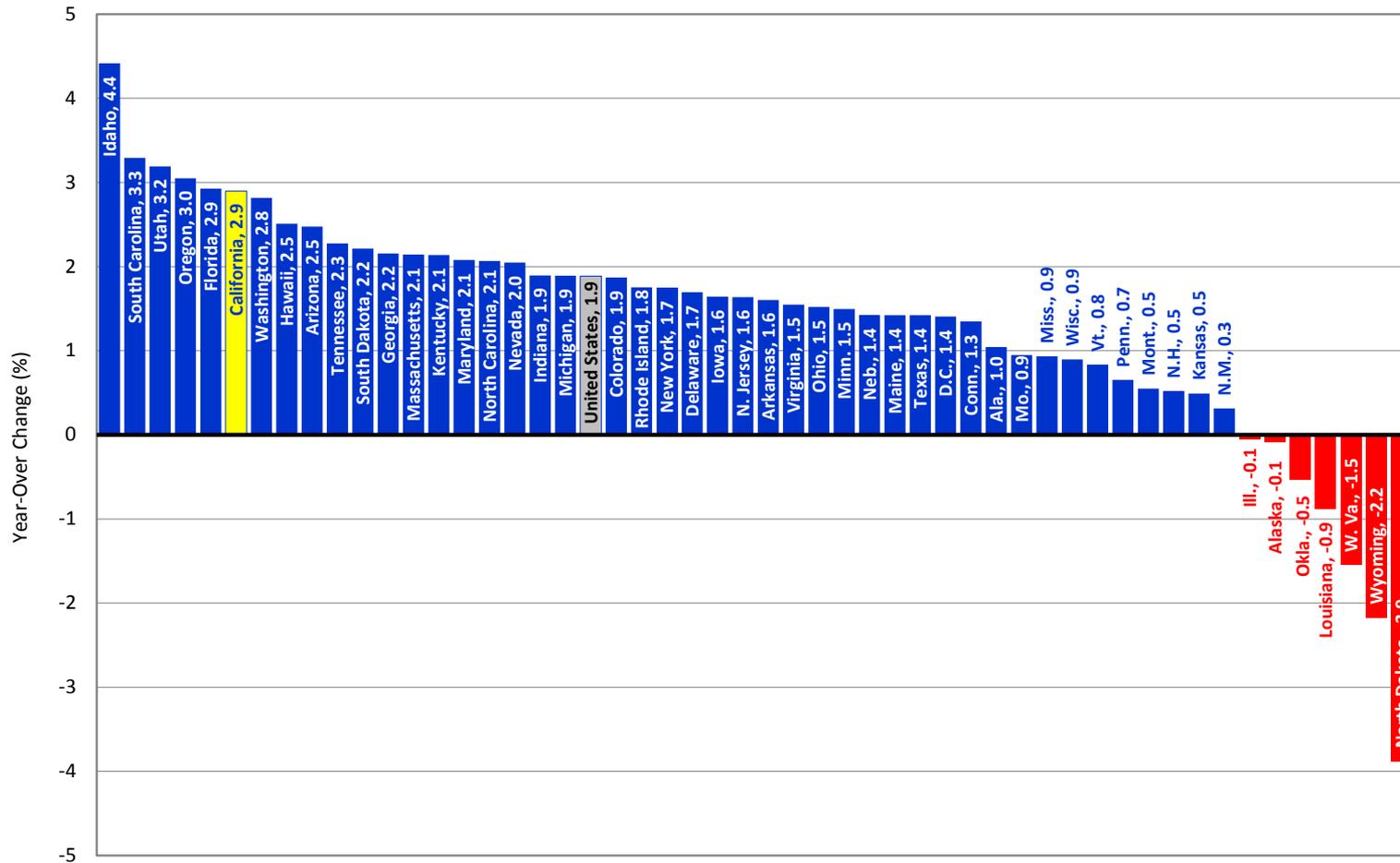
The pace of job growth in California shows no signs of slowing down. The state's job gains over the second half of 2015 were among the strongest of the current expansion.



California's 2.9 percent nonfarm job gain over the course of 2015 tied Florida as the fifth strongest among states.

