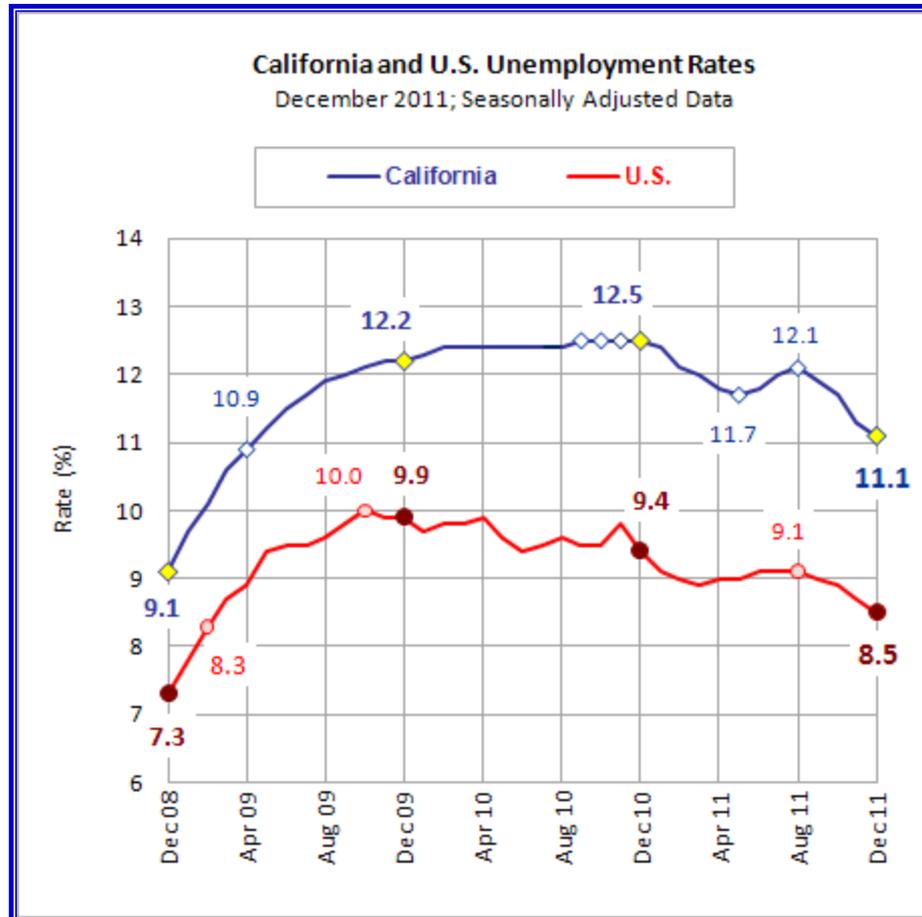


Economic Update: Could it Be?

**LMID Advisory Group Meeting
January 26, 2012**

**Paul Wessen
Employment Development Department
Labor Market information Division**

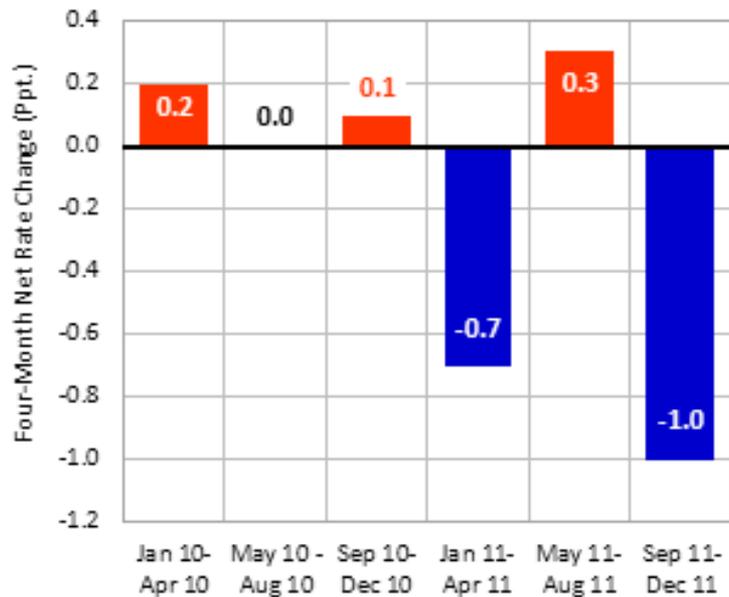
UNEMPLOYMENT AND EMPLOYMENT



California's unemployment rate fell 1.4 percentage point in 2011, and by 1.0 percentage point over the last four months of the year. The U.S. rate fell by 0.9 percentage point in 2011.

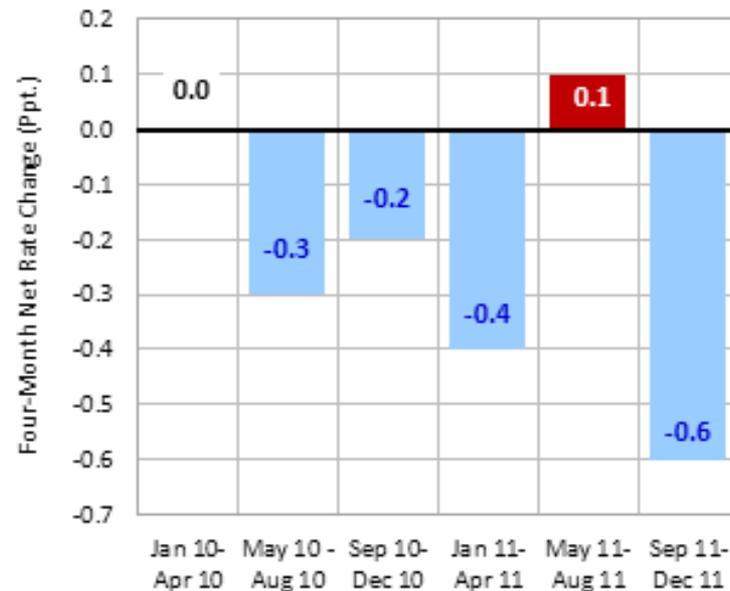
Change in the California Unemployment Rate Over the Last Two Years in Four-Month Intervals

December 2011; Seasonally Adjusted Data

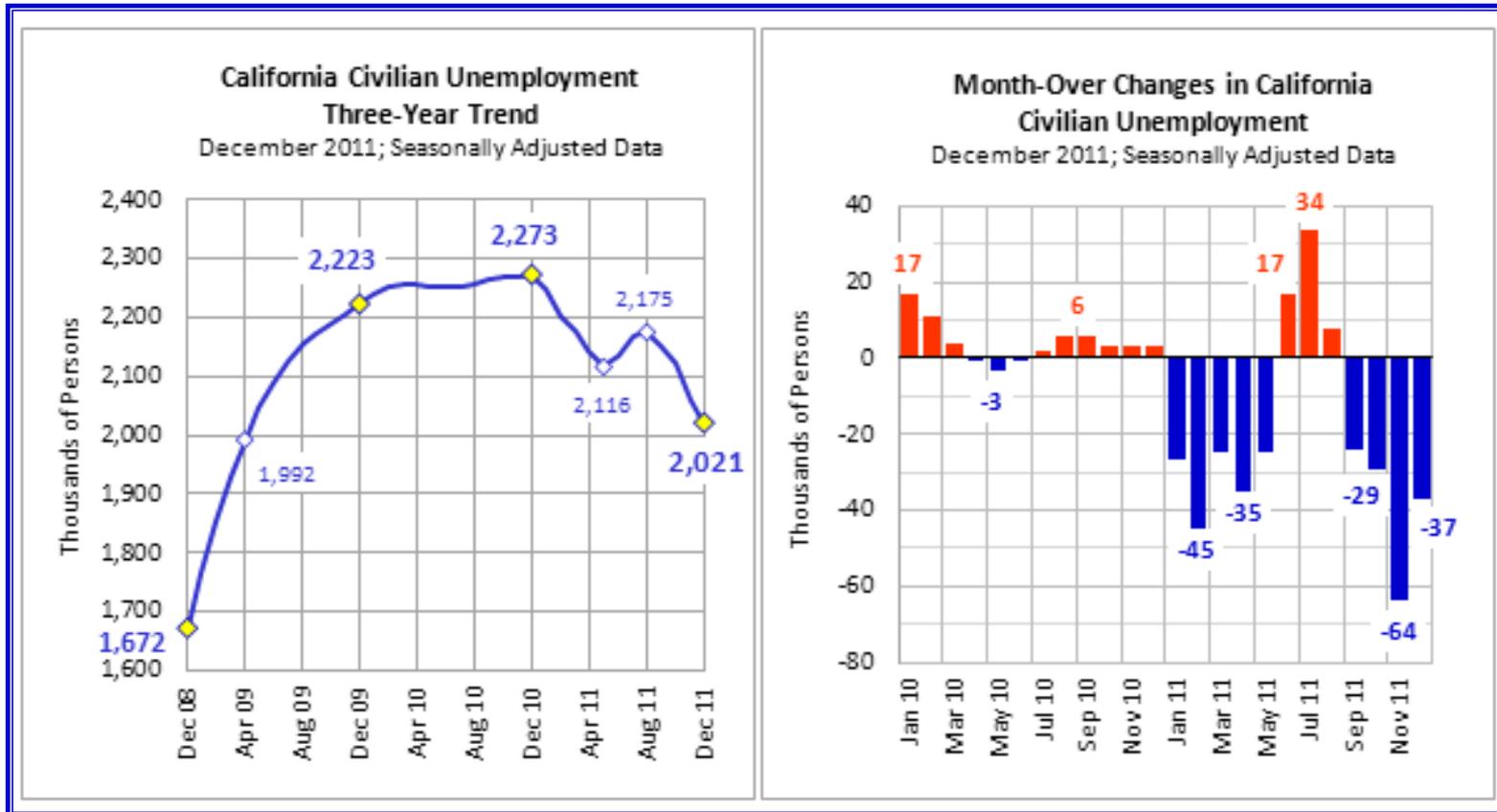


Change in the U.S. Unemployment Rate Over the Last Two Years in Four-Month Intervals

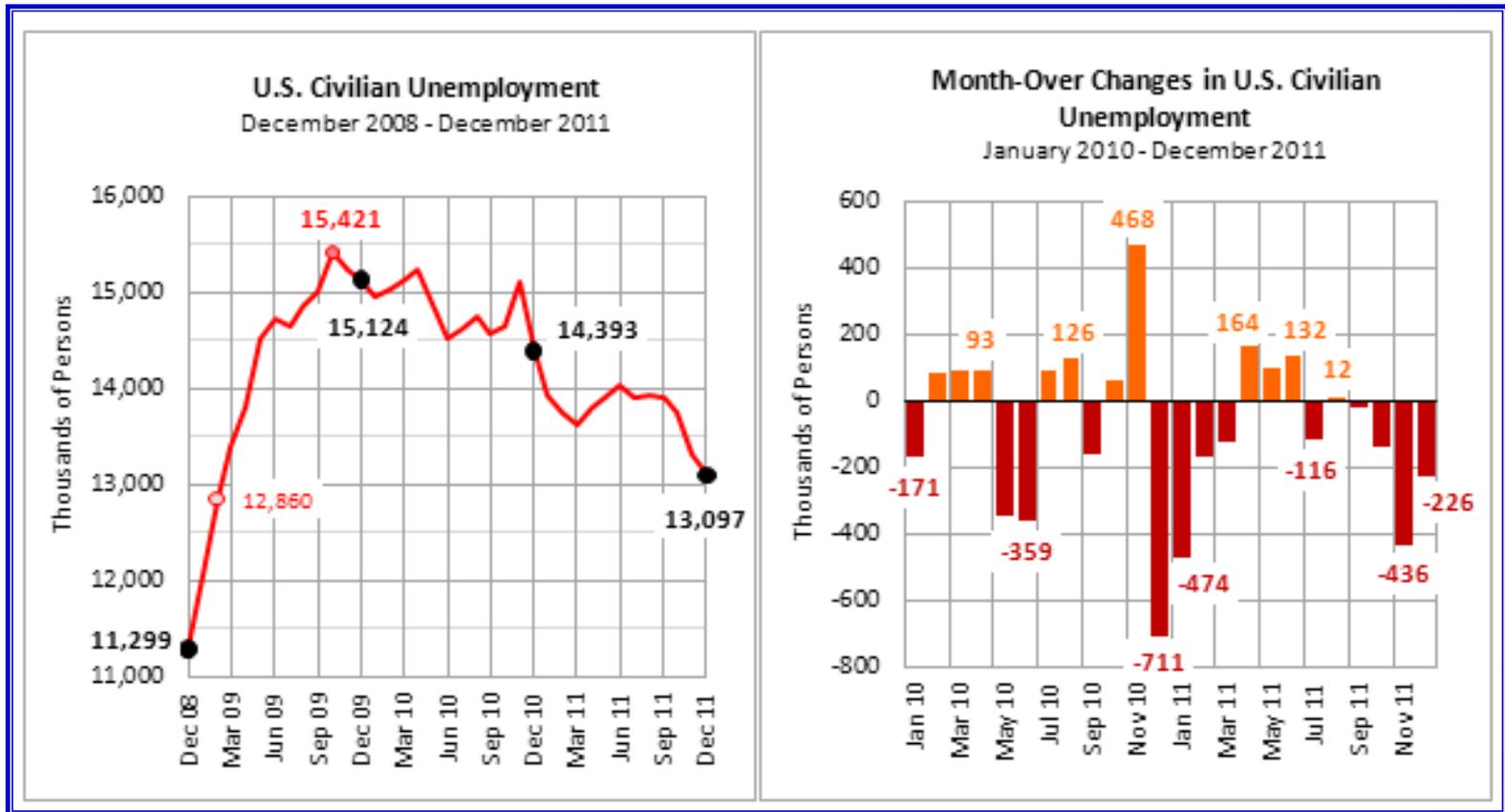
December 2011; Seasonally Adjusted Data



Unemployment has begun falling in California. The number of unemployed Californians fell by 252,000 (11.1 percent) over the course of 2011.

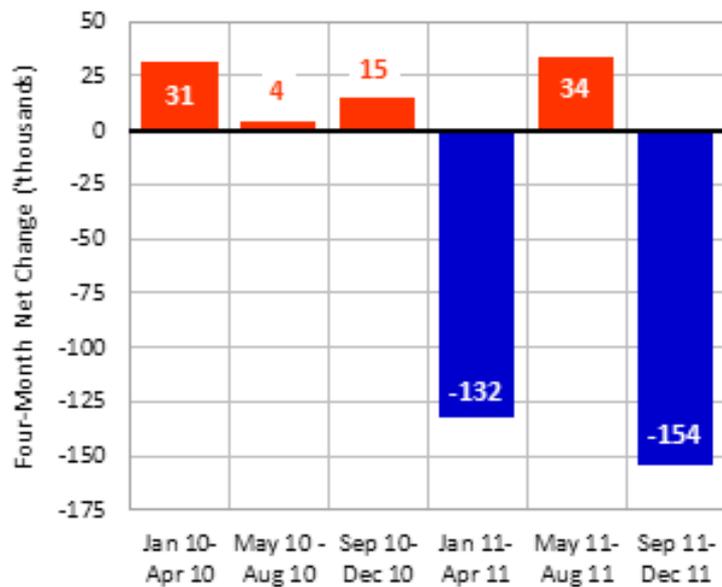


Unemployment is falling nationally, too. In December 2011, there were 1.3 million (9.0 percent) fewer unemployed Americans than in December 2010, and 2.3 million fewer than at their October 2009 peak.

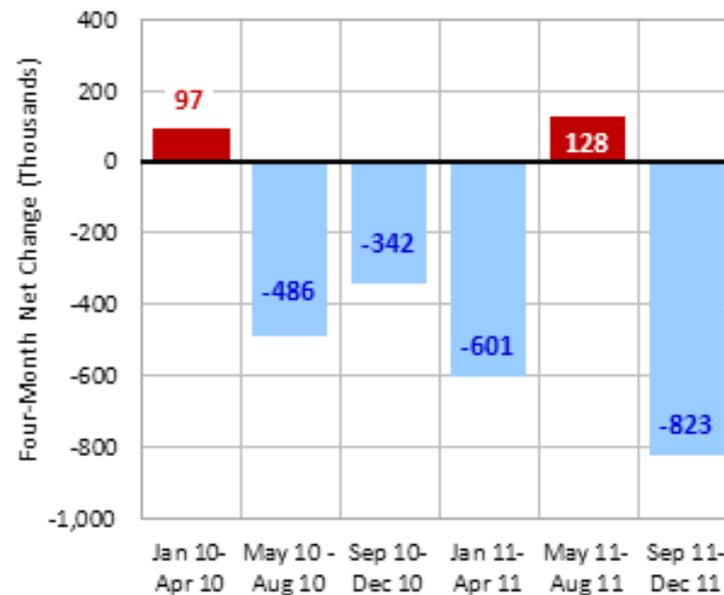


The pace at which unemployment is falling picked up over the last four months of 2011 in both California and the nation.

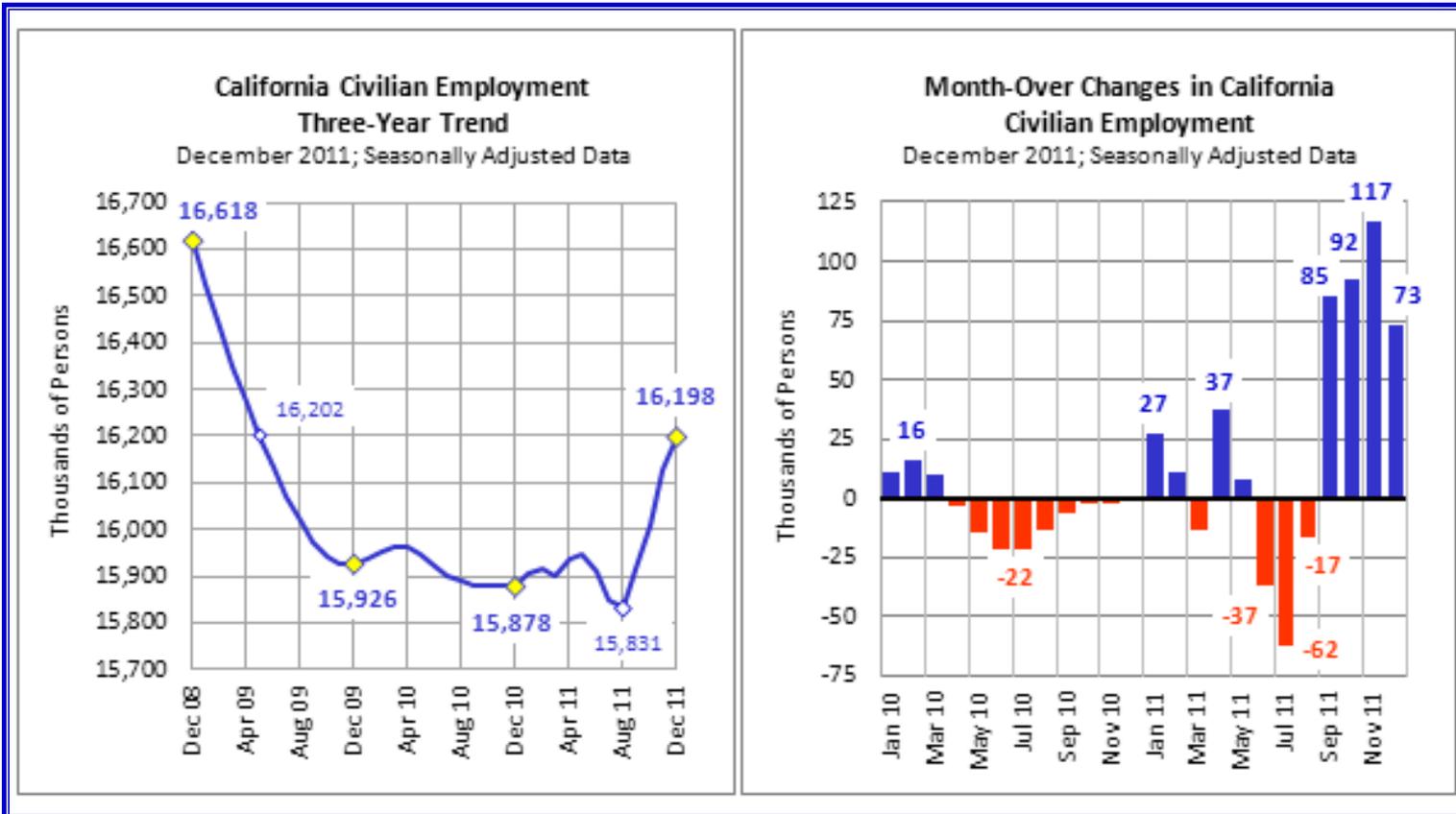
Change in California Civilian Unemployment Over the Last Two Years in Four-Month Intervals
December 2011; Seasonally Adjusted Data



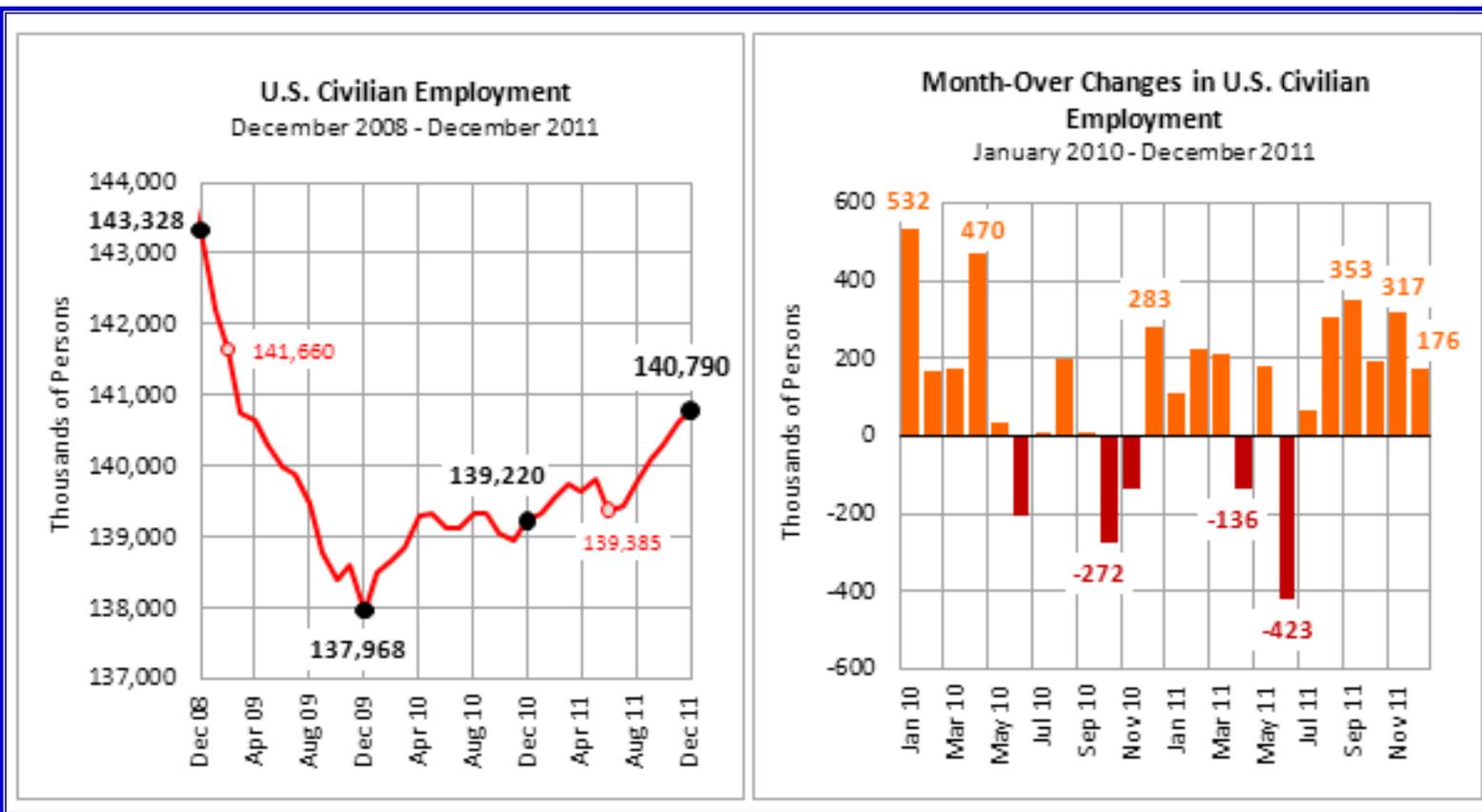
Change in U.S. Civilian Unemployment Over the Last Two Years in Four-Month Intervals
December 2011; Seasonally Adjusted Data



Civilian employment rose dramatically in California over the last four months of 2011, making 2011 California's best year of employment growth since 2005.

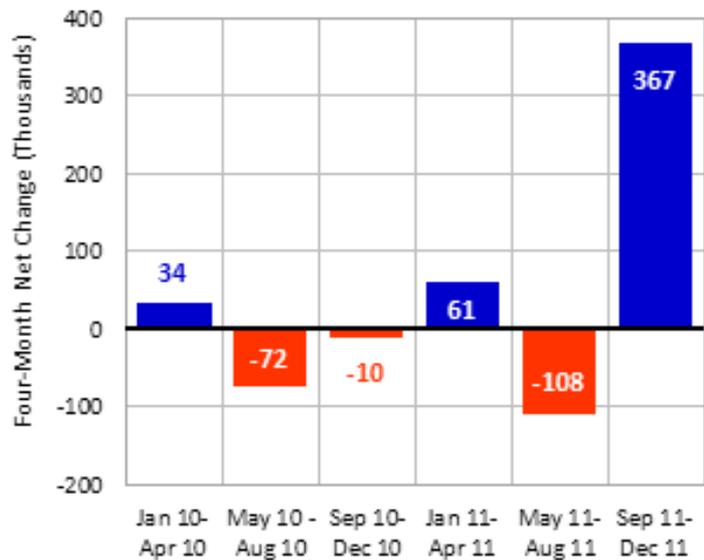


In December 2011, there were nearly 1.6 million more employed Americans than in December 2010, and 2.8 million more than at their low point in December 2009.

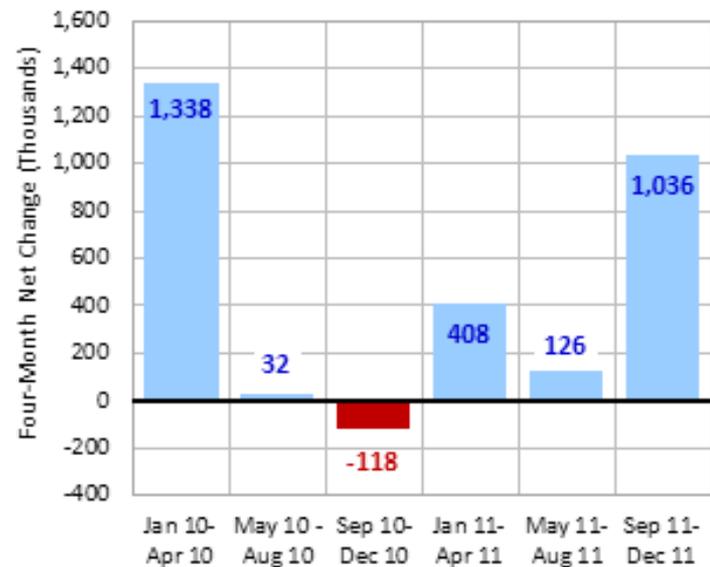


California's 367,000-person increase in civilian employment over the last four months of 2011 equaled the State's largest year-over employment since January 2001. The pace of national employment growth also accelerated in the last four months of 2011.

Change in California Civilian Employment Over the Last Two Years in Four-Month Intervals
December 2011; Seasonally Adjusted Data

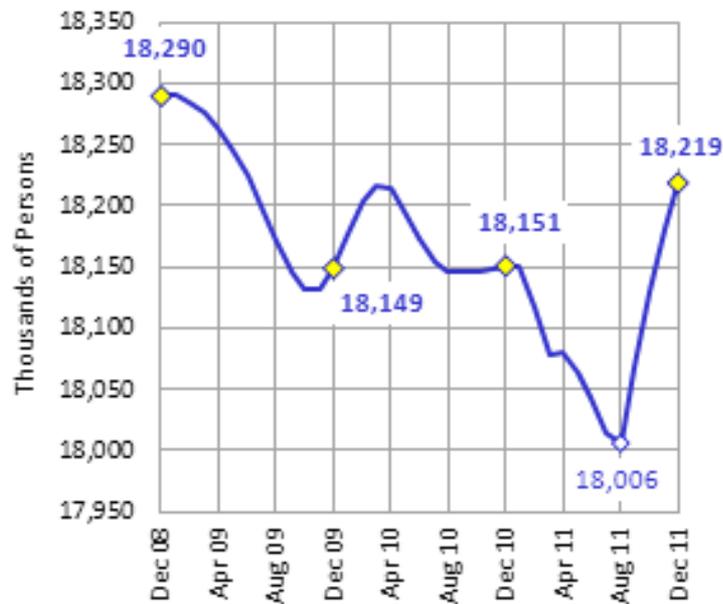


Change in U.S. Civilian Employment Over the Last Two Years in Four-Month Intervals
December 2011; Seasonally Adjusted Data

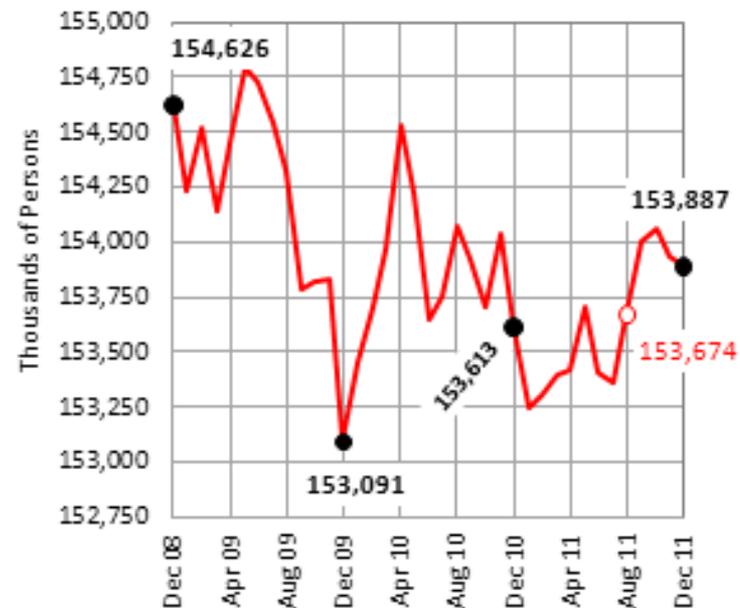


California's labor force is growing again...

Three-Year Trend in California Labor Force
(December 2011; Seasonally Adjusted Data)



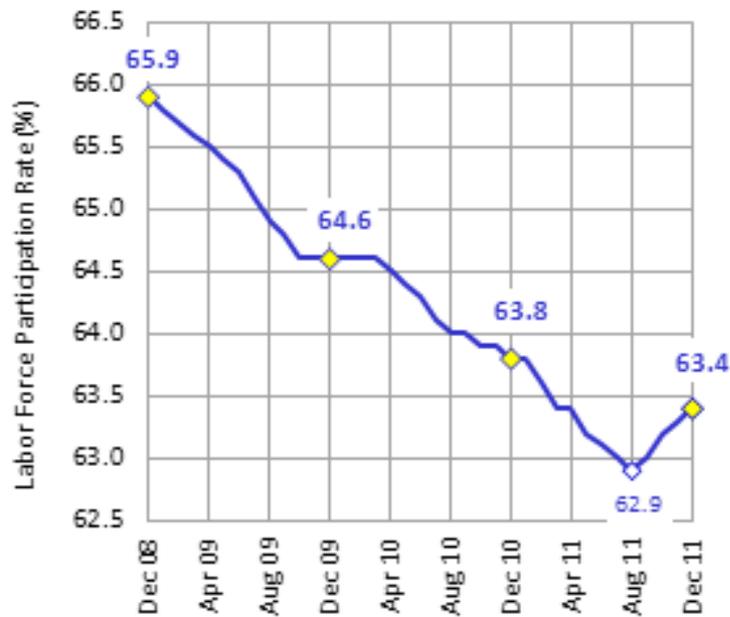
Three-Year Trend in U.S. Labor Force
(December 2011; Seasonally Adjusted Data)



Falling unemployment in the context of rising labor force participation is a sign of a strengthening labor market.