Year-Over Percent Changes in State Nonfarm Payrolls

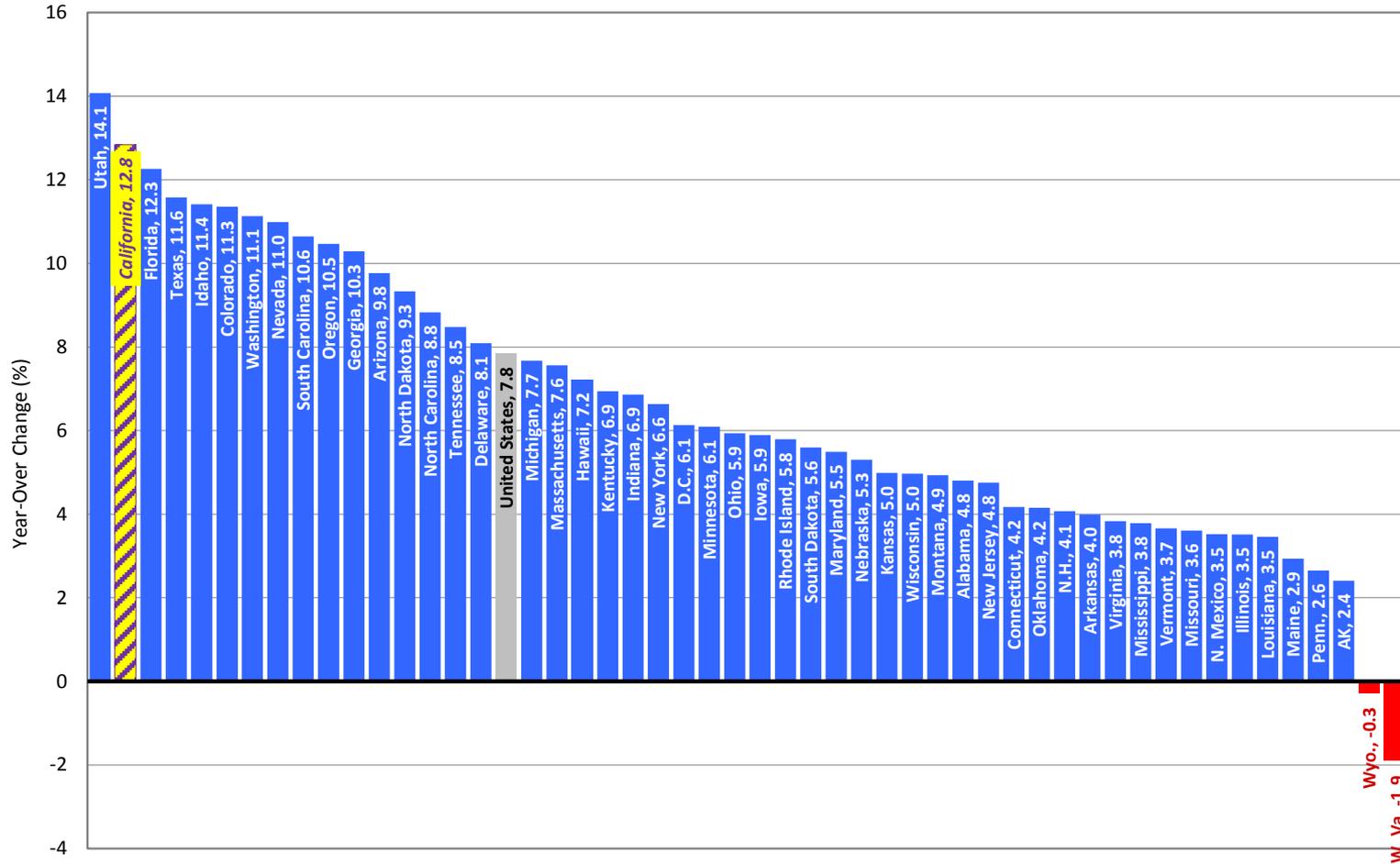
(December 2015: Seasonally Adjusted Data)



California's 12.8 percent nonfarm job gain over the four years ending in December 2015 was the second strongest among states.

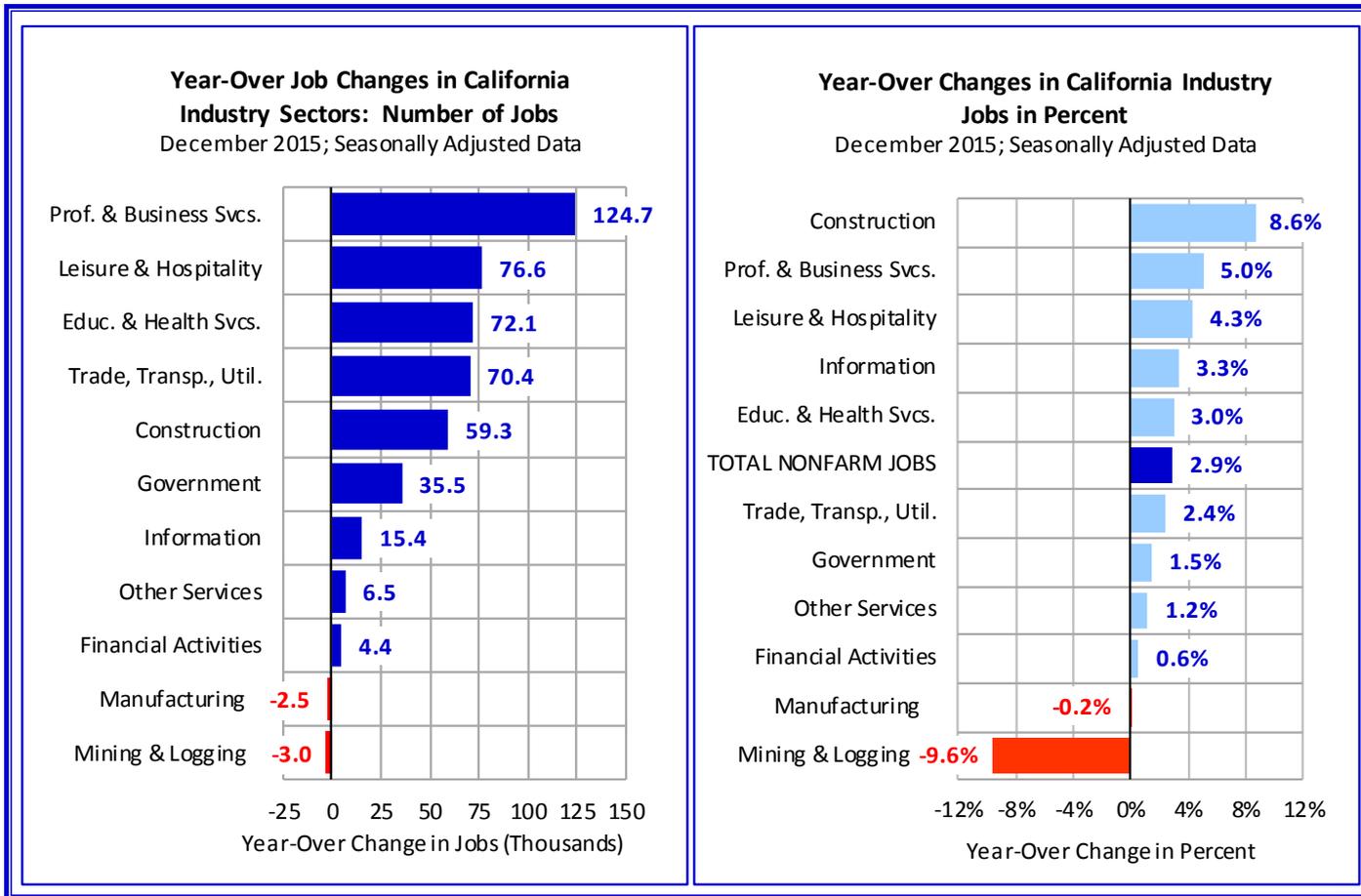
Four-Year Percent Changes in State Nonfarm Payrolls

(December 2011 - December 2015: Seasonally Adjusted Data)



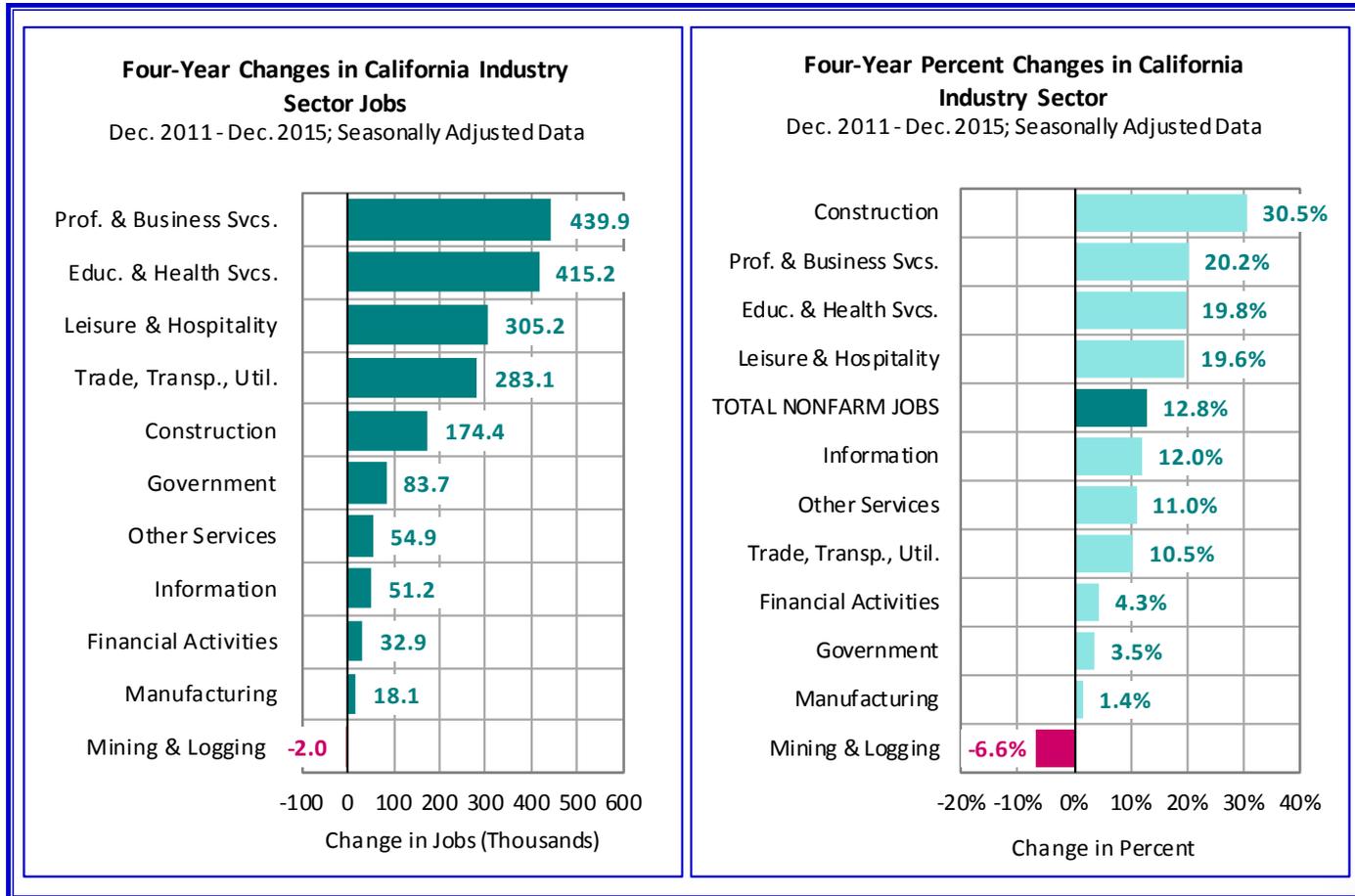
Industry Sector Job Growth, December 2015

All California industry sectors except mining and logging and manufacturing added jobs over the year ending in December 2015. Construction, professional and business services, and leisure and hospitality grew the fastest over the year.



Industry Sector Job Growth, December 2011 - December 2015

All California industry sectors except mining and logging have contributed to California's job growth over the four years ending in December 2015. Construction, professional and business services, educational and health services, and leisure and hospitality have been the drivers of California's job growth.