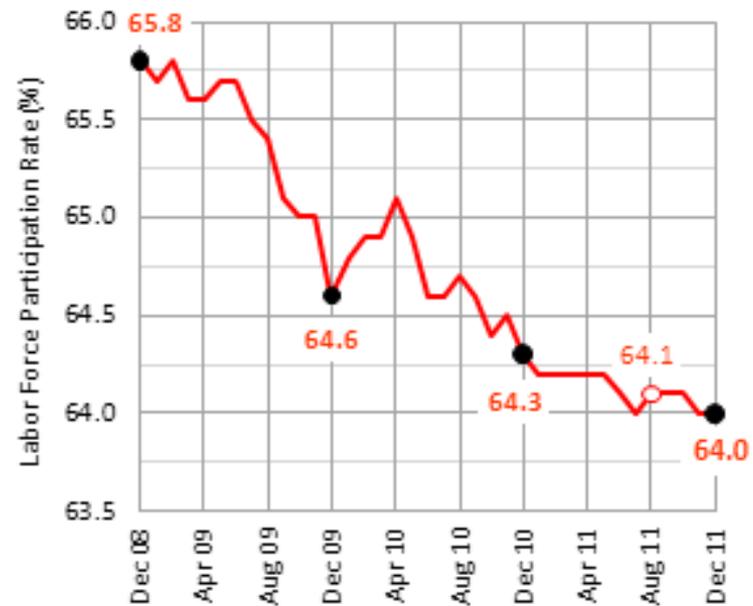
California Labor Force Participation Rate

December 2011; Seasonally Adjusted Data



U.S. Labor Force Participation Rate

December 2011; Seasonally Adjusted Data

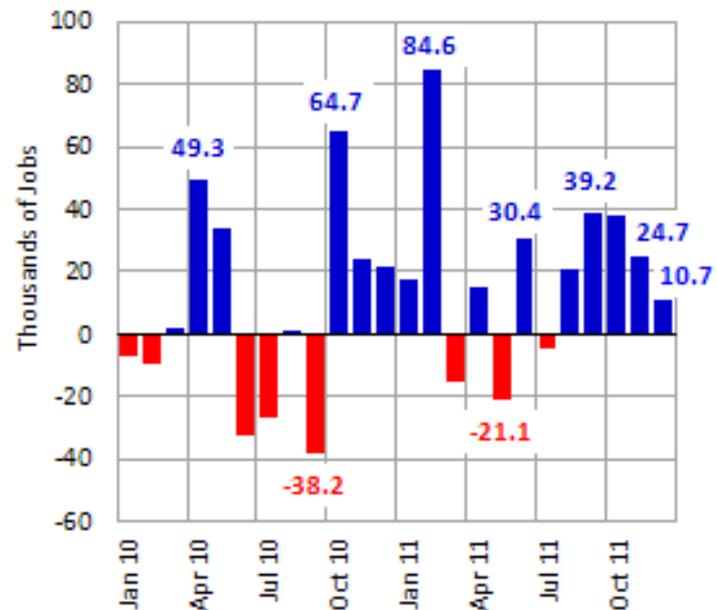


Nonfarm job growth in California continues to gather pace.

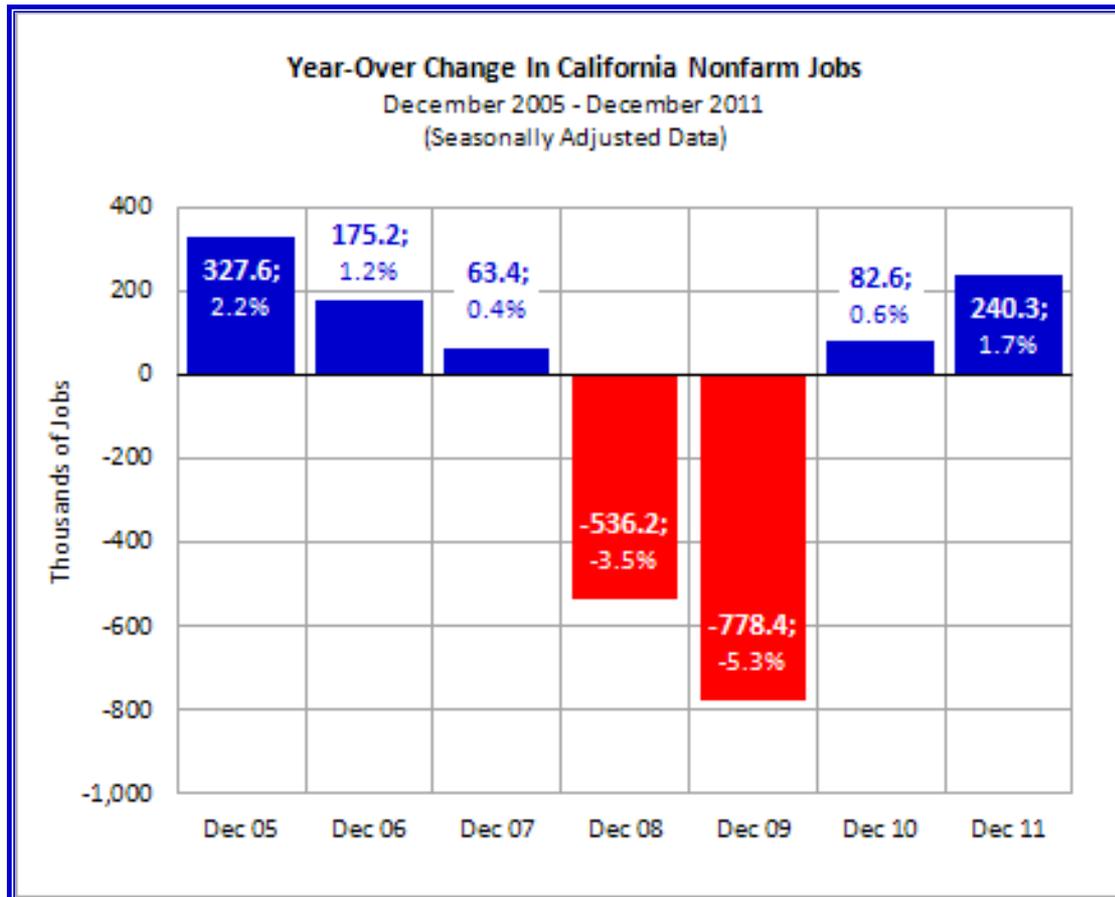
California Nonfarm Jobs: Three-Year Trend
December 2011; Seasonally Adjusted Data



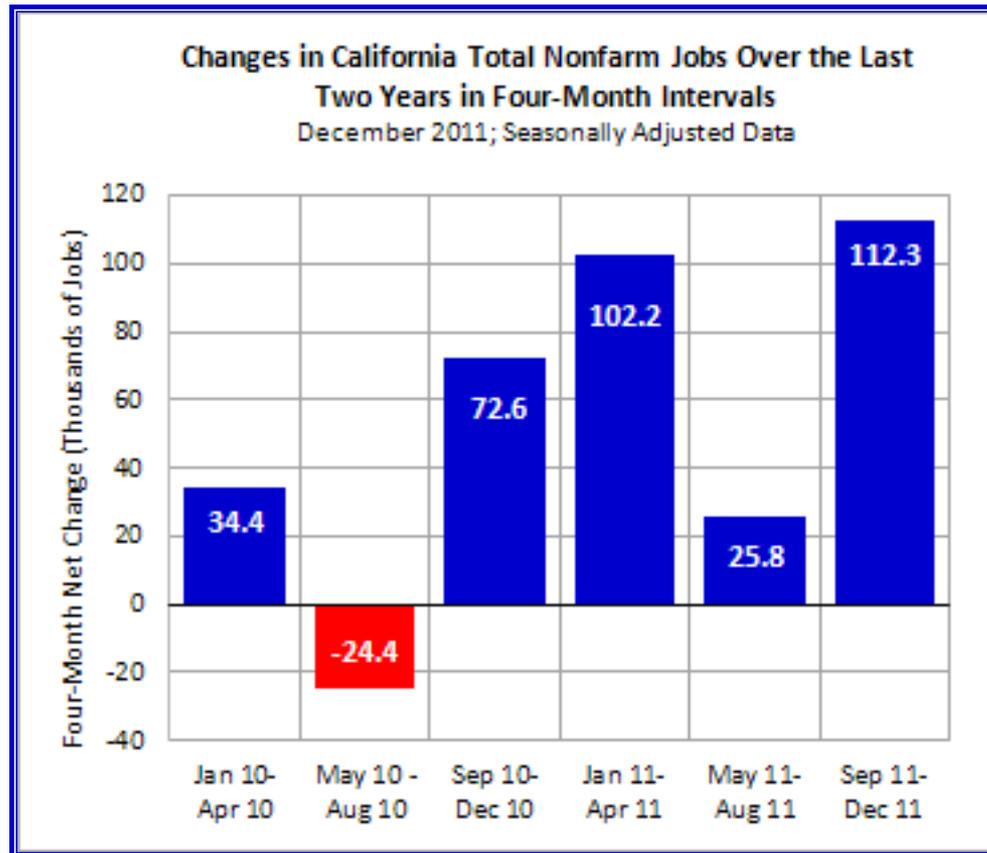
Month-Over Changes in California
Total Nonfarm Jobs
December 2011; Seasonally Adjusted Data



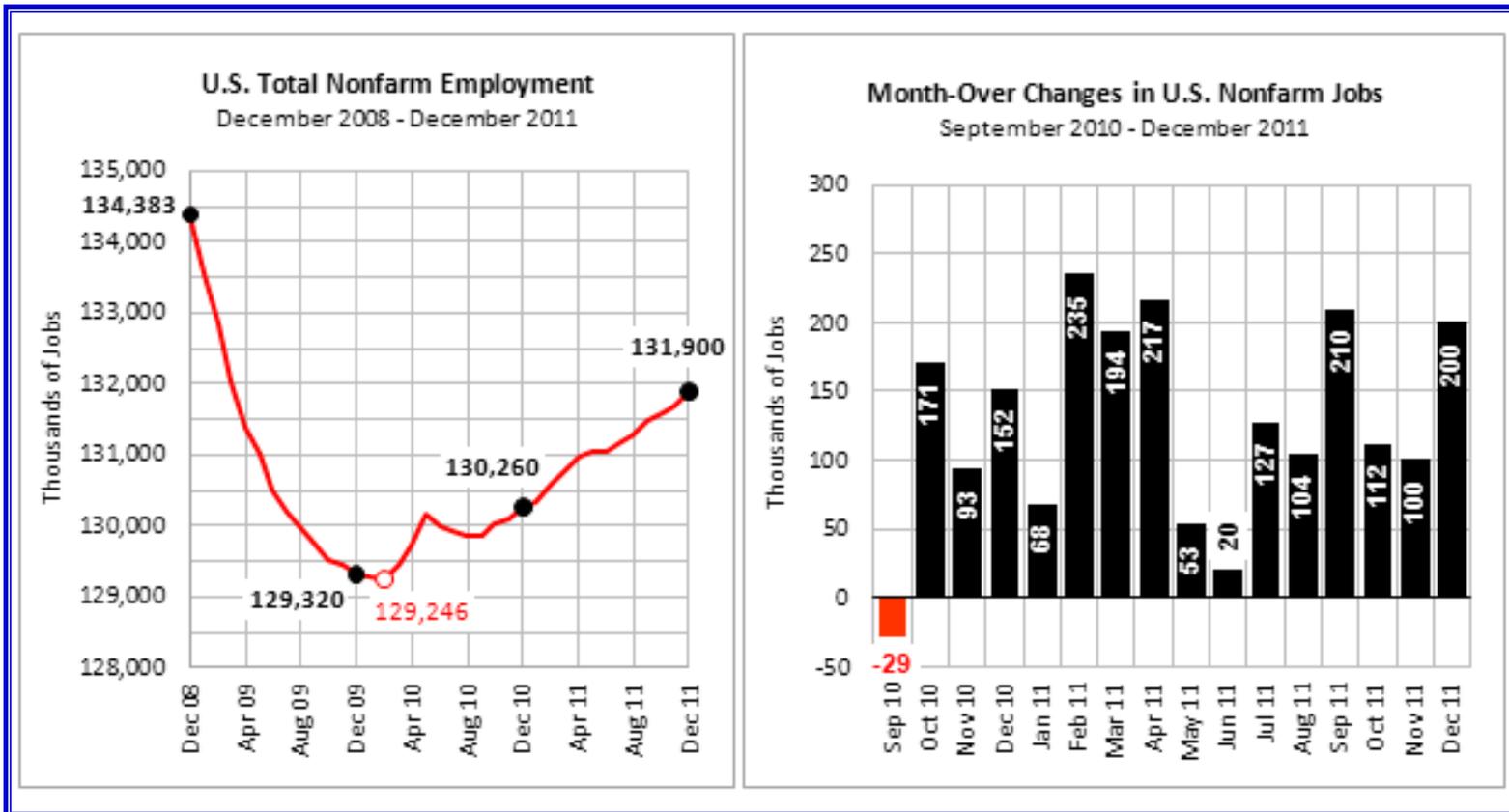
California's job growth in 2011 was its strongest since 2005.



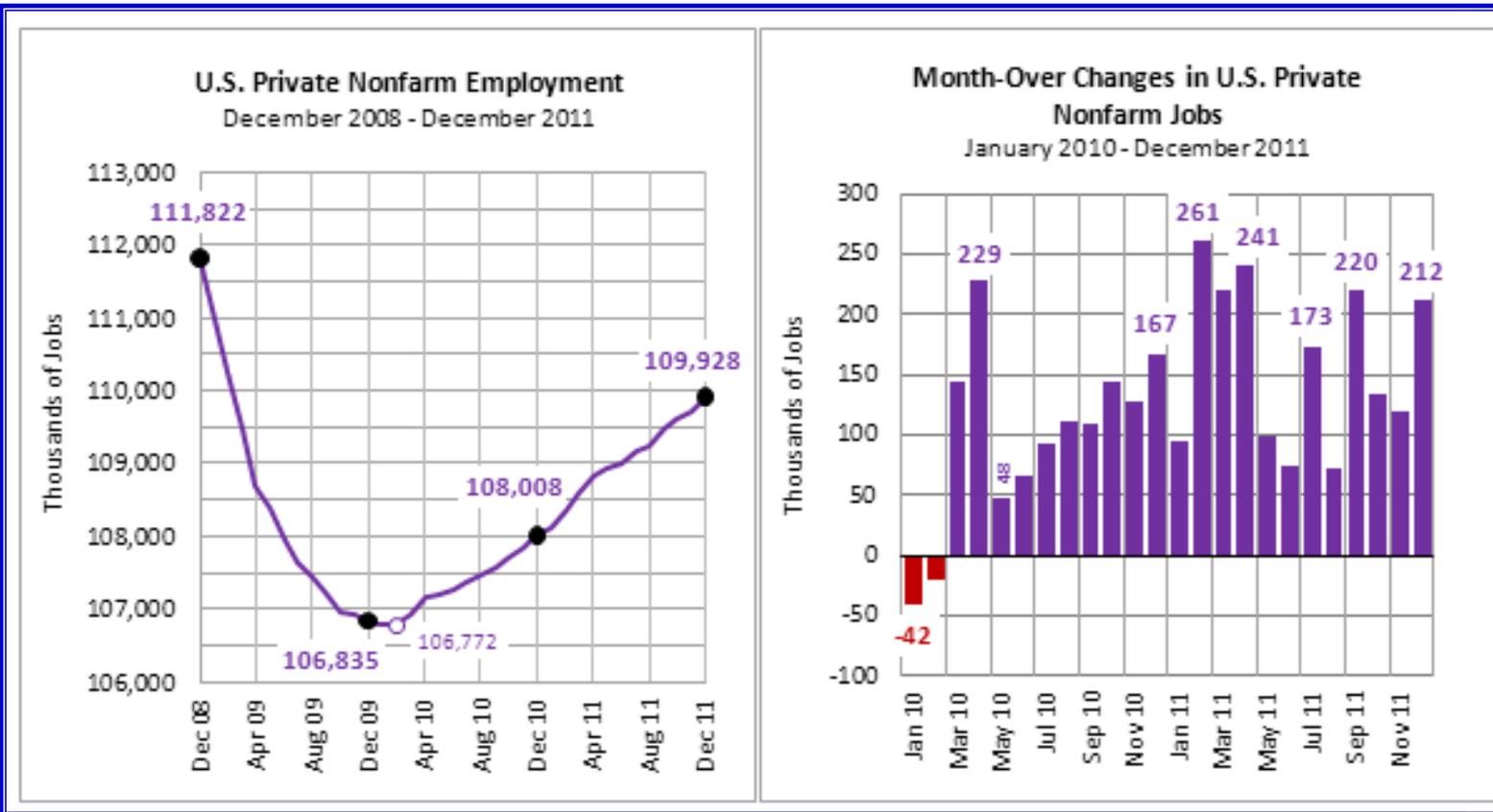
Job Growth in the state accelerated over the last four months of 2011.