Year-Over Job Growth in California Areas, December 2015

<u>Year-Over Change in Number of Jobs, Dec. 2015</u>		<u>Year-Over Percent Change in Jobs, Dec. 2015</u>	
Los Angeles-Long Beach-Glendale Metro Div	92.7	San Jose-Sunnyvale-Santa Clara MSA	4.4%
Riverside-San Bernardino-Ontario MSA	46.8	San Luis Obispo-Paso Robles-Arroyo Grande MSA	4.0%
San Jose-Sunnyvale-Santa Clara MSA	45.3	San Francisco-Redwood City-S. San Fran. Metro. Div*	3.9%
San Francisco-Redwood City-S. San Fran. Metro Div*	44.3	Riverside-San Bernardino-Ontario MSA	3.6%
Anaheim-Santa Ana-Irvine Metro Div	40.8	Vallejo-Fairfield MSA	3.5%
San Diego-Carlsbad MSA	37.4	Salinas MSA	3.4%
Sacramento-Roseville-Arden Arcade MSA	22.7	Stockton-Lodi MSA	3.2%
Oakland-Hayward-Berkeley Metro Div	21.1	Santa Maria-Santa Barbara MSA	3.2%
Stockton-Lodi MSA	6.8	Santa Rosa MSA	2.9%
Fresno MSA	6.3	San Diego-Carlsbad MSA	2.7%
Oxnard-Thousand Oaks-Ventura MSA	6.2	Anaheim-Santa Ana-Irvine Metro Div	2.7%
Santa Rosa MSA	5.7	Chico MSA	2.6%
Santa Maria-Santa Barbara MSA	5.7	Sacramento-Roseville-Arden Arcade MSA	2.5%
Salinas MSA	4.5	Modesto MSA	2.5%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	4.5	Los Angeles-Long Beach-Glendale Metro Div	2.2%
Vallejo-Fairfield MSA	4.5	Oxnard-Thousand Oaks-Ventura MSA	2.1%
Modesto MSA	4.1	Visalia-Porterville MSA	2.1%
Visalia-Porterville MSA	2.4	Fresno MSA	2.0%
Bakersfield MSA	2.2	Oakland-Hayward-Berkeley Metro Div	2.0%
Chico MSA	2.0	Redding MSA	1.9%
Napa MSA	1.2	El Centro MSA	1.8%
Redding MSA	1.2	Napa MSA	1.7%
El Centro MSA	1.0	Madera MSA	1.6%
Madera MSA	0.6	Bakersfield MSA	0.8%
Yuba City MSA	0.3	Yuba City MSA	0.7%
Hanford-Corcoran MSA	0.2	Hanford-Corcoran MSA	0.5%
Santa Cruz-Watsonville MSA	-0.7	Santa Cruz-Watsonville MSA	-0.7%
Merced MSA	-1.5	Merced MSA	-2.3%

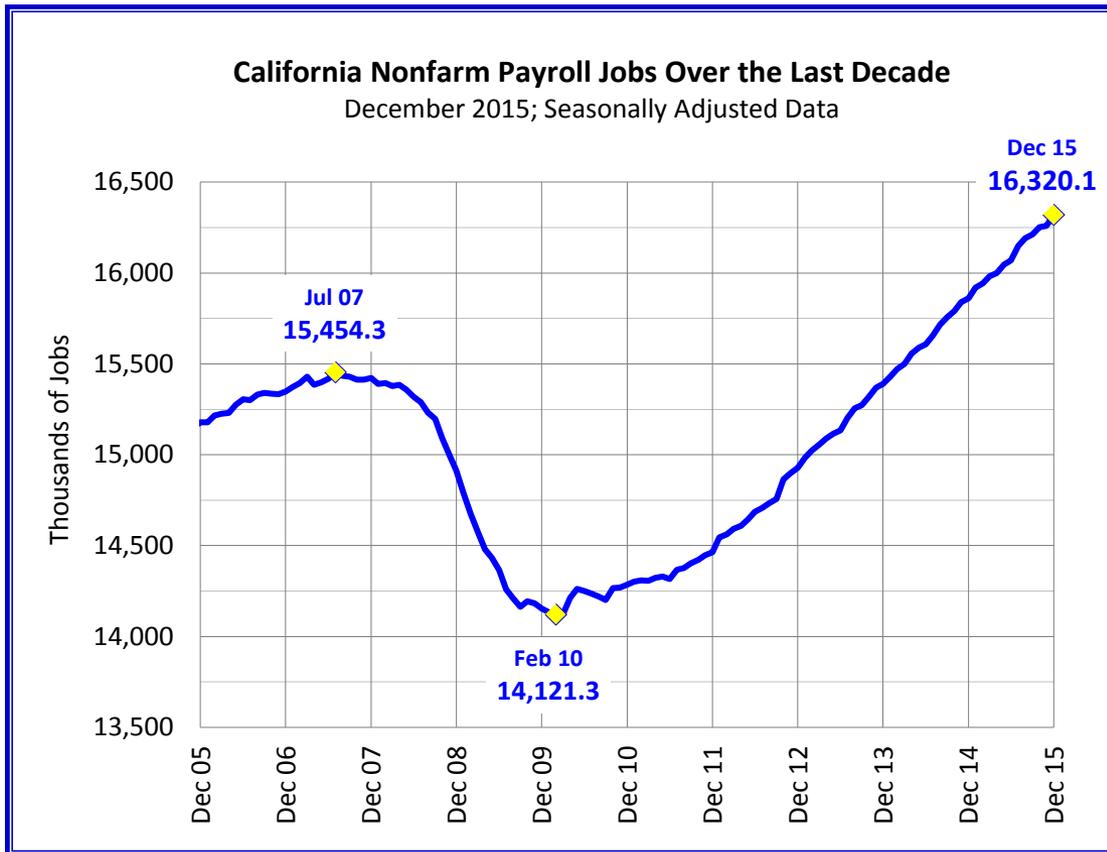
* Imputed

Four-Year Job Growth in California Areas, December 2015

<u>Four-Year Change in Number of Jobs, Dec. 2015</u>		<u>Four-Year Percent Change in Jobs, Dec. 2015</u>	
Los Angeles-Long Beach-Glendale Metro Div	440.9	San Jose-Sunnyvale-Santa Clara MSA	19.8%
Riverside-San Bernardino-Ontario MSA	196.6	San Francisco-Redwood City-S. San Fran. Metro Div*	19.2%
San Francisco-Redwood City-S. San Fran. Metro Div*	190.8	San Luis Obispo-Paso Robles-Arroyo Grande MSA	19.0%
San Jose-Sunnyvale-Santa Clara MSA	177.2	Riverside-San Bernardino-Ontario MSA	17.0%
Anaheim-Santa Ana-Irvine Metro Div	166.3	Santa Rosa MSA	16.8%
San Diego-Carlsbad MSA	153.8	El Centro MSA	15.5%
Oakland-Hayward-Berkeley Metro Div	120.7	Napa MSA	14.1%
Sacramento-Roseville-Arden Arcade MSA	96.7	Stockton-Lodi MSA	13.7%
Fresno MSA	39.0	Fresno MSA	13.6%
Santa Rosa MSA	28.6	Chico MSA	12.9%
Stockton-Lodi MSA	26.3	Oakland-Hayward-Berkeley Metro Div	12.3%
Bakersfield MSA	24.6	San Diego-Carlsbad MSA	12.3%
Oxnard-Thousand Oaks-Ventura MSA	24.1	Santa Maria-Santa Barbara MSA	12.2%
Santa Maria-Santa Barbara MSA	20.1	Vallejo-Fairfield MSA	12.1%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	18.5	Anaheim-Santa Ana-Irvine Metro Div	12.0%
Modesto MSA	16.9	Salinas MSA	11.8%
Salinas MSA	14.5	Sacramento-Roseville-Arden Arcade MSA	11.7%
Vallejo-Fairfield MSA	14.4	Modesto MSA	11.2%
Visalia-Porterville MSA	10.0	Los Angeles-Long Beach-Glendale Metro Div	11.2%
Chico MSA	9.0	Redding MSA	11.1%
Napa MSA	8.8	Bakersfield MSA	10.3%
Santa Cruz-Watsonville MSA	8.8	Santa Cruz-Watsonville MSA	10.3%
El Centro MSA	7.4	Madera MSA	10.1%
Redding MSA	6.4	Visalia-Porterville MSA	9.2%
Merced MSA	4.4	Oxnard-Thousand Oaks-Ventura MSA	8.7%
Madera MSA	3.4	Yuba City MSA	7.7%
Yuba City MSA	2.9	Merced MSA	7.5%
Hanford-Corcoran MSA	1.7	Hanford-Corcoran MSA	4.7%
* Imputed			

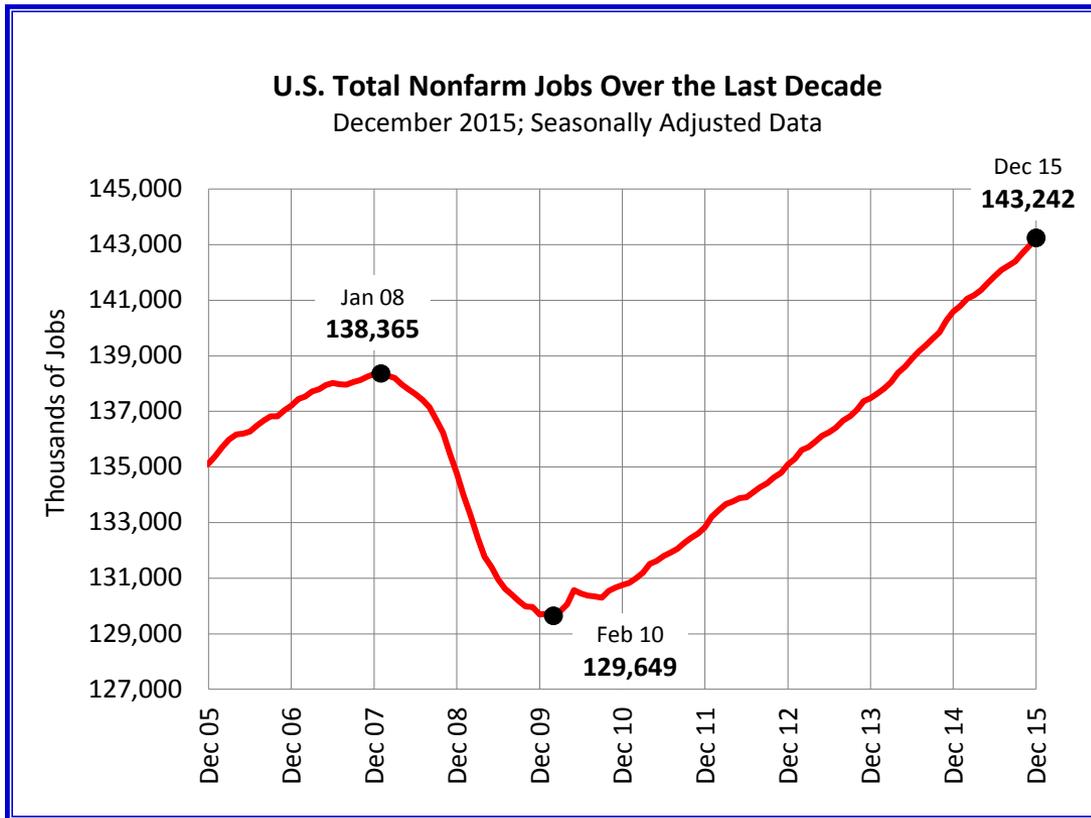
California Total Nonfarm Payrolls: The Expansion To-Date

California gained 2,198,800 nonfarm jobs from the recessionary low in February 2010 through December 2015., which equates to a 15.6 percent increase over the 70-month period. At the 70-month point in the May 1993-January 2001 high tech boom, California's job gains stood at 1,881,800 , for an identical gain of 15.6 percent. California's December 2015 nonfarm payroll total was 865,800 jobs larger than that of the pre-recession peak in July 2007.