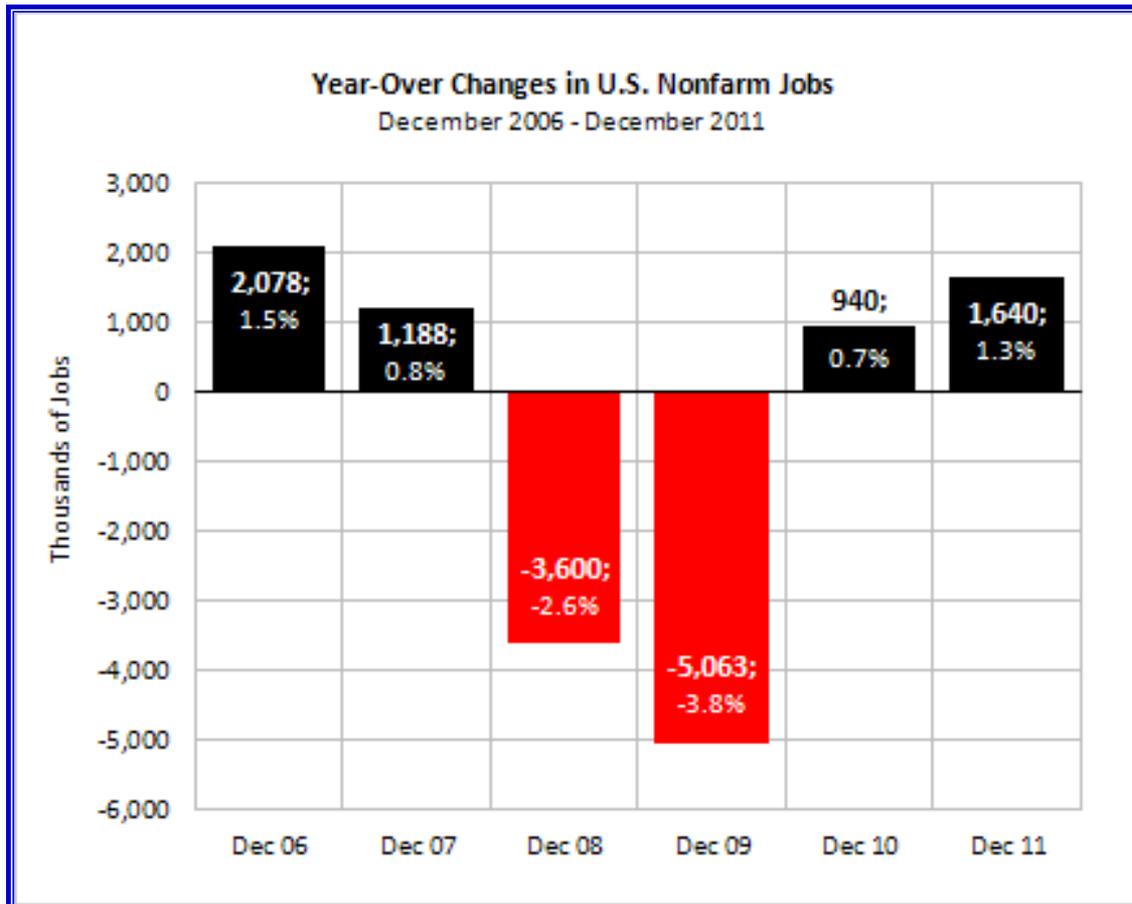
U.S. nonfarm employment continues to grow at a steady pace. December 2011 marked the nation's U.S. experienced its 15th consecutive month of job growth in December.



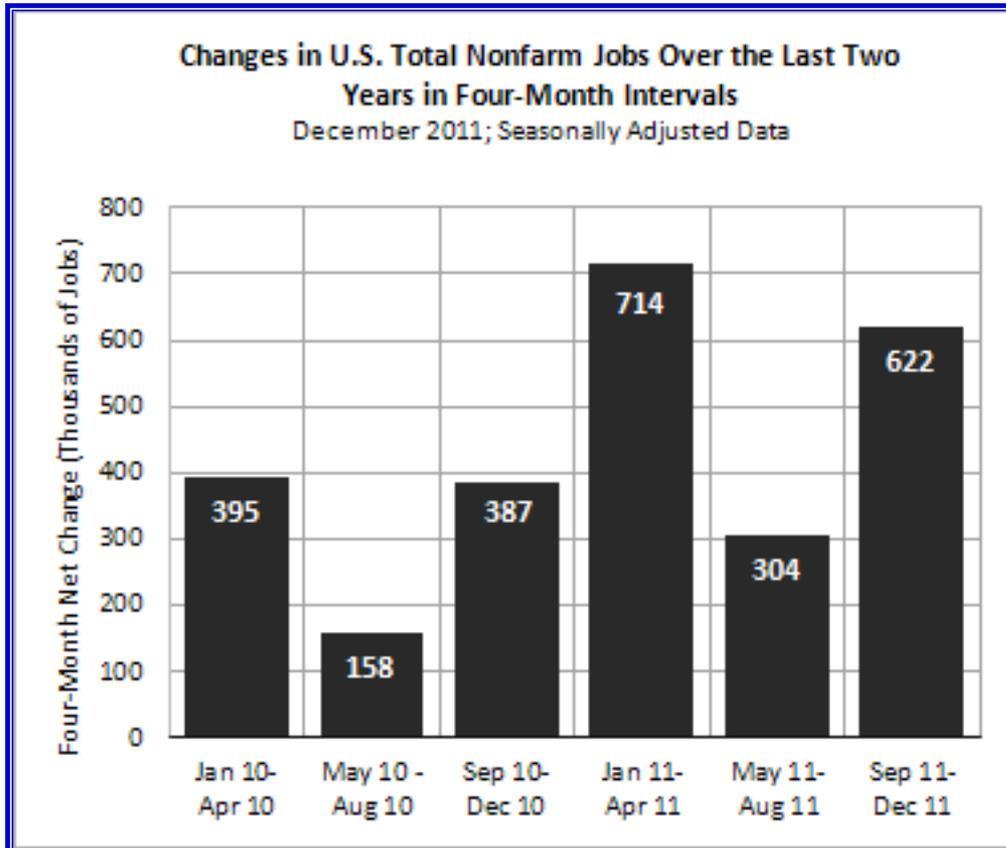
Private U.S. nonfarm employment grew for the 22nd consecutive month of job growth in December 2011.



The nation gained a little over 1.6 million nonfarm jobs over the course of 2011. This was its best year of job growth since 2006.



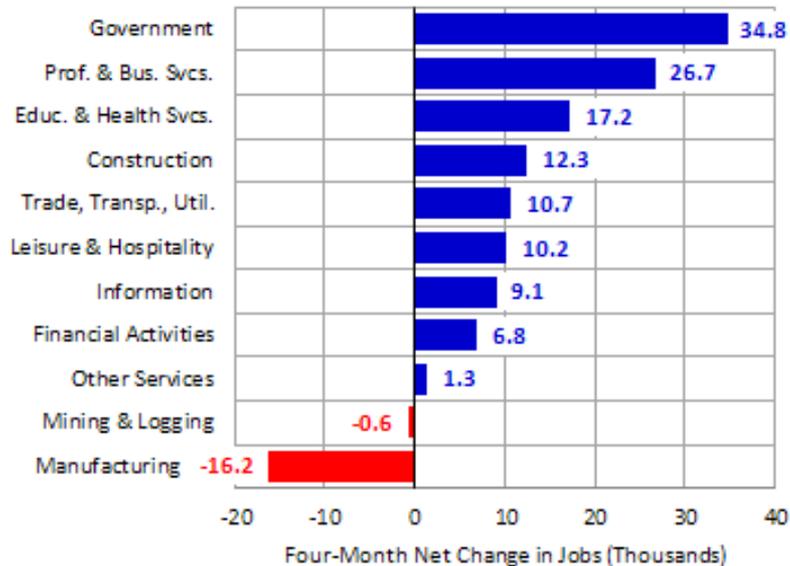
Although U.S. job growth rebounded from a mid-year lull during the last four months of 2011, it does not appear to have experienced a comparable acceleration in growth as California.



Industry job growth in California and the nation over the last four months compared.

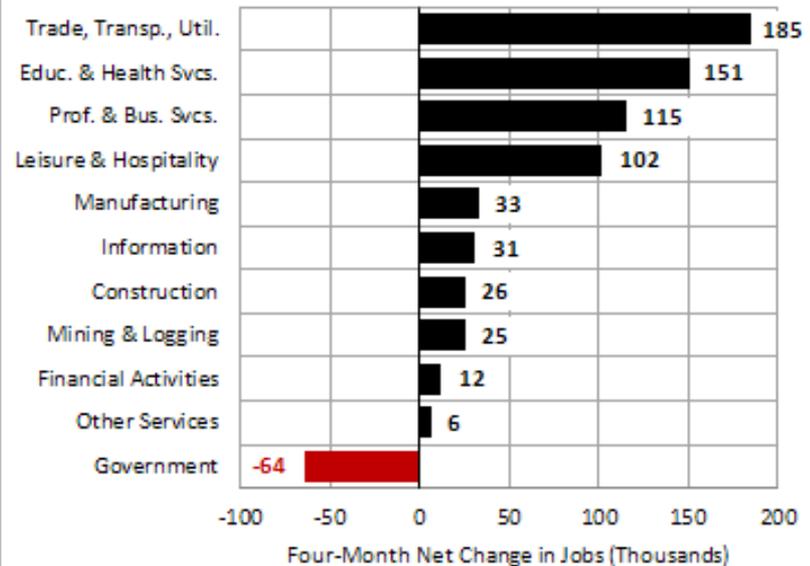
Net Change in California Industry Sector Jobs During the Months of September 2011 Through December 2011

(December 2011; Seasonally Adjusted Data)



Net Change in U.S. Industry Sector Jobs During the Months of September 2011 Through December 2011

(December 2011; Seasonally Adjusted Data)

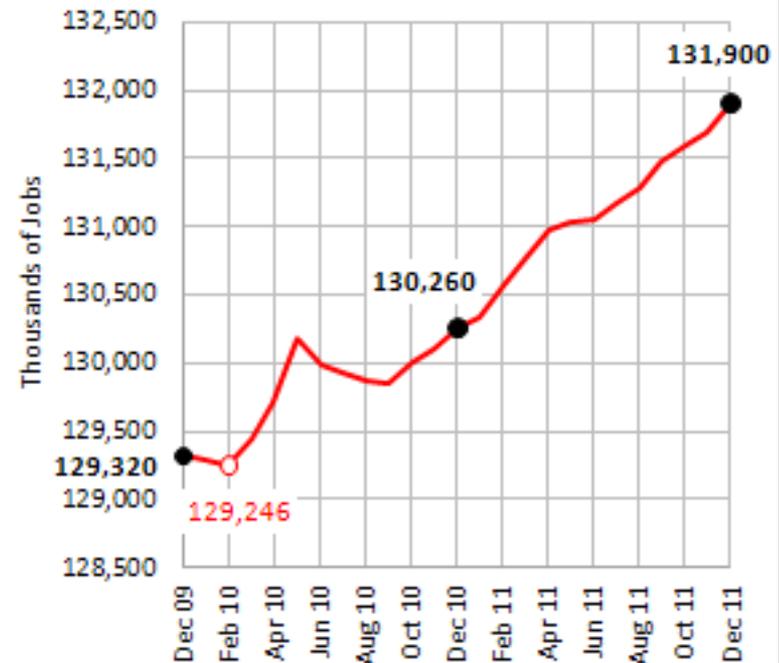


Two-Year Trend in California and U.S. Nonfarm Payrolls

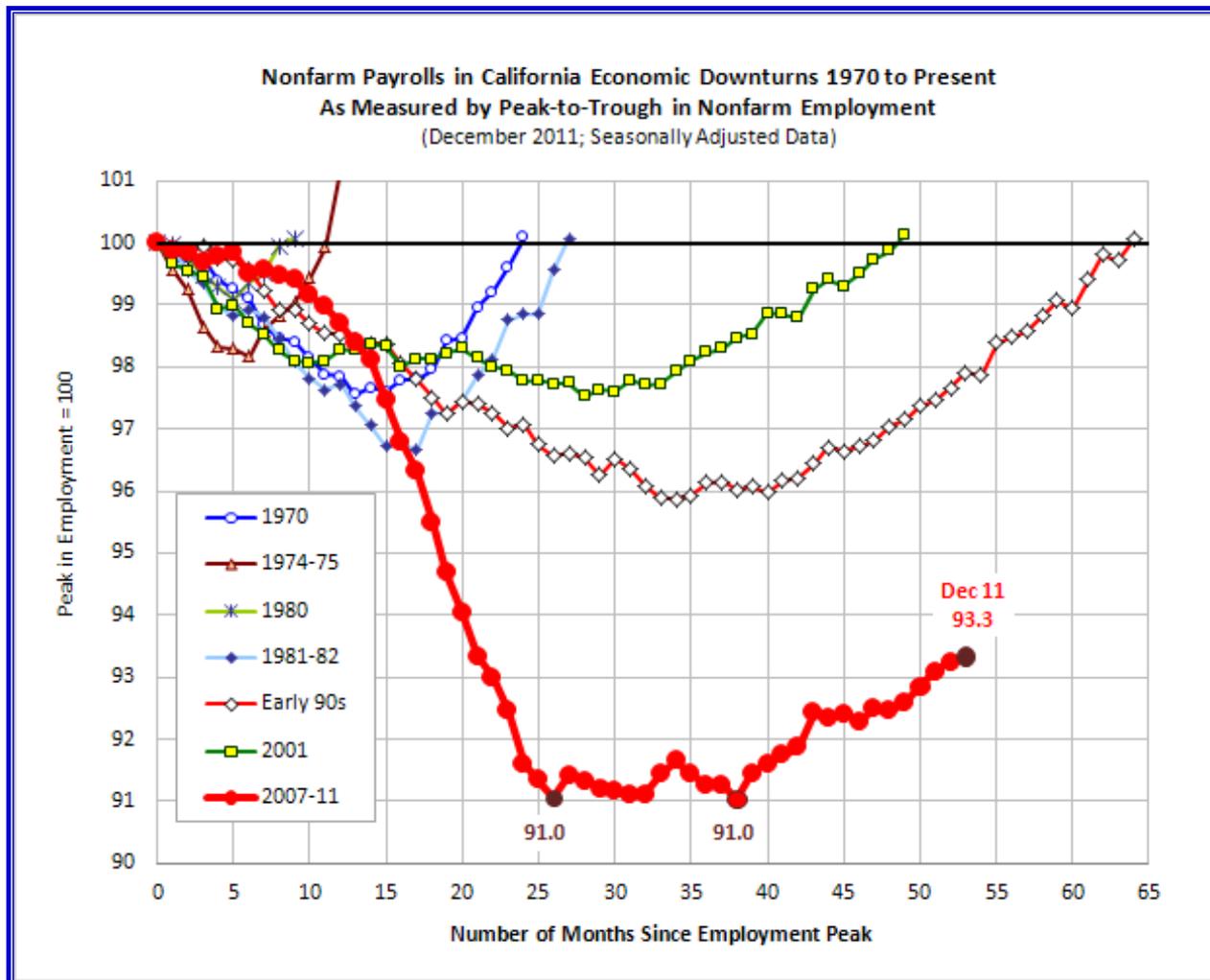
California Nonfarm Jobs: Two-Year Trend
December 2011; Seasonally Adjusted Data



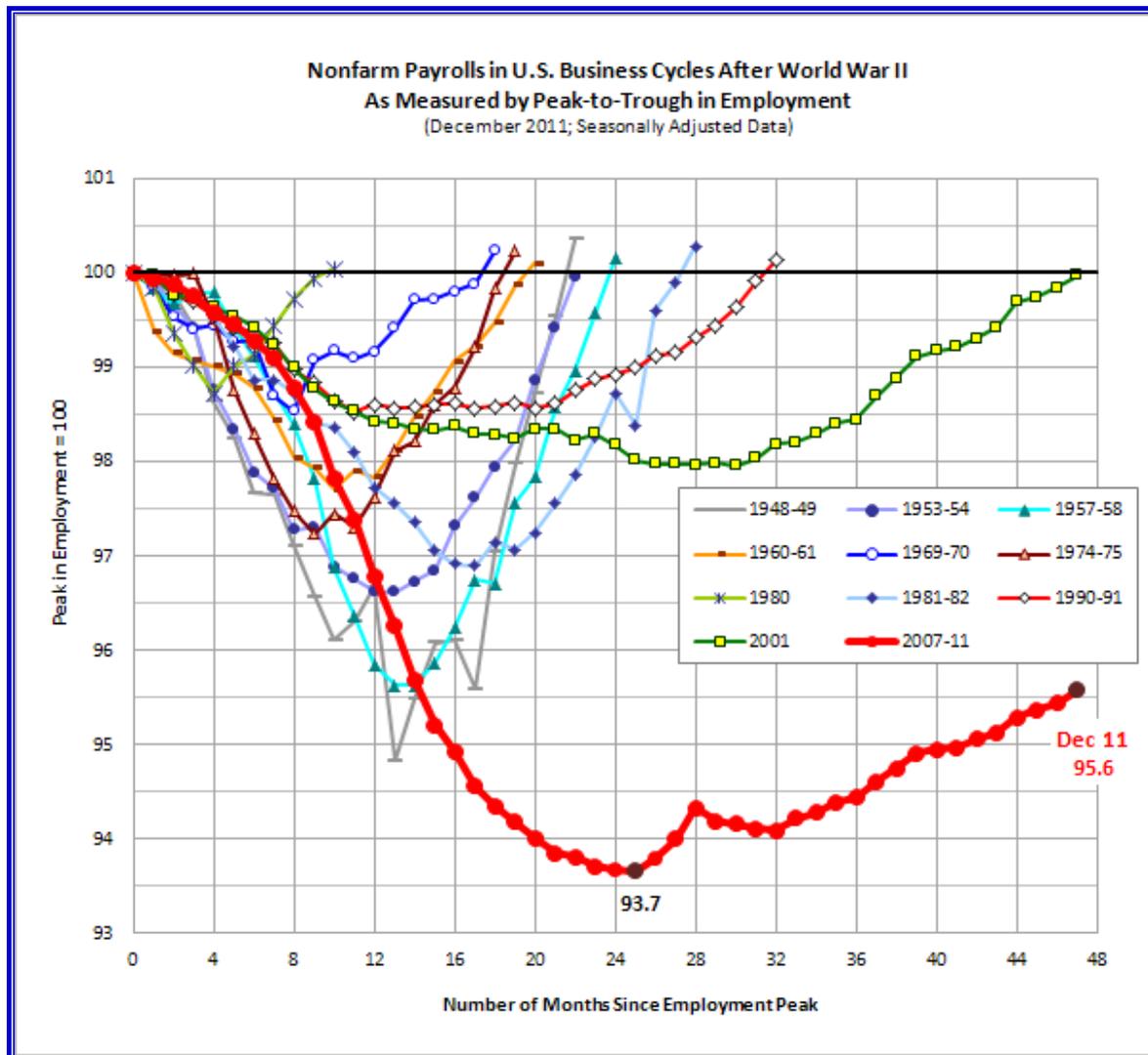
U.S. Total Nonfarm Employment
December 2009 - December 2011



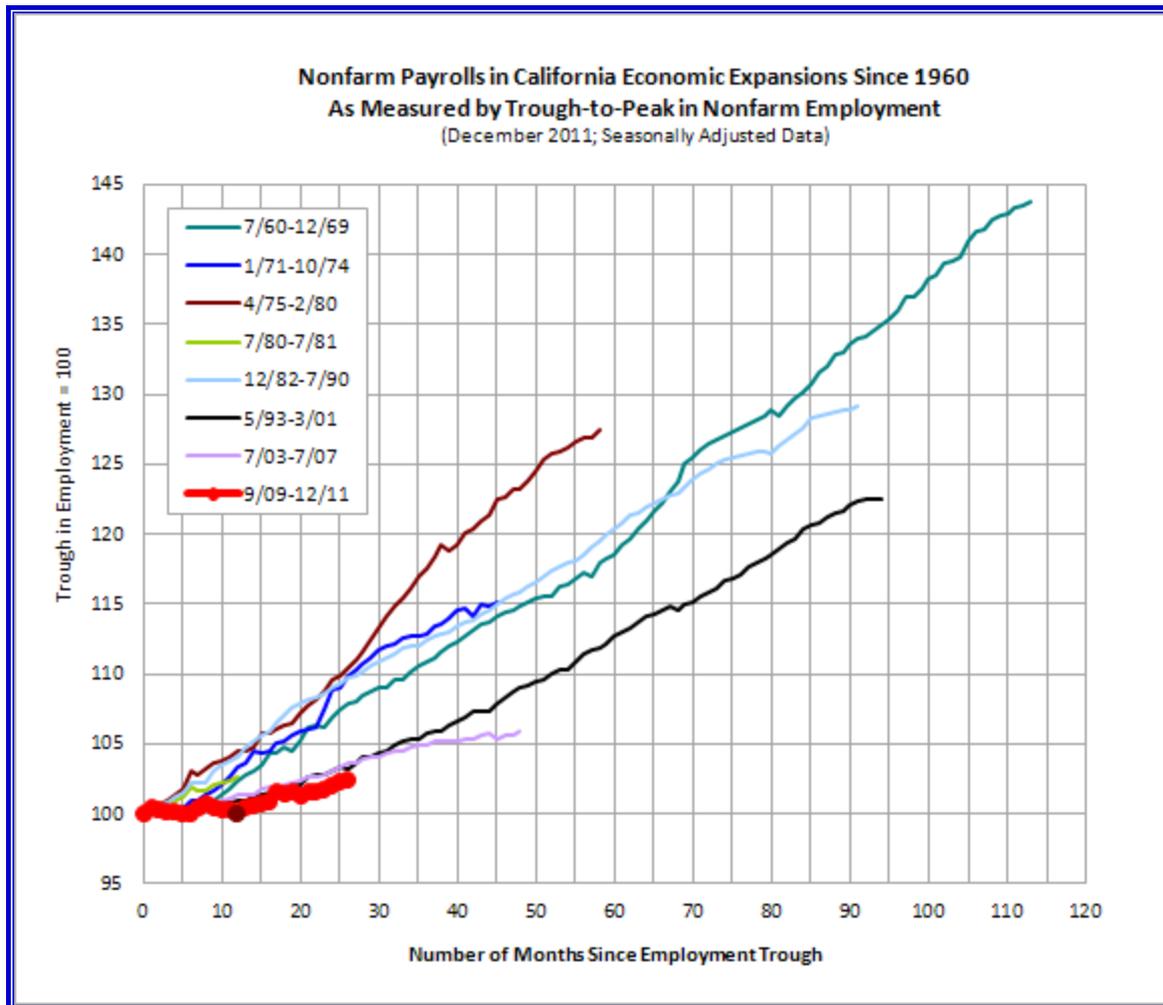
Business Cycles Compared: California Today



Business Cycles Compared: U.S.

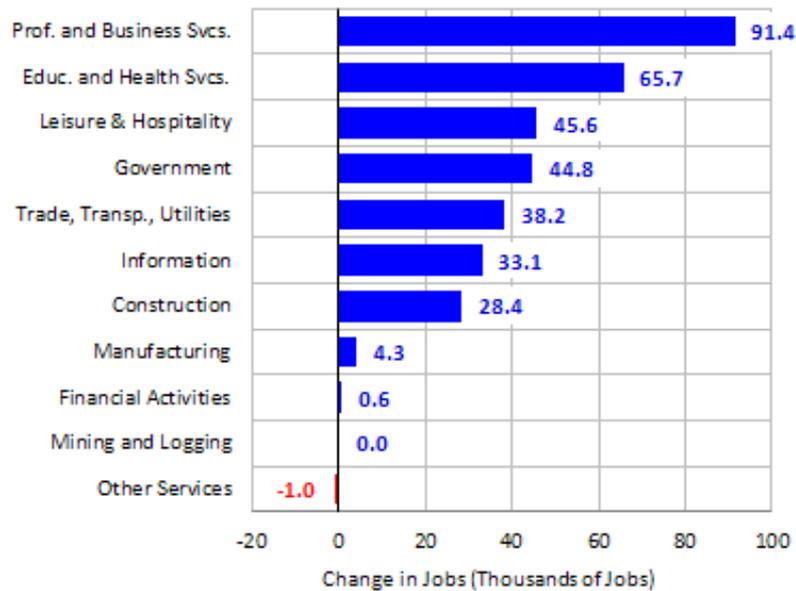


Economic Recoveries Compared: California

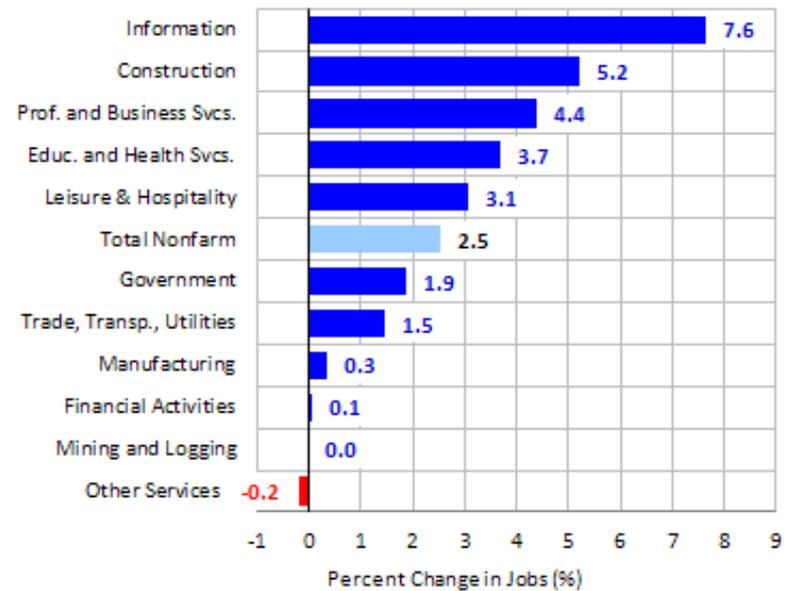


California Recovery: From September 2010 through December 2011, California gained 351,100 jobs, growing by an average of 23,400 jobs per month. This growth has been widespread across California industries.

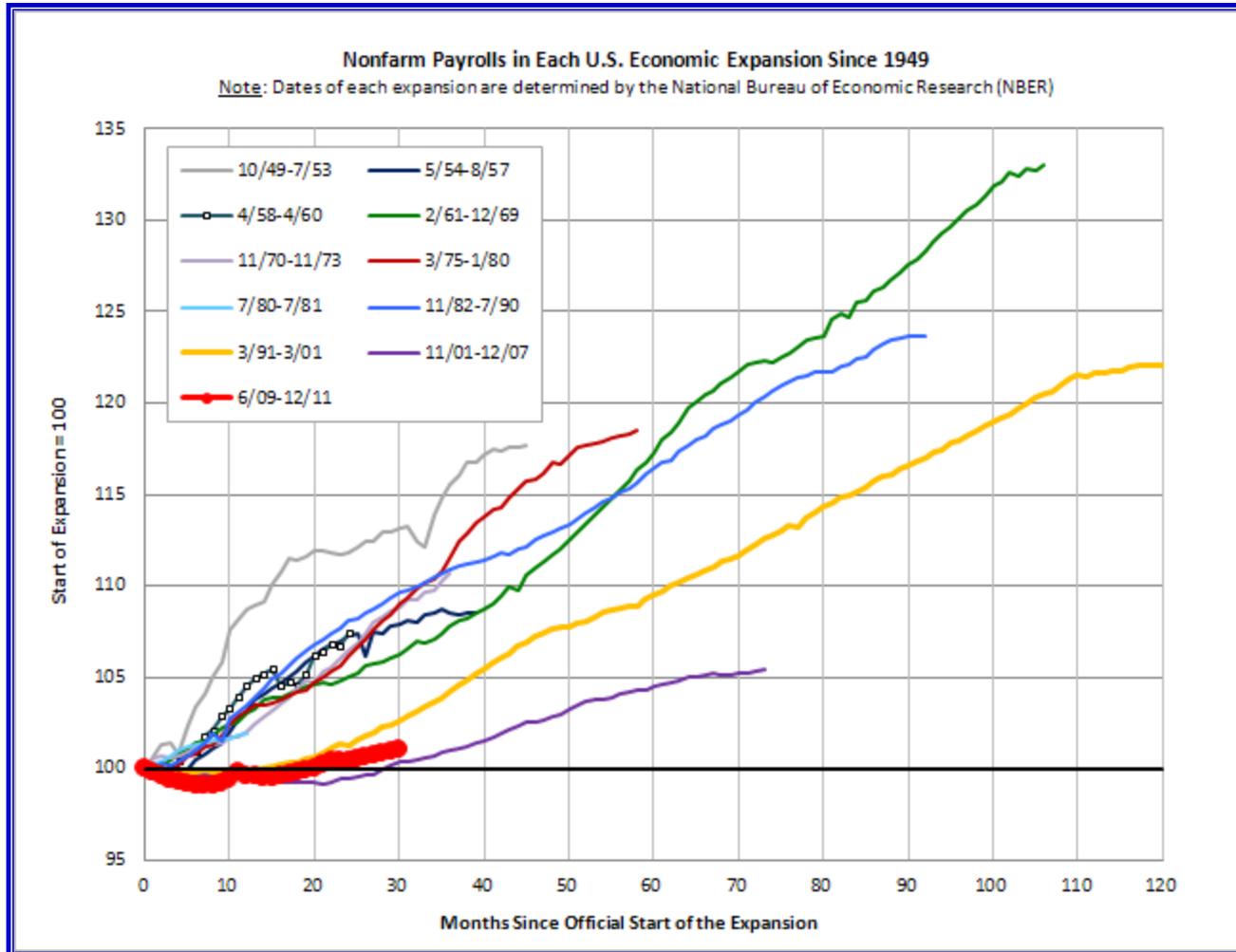
Changes in California Industry Sector Jobs During the Current Recovery: September 2010-December 2011
(Seasonally Adjusted Data)



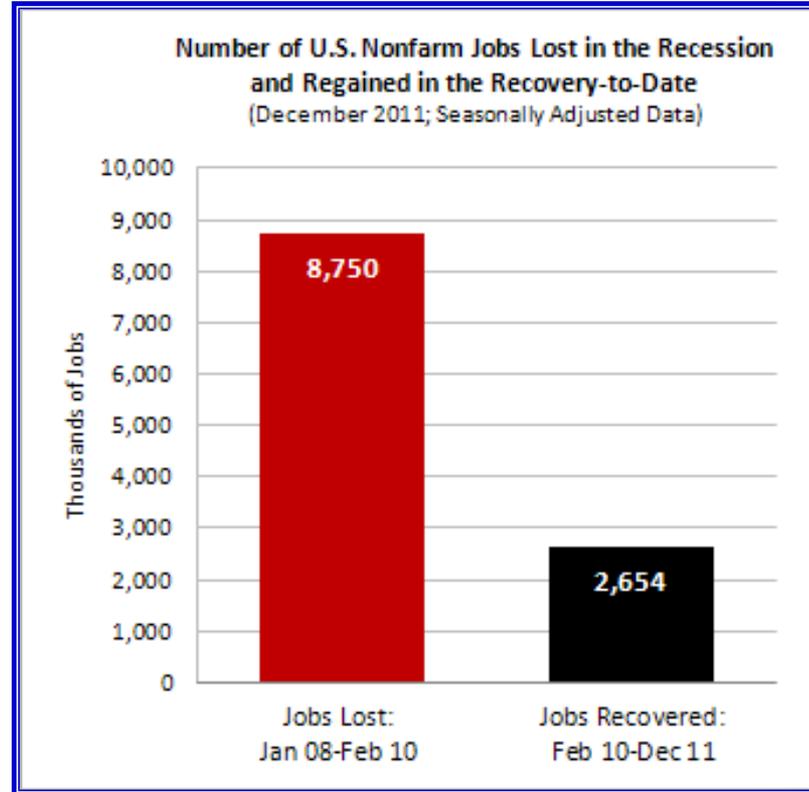
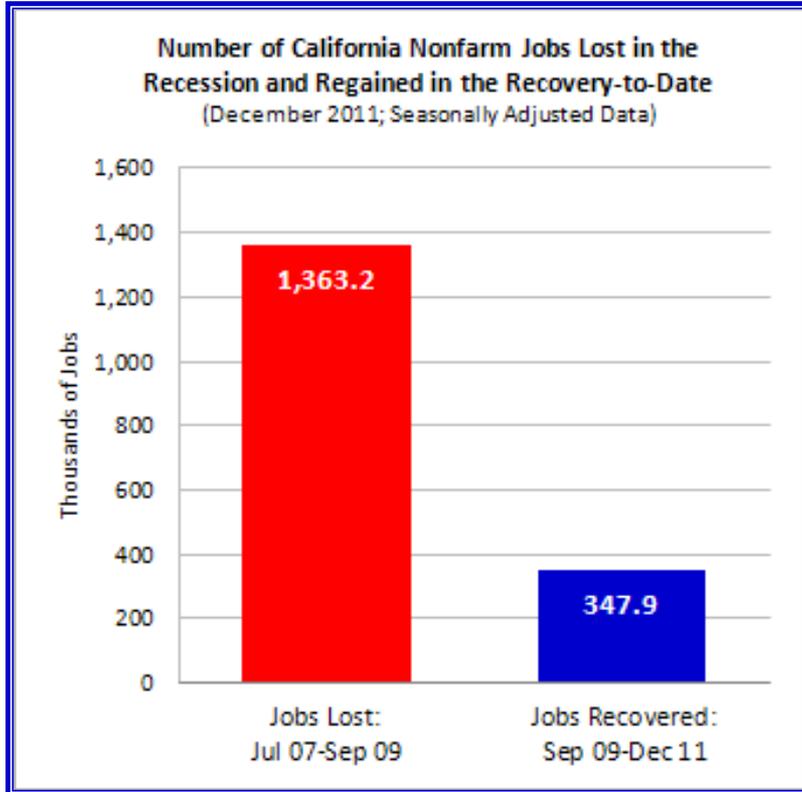
Percent Changes in California Industry Sector Jobs During the Current Recovery: September 2010-December 2011
(Seasonally Adjusted Data)