U.S. Total Nonfarm Payrolls: The Expansion To-Date

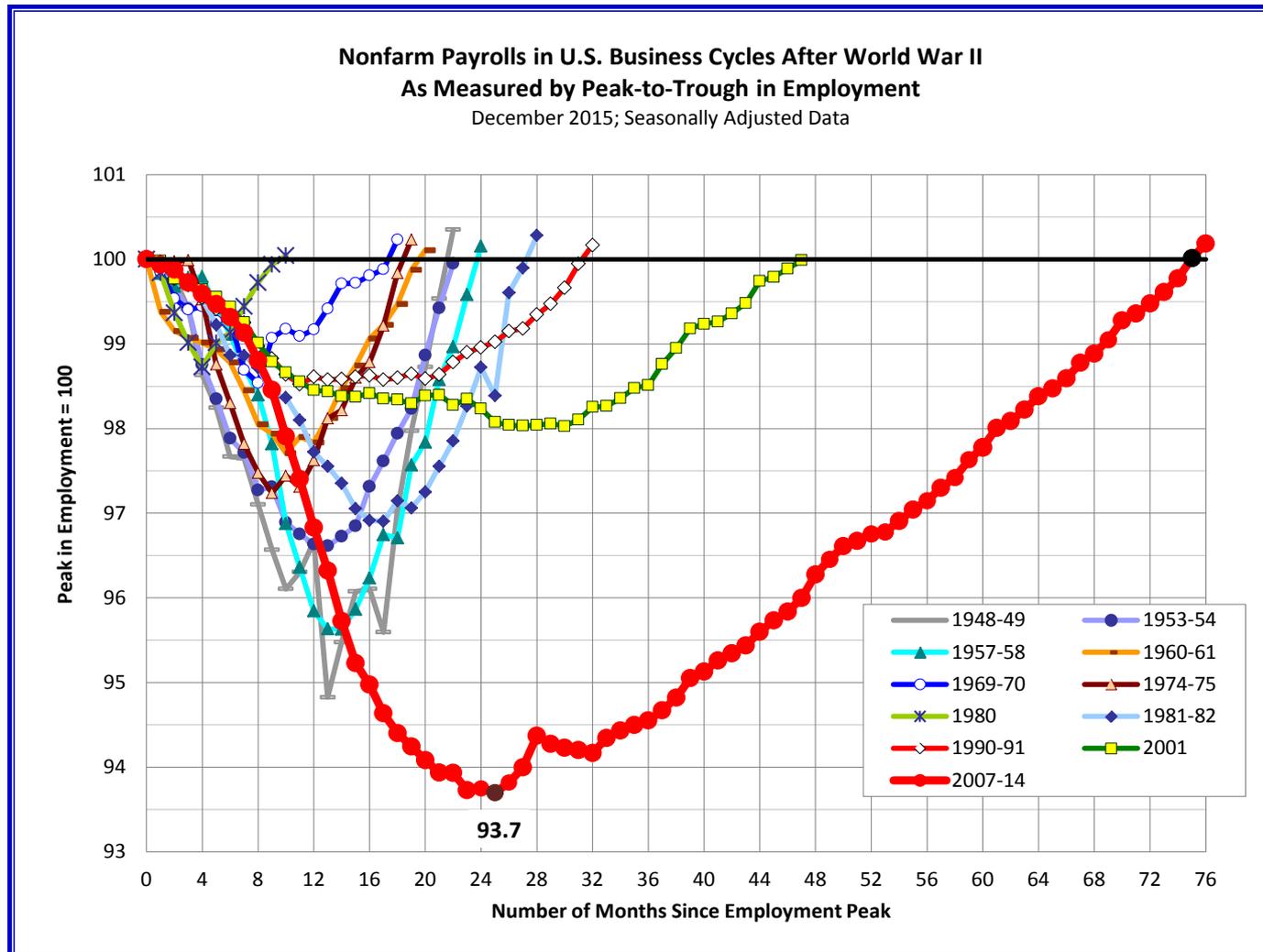
The nation gained 13.6 million nonfarm jobs from the recessionary low in February 2010 through December 2015, for a 10.5 percent increase over the 70-month period. The nation's private sector job gains totaled nearly 14.1 million (13.1 percent) over the same period. At the 70-month point in the trough-to-peak change in total nonfarm employment associated with the 1990s expansion, the nation's job gains stood at nearly 13.8 million (12.7 percent).



How Long Can These Good Times Roll?