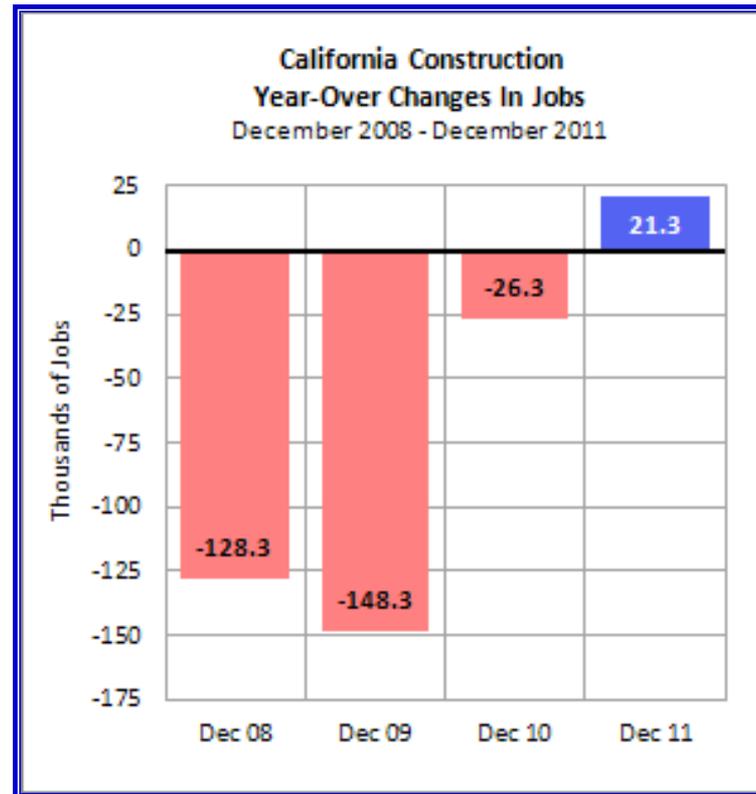
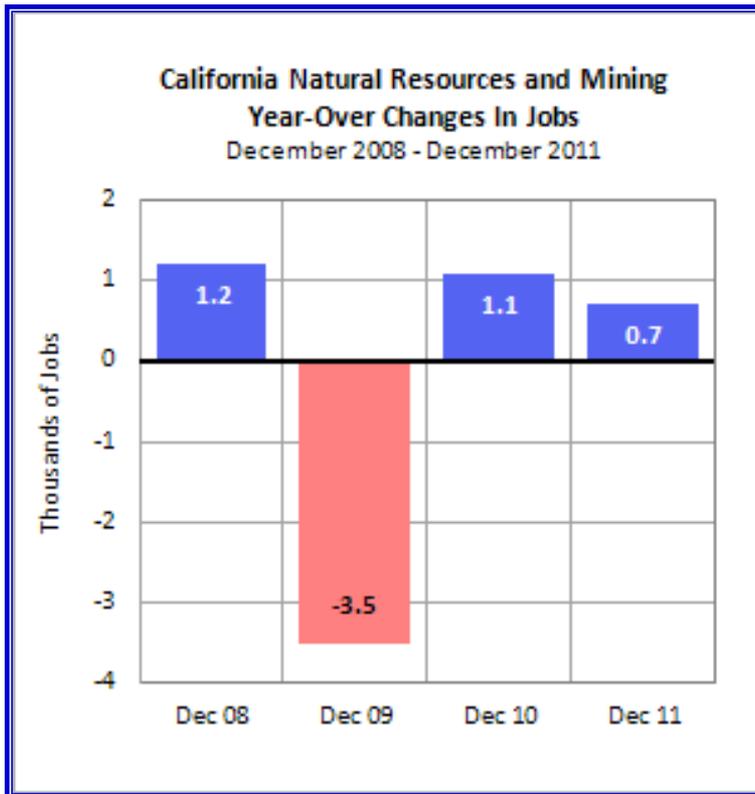
U.S. Economic Expansions Since 1948 Compared



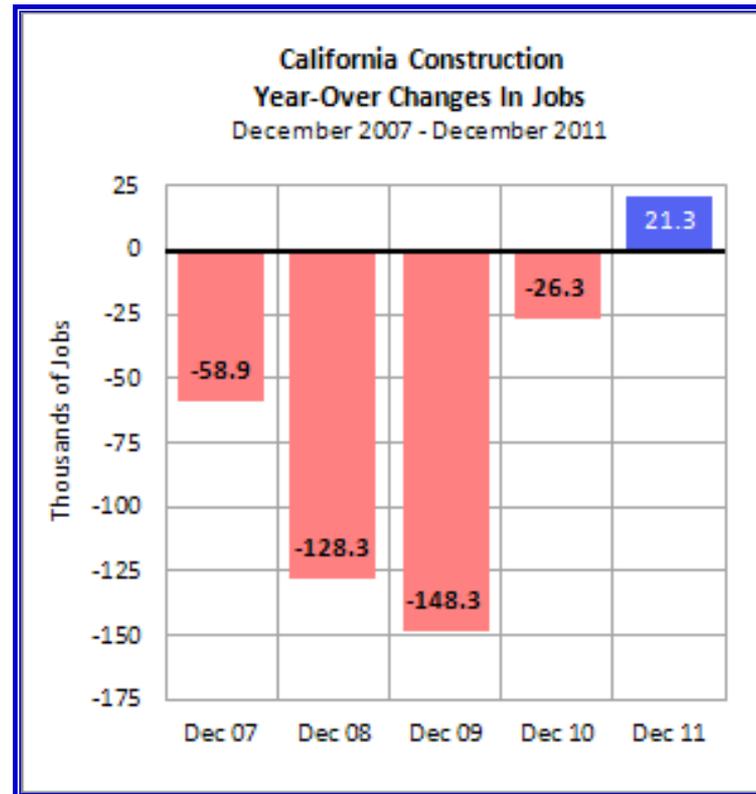
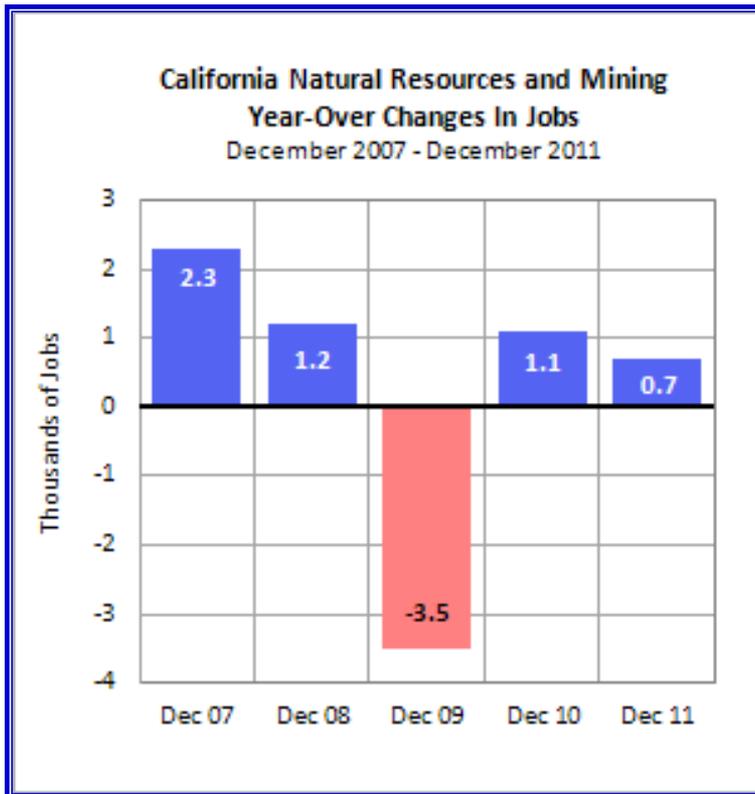
However, the recovery still has a long way to go...



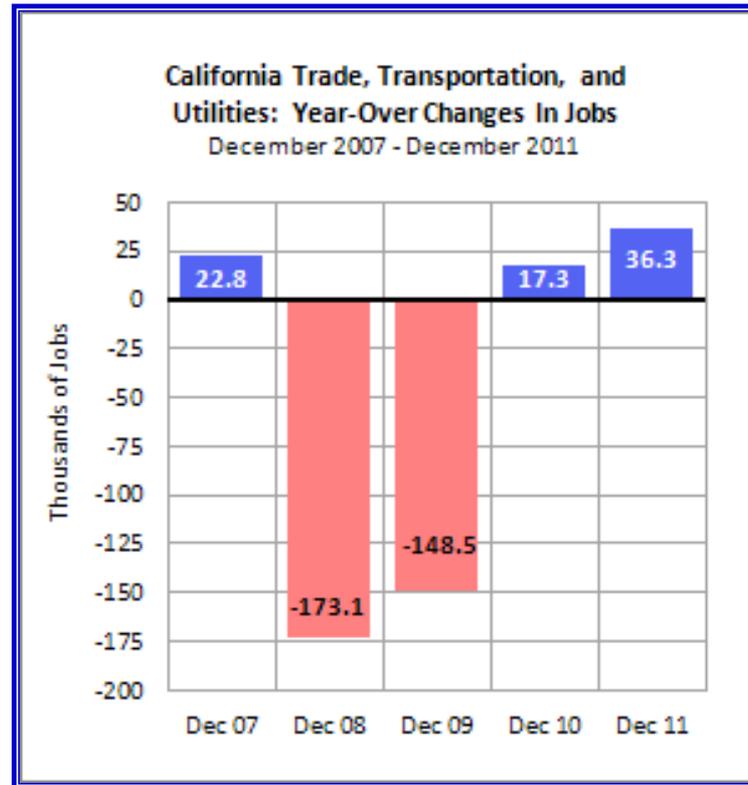
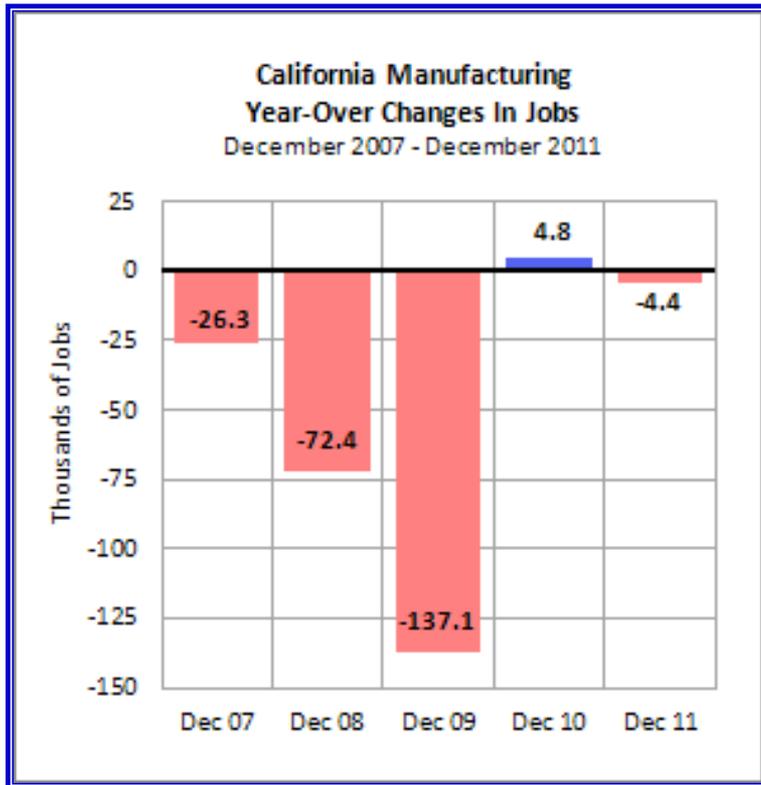
Year-Over Changes in California Industry Sector Jobs : 2007 - 2011



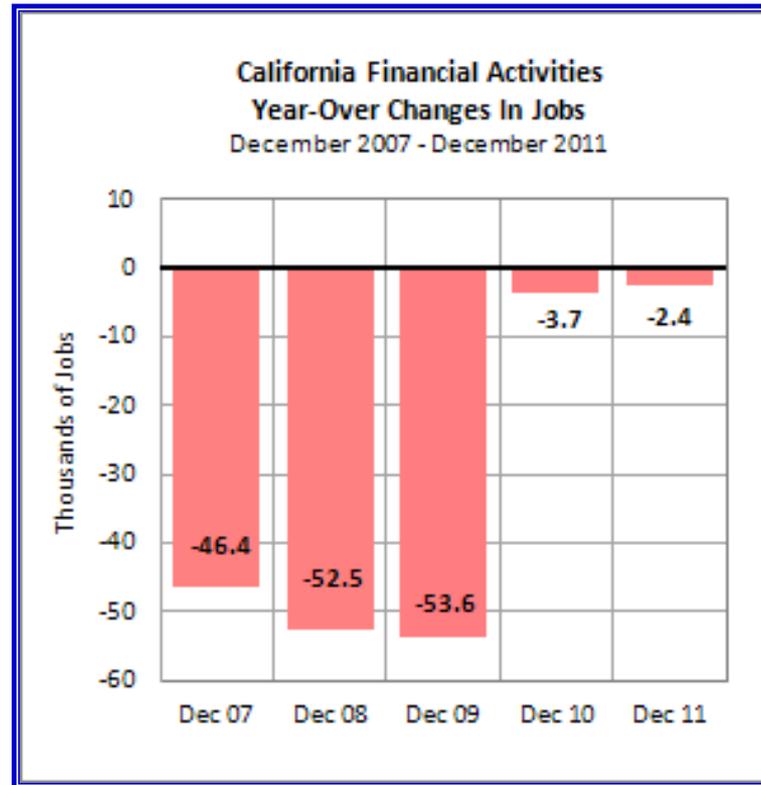
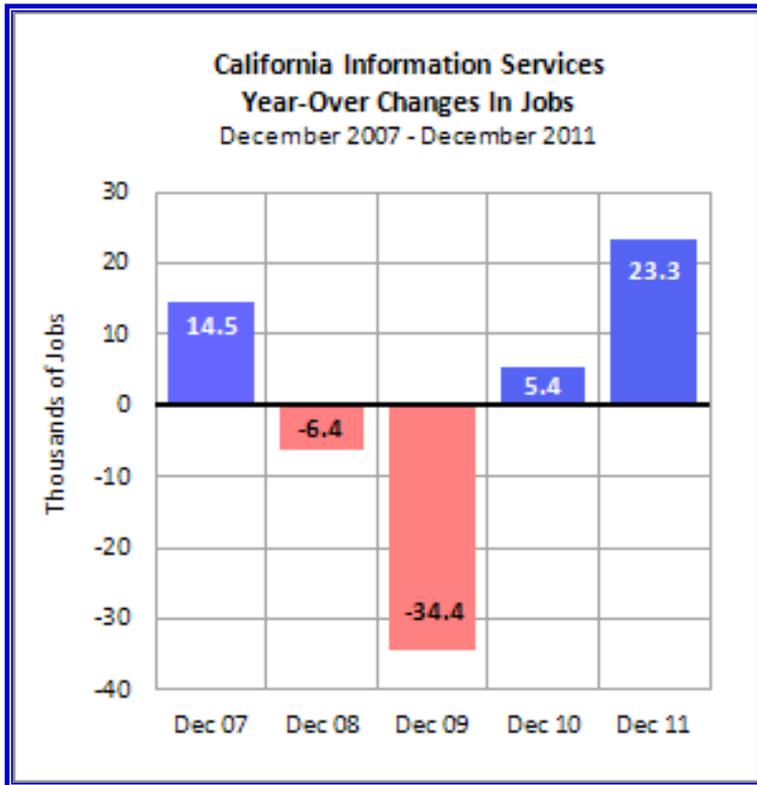
Year-Over Changes in California Industry Sector Jobs : 2007 - 2011



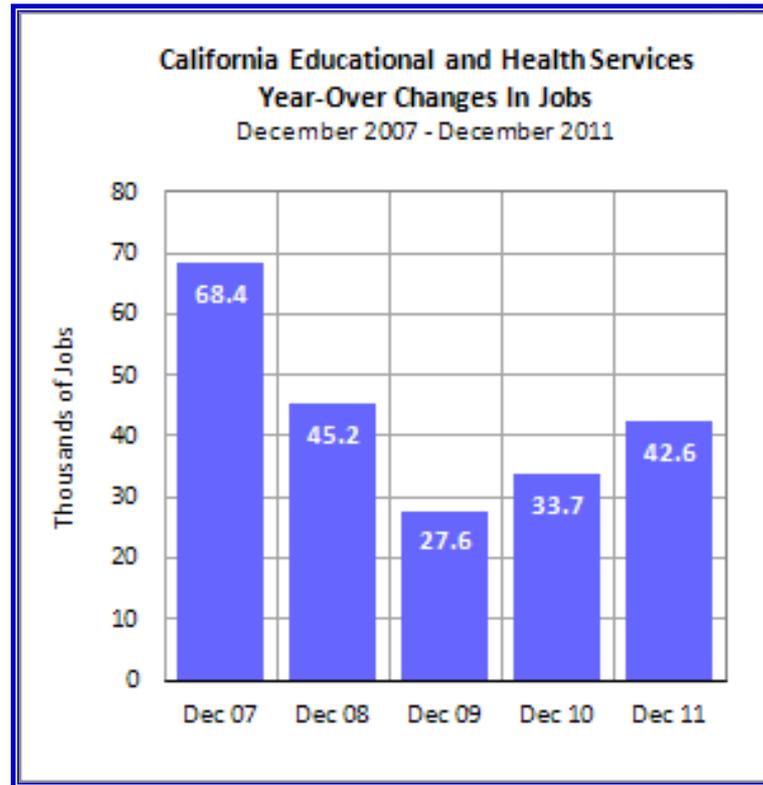
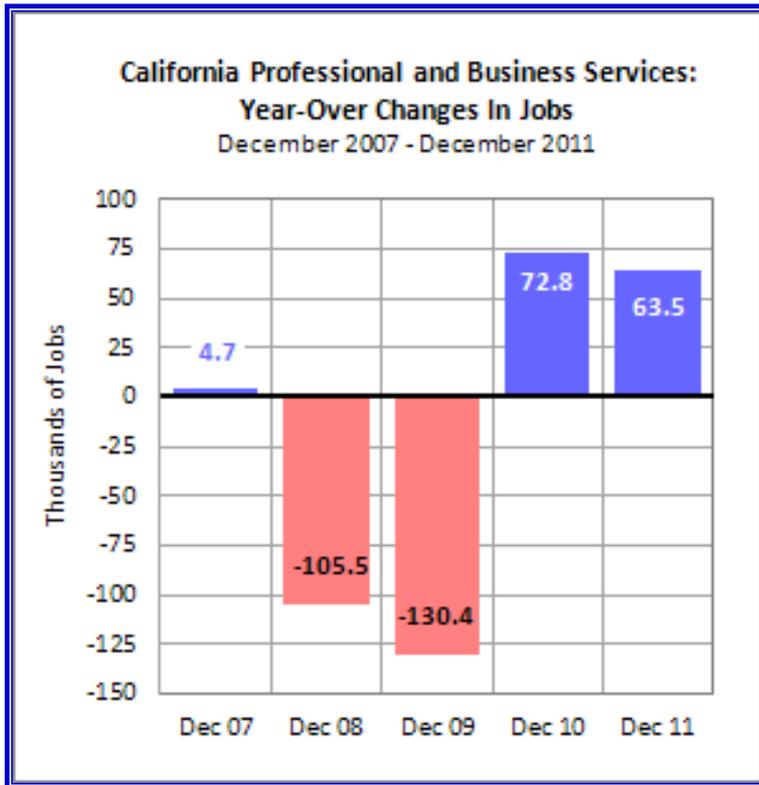
Year-Over Changes in California Industry Sector Jobs : 2007 - 2011



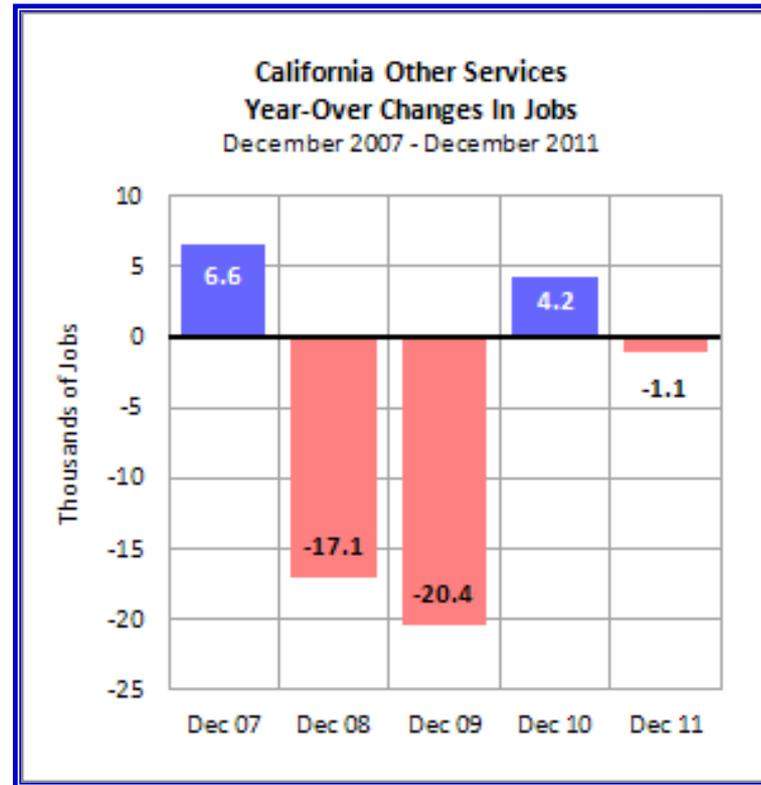
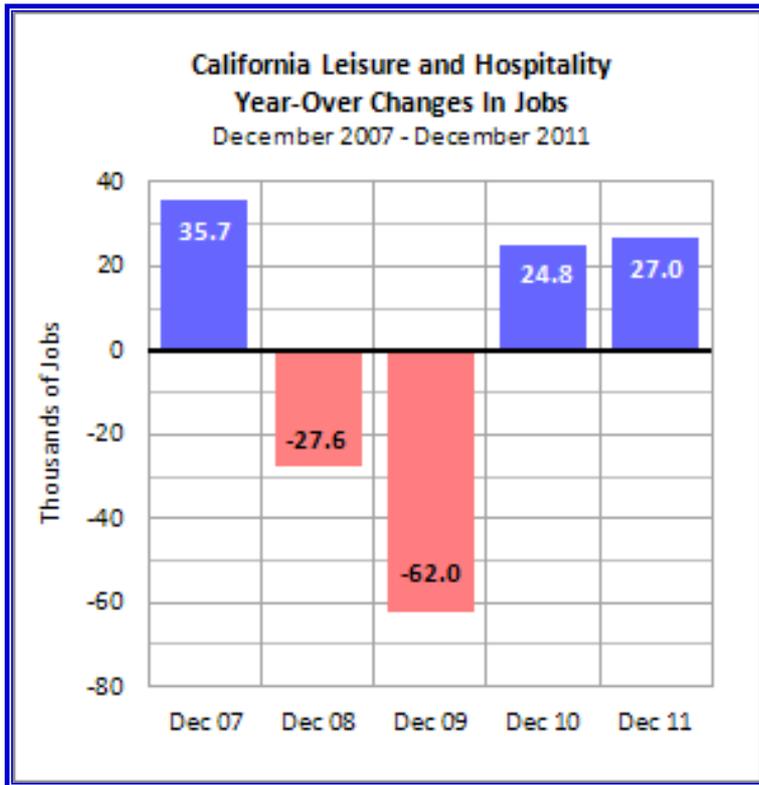
Year-Over Changes in California Industry Sector Jobs : 2007 - 2011



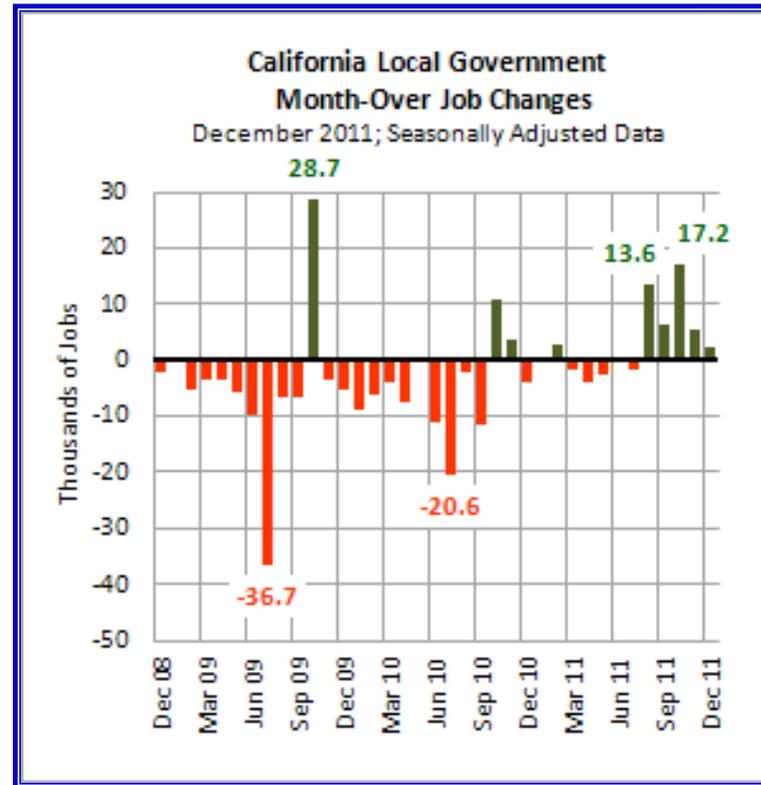
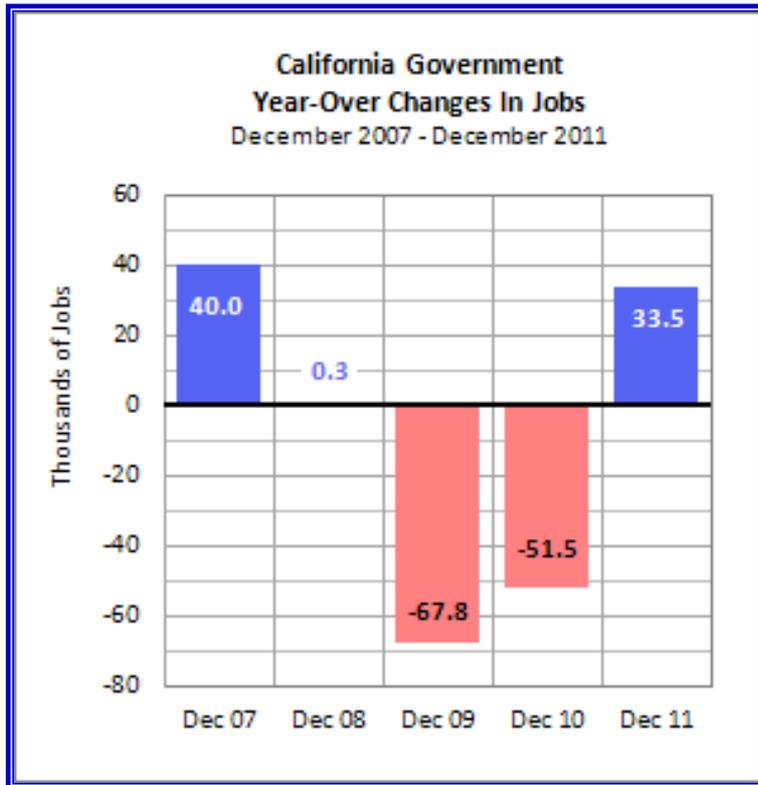
Year-Over Changes in California Industry Sector Jobs : 2007 – 2011



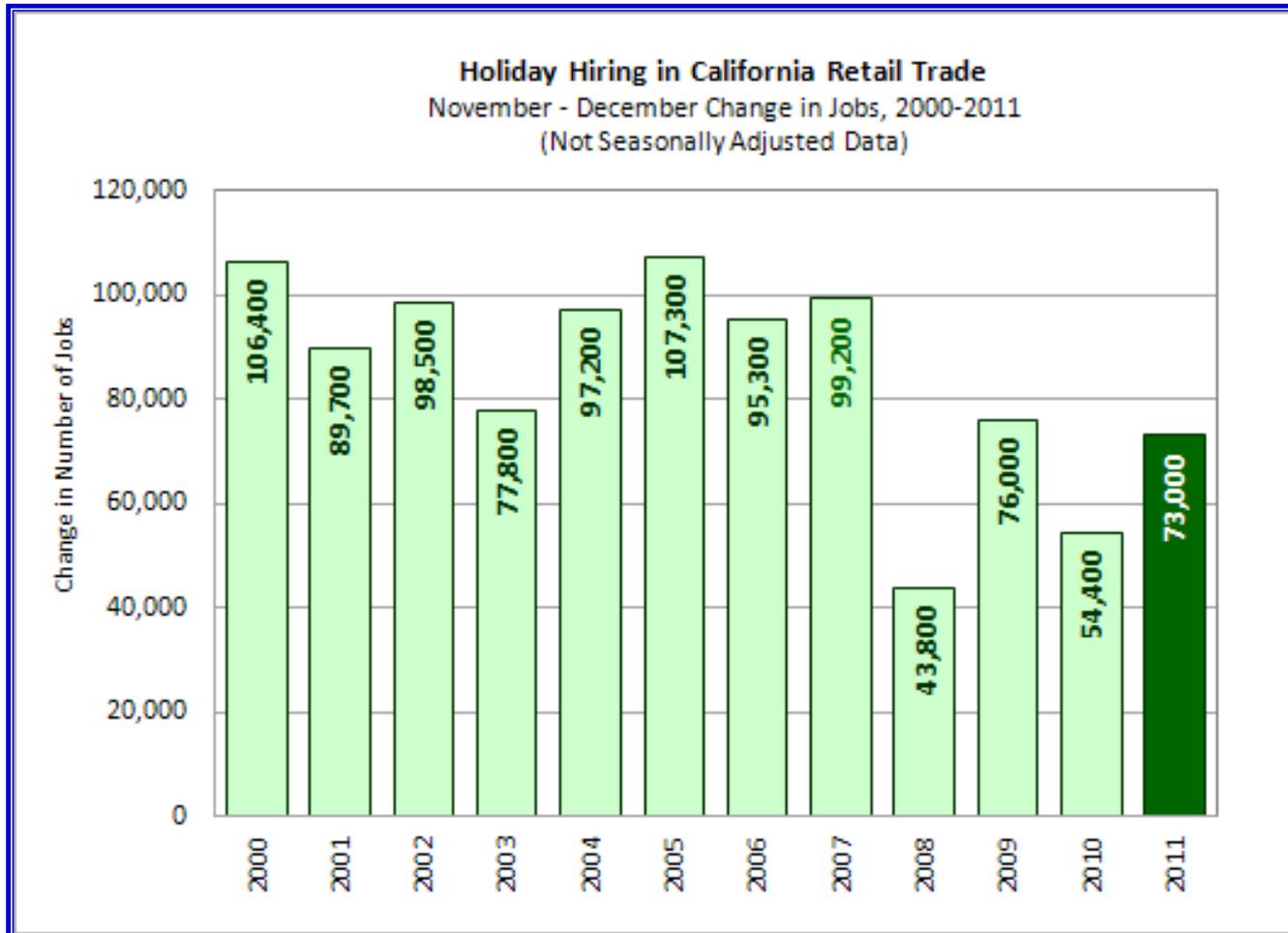
Year-Over Changes in California Industry Sector Jobs : 2007 - 2011



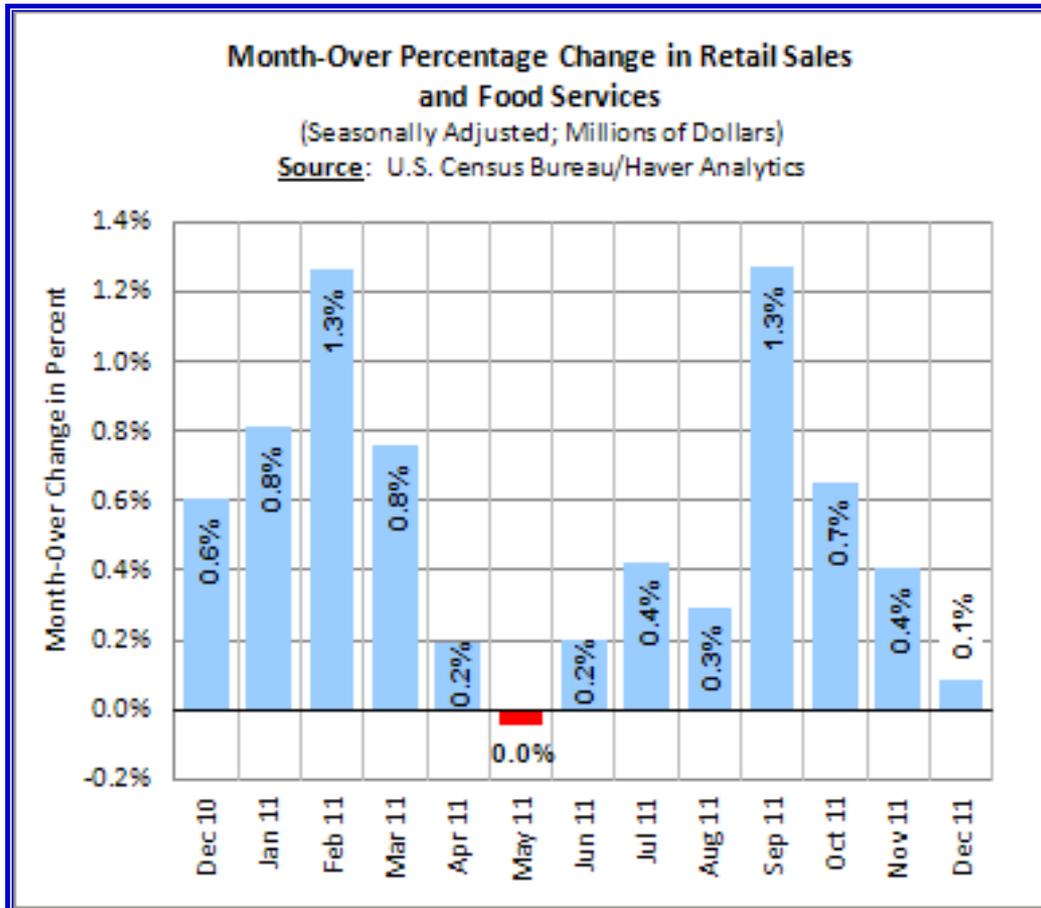
Year-Over Changes in California Industry Sector Jobs : 2007 – 2011



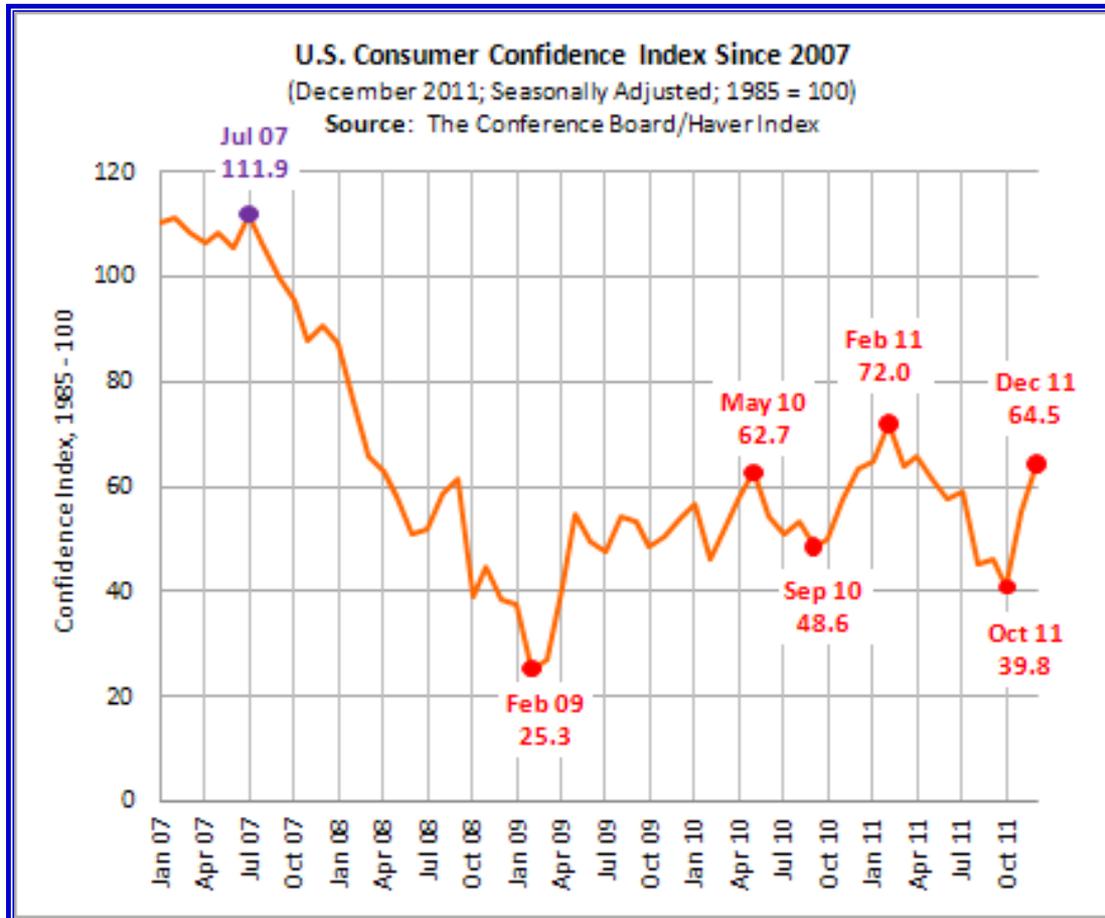
Holiday Hiring in Retail Trade in California (November and December)



U.S. Retail Sales and Food Services



Consumer Confidence



**Changes in Nonfarm Jobs in California's Metropolitan Divisions (MDs)
and Metropolitan Statistical Areas (MSAs) Since September 2010
(December 2011; Seasonally Adjusted Data)**

<u>Change in Number</u>		<u>Change in Percent</u>	
Los Angeles-Long Beach-Glendale MD	35,700	Redding MSA	5.3%
San Diego-Carlsbad-San Marcos MSA	33,500	Santa Cruz-Watsonville MSA	4.6%
San Jose-Sunnyvale-Santa Clara MSA	30,500	Hanford-Corcoran MSA	4.3%
Santa Ana-Anaheim-Irvine MD	28,100	Yuba City MSA	4.2%
Riverside-San Bernardino-Ontario MSA	26,100	Bakersfield Delano MSA	3.7%
San Francisco-San Mateo-Redwood City MD	16,300	San Jose-Sunnyvale-Santa Clara MSA	3.6%
Bakersfield Delano MSA	8,300	San Diego-Carlsbad-San Marcos MSA	2.7%
Oxnard-Thousand Oaks-Ventura MSA	6,900	Oxnard-Thousand Oaks-Ventura MSA	2.5%
Stockton MSA	4,600	Stockton MSA	2.5%
Santa Cruz-Watsonville MSA	3,900	Riverside-San Bernardino-Ontario MSA	2.4%
Sacramento-Arden Arcade-Roseville MSA	3,500	Santa Ana-Anaheim-Irvine MD	2.1%
Redding MSA	3,000	Napa MSA	1.9%
Hanford-Corcoran MSA	1,500	San Francisco-San Mateo-Redwood City MD	1.7%
Yuba City MSA	1,500	El Centro MSA	1.6%
Visalia-Porterville MSA	1,200	Visalia-Porterville MSA	1.1%
Napa MSA	1,100	Los Angeles-Long Beach-Glendale MD	1.0%
Fresno MSA	800	Salinas MSA	0.5%
El Centro MSA	700	Sacramento-Arden Arcade-Roseville MSA	0.4%
Salinas MSA	600	Santa Barbara-Santa Maria-Goleta MSA	0.4%
Santa Barbara-Santa Maria-Goleta MSA	600	Chico MSA	0.3%
Chico MSA	200	Fresno MSA	0.3%
Vallejo-Fairfield MSA	200	Vallejo-Fairfield MSA	0.2%
Oakland-Fremont-Hayward MD	100	Oakland-Fremont-Hayward MD	0.0%
Modesto MSA	0	Modesto MSA	0.0%
Madera-Chowchilla MSA	-100	San Luis Obispo-Paso Robles MSA	-0.3%
San Luis Obispo-Paso Robles MSA	-300	Madera-Chowchilla MSA	-0.3%
Santa Rosa-Petaluma MSA	-1,200	Santa Rosa-Petaluma MSA	-0.7%
Merced MSA	-1,800	Merced MSA	-3.2%

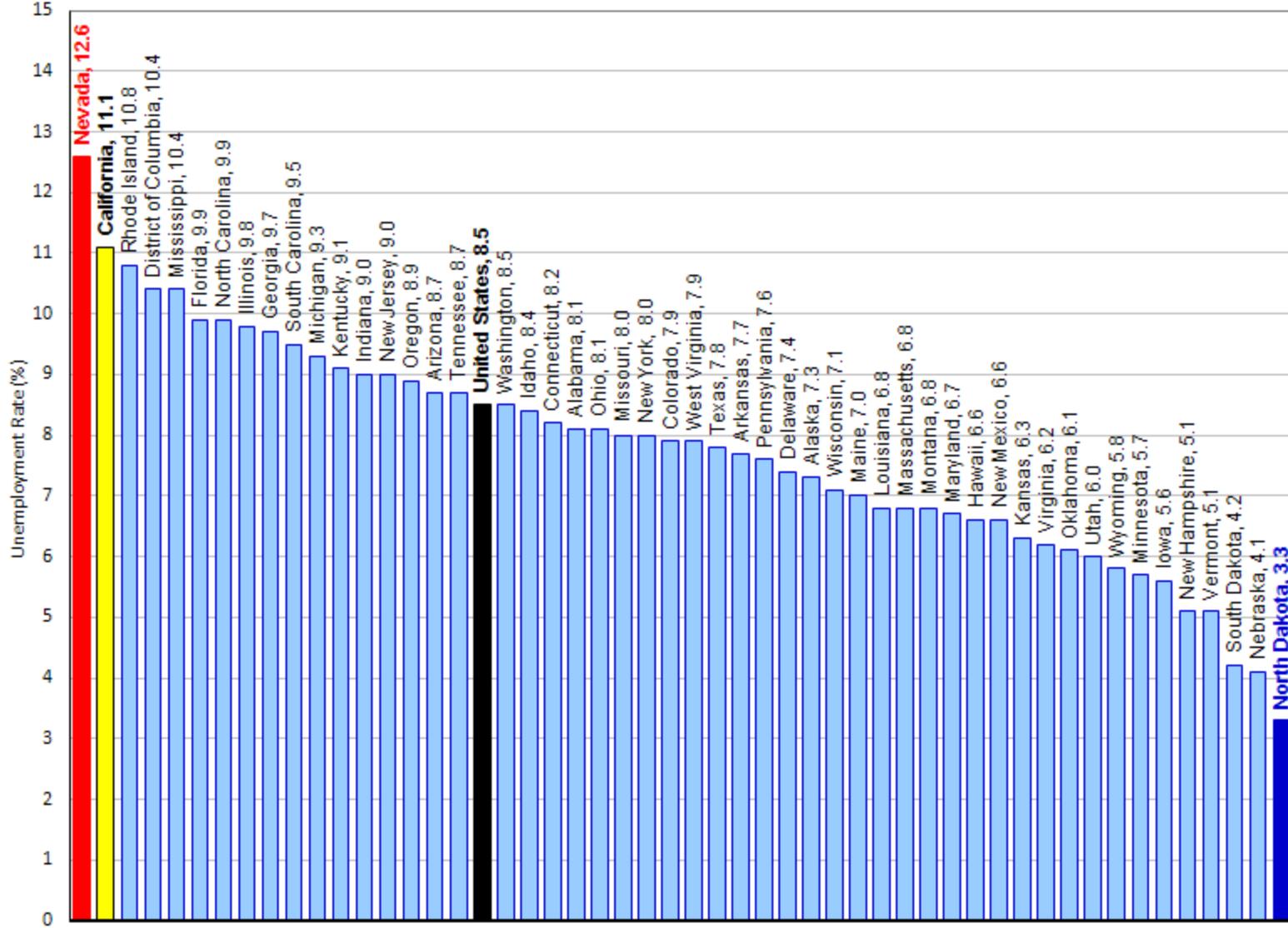
Five-Month Changes in Nonfarm Jobs in California's Metropolitan Divisions (MDs)

and Metropolitan Statistical Areas (MSAs)

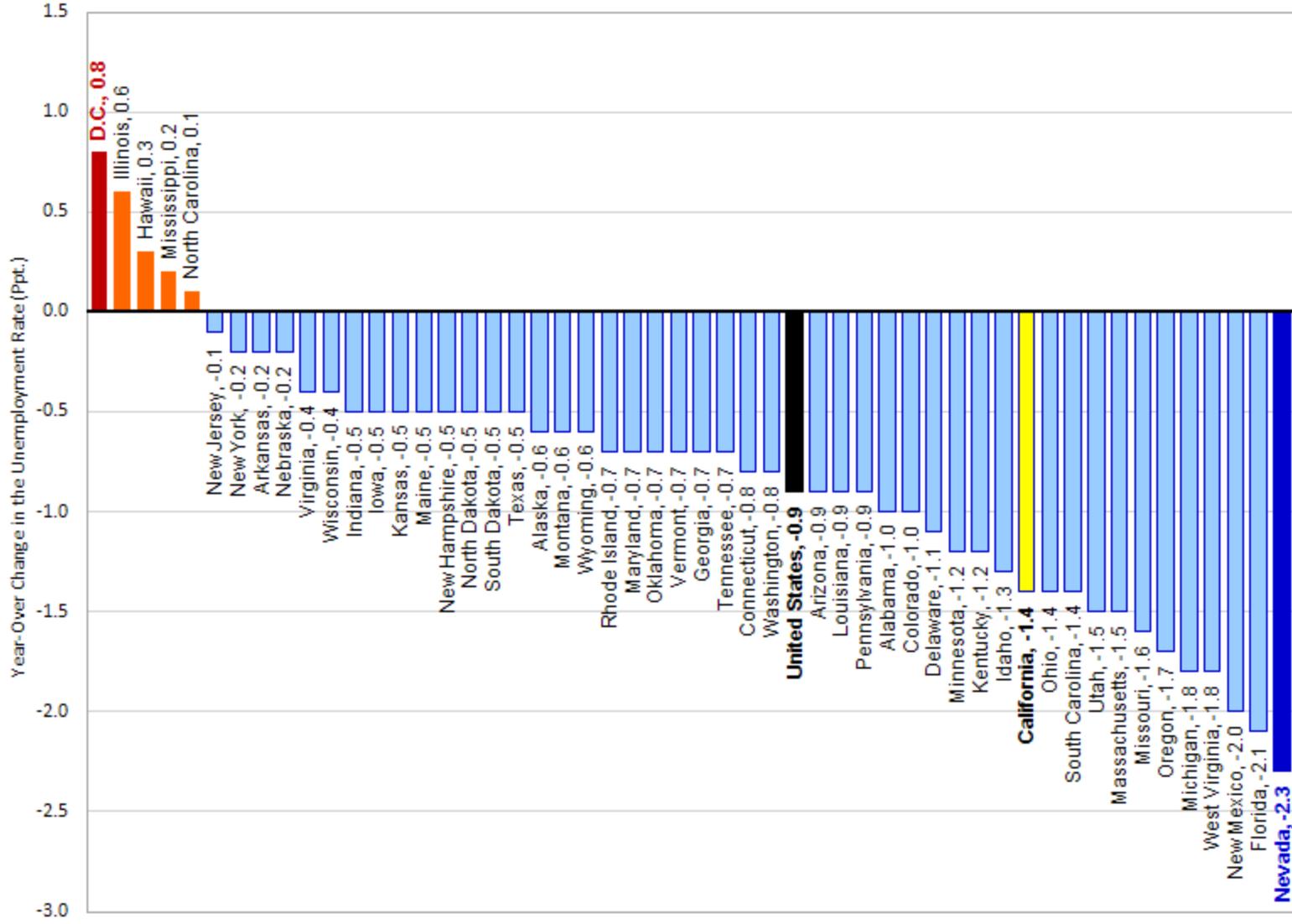
(December 2011; Seasonally Adjusted Data)

<u>Change in Number</u>		<u>Change in Percent</u>	
Riverside-San Bernardino-Ontario MSA	26,700	Hanford-Corcoran MSA	5.2%
Santa Ana-Anaheim-Irvine Metro Div	18,000	Vallejo-Fairfield MSA	4.0%
San Francisco-San Mateo-Redwood City Metro D	16,300	El Centro MSA	3.0%
Los Angeles-Long Beach-Glendale Metro Div	15,500	Stockton MSA	2.9%
San Diego-Carlsbad-San Marcos MSA	14,700	Redding MSA	2.7%
Sacramento-Arden Arcade-Roseville MSA	7,900	San Luis Obispo-Paso Robles MSA	2.4%
Stockton MSA	5,300	Riverside-San Bernardino-Ontario MSA	2.4%
San Jose-Sunnyvale-Santa Clara MSA	4,800	Bakersfield Delano MSA	1.9%
Vallejo-Fairfield MSA	4,600	San Francisco-San Mateo-Redwood City Metro I	1.7%
Bakersfield Delano MSA	4,400	Salinas MSA	1.4%
Oxnard-Thousand Oaks-Ventura MSA	3,000	Yuba City MSA	1.3%
San Luis Obispo-Paso Robles MSA	2,300	Santa Ana-Anaheim-Irvine Metro Div	1.3%
Hanford-Corcoran MSA	1,800	San