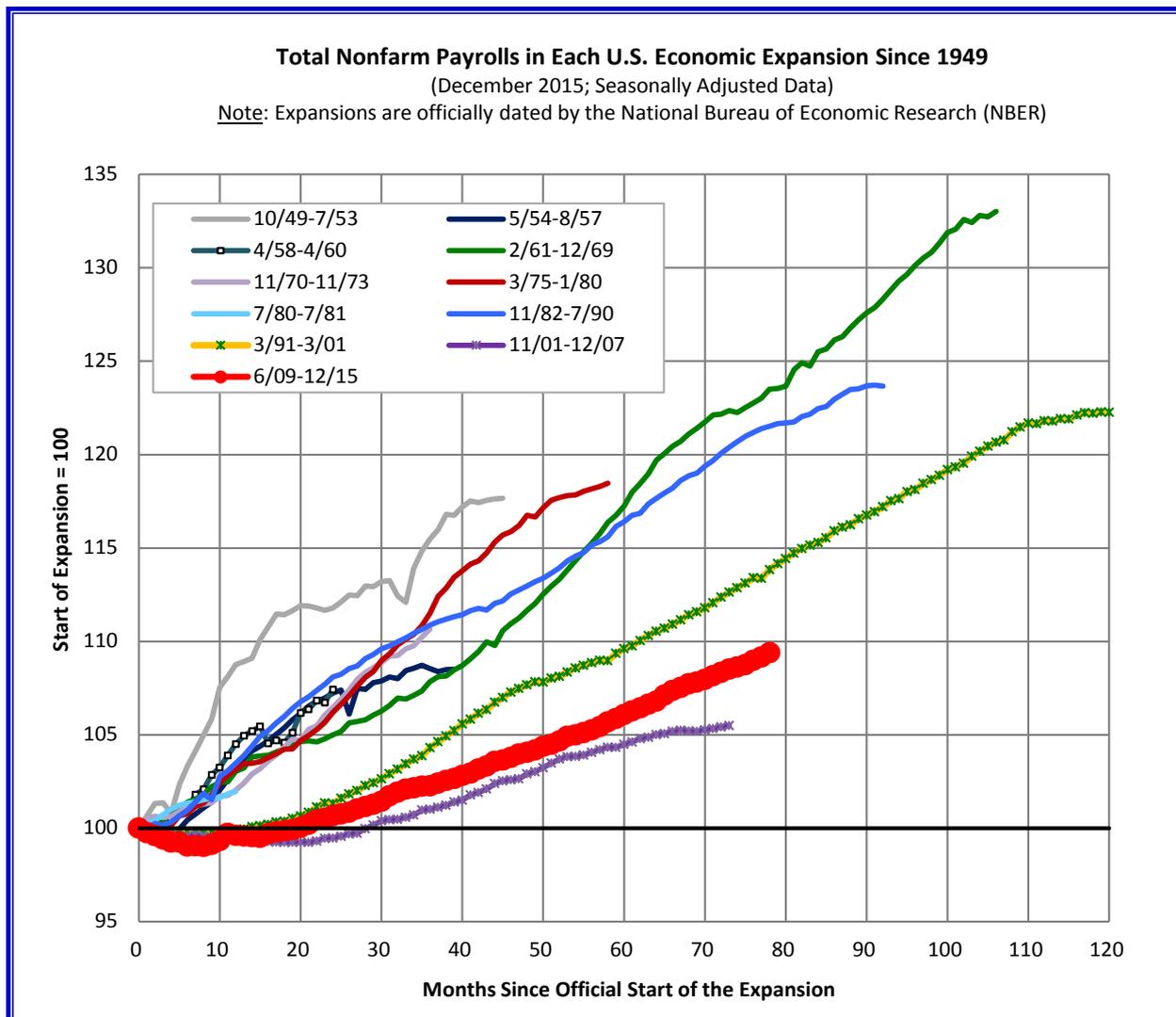
- Although the answer to this question is unknown, voices warning of an impending recession are becoming ever more frequent.
- U.S. and California employment and unemployment data show no sign of a slowdown. Labor markets are strong.
- Real U.S. GDP, although weak in the fourth quarter of 2015, has grown in seven consecutive quarters, and 24 of the last 26. Consumers and government are spending. Business investment has been soft for two quarters but not necessarily on equipment. The strong dollar may be dampening exports.
- The usual triggers of a recession (consumer durables such as cars, houses, bond markets) do not appear to be unbalanced, nor will they be in the near future.
- Restlessness about the economy's future seems to be emanating from history. It is called the business cycle for a reason, and the current expansion is reaching a mature age.

U.S. Recessions and Recoveries Since World War II : V-Shaped and U-Shaped Cycles (As measured by peaks and troughs in total nonfarm employment)



U.S. Economic Expansions Since 1949

(Officially dated by the National Bureau of Economic Research, NBER)



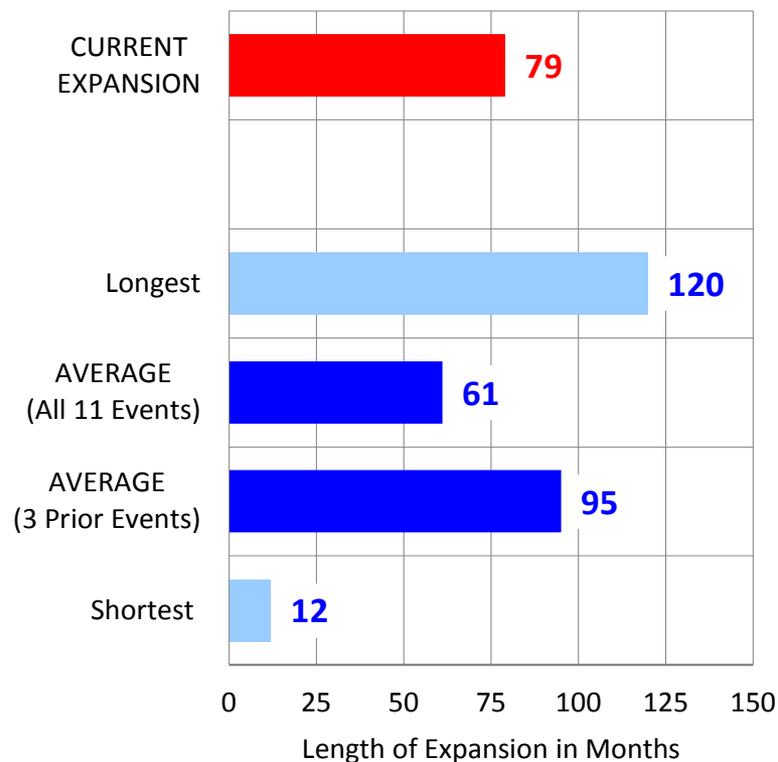
Total Nonfarm Payrolls in U.S. Expansions (officially dated by NBER)

The nation has experienced 11 economic expansions since 1945, not counting the current one.

- Shortest expansions: **12** months (7/80–7/81); **24** months (4/58 – 4/60).
 - Longest expansions: **120** months (3/91–3/01); **106** months (2/61-12/69).
 - Average length all 11 events: **61 months**
 - Average length of three prior U-shaped cycles (since 1982): **95 months**
- ➔ ➔ **Current expansion: 79 months, 4th longest since Oct.45**

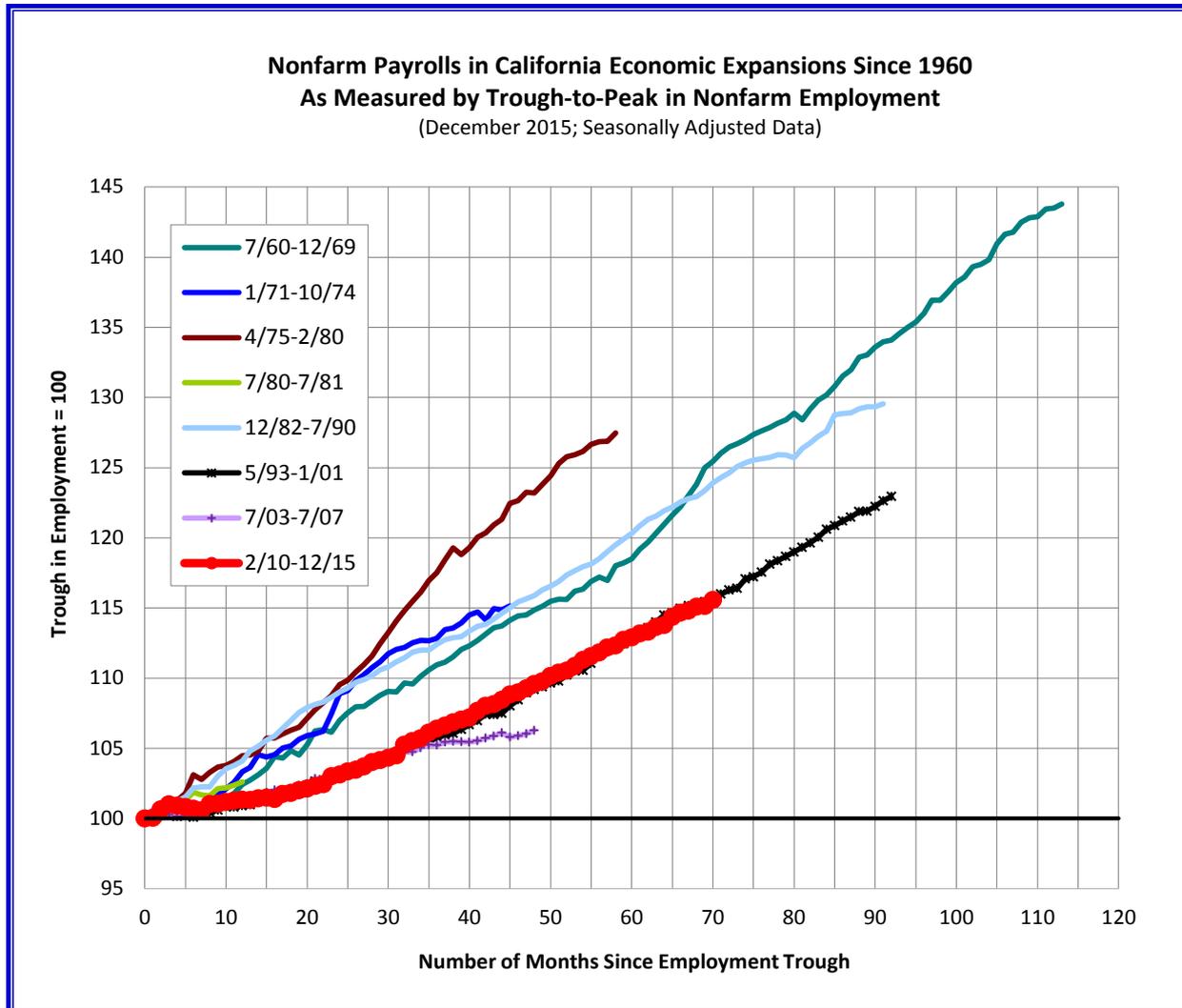
Duration of U.S. Economic Expansions Since 1945: Summary Statistics

(December 2015)



California Economic Expansions Since 1960

(As dated by troughs and peaks in total nonfarm employment)



Total Nonfarm Payrolls in California Expansions (dated via trough-to-peak in jobs)

California has experienced seven economic expansions since 1960, not counting the current one.

- Shortest expansion: **12** months (7/80–7/81).
 - Longest expansions: **113** months (7/60–12/69); **92** months (3/93-1/01).
 - Average length all seven events: **66 months**
 - Average length of three U-shaped cycles (since 1982): **77 months**
- ➔ ➔ **Current expansion: 70 months, 4th longest since 1960**

Duration of California Economic Expansions Since 1960: Summary Statistics

(December 2015)

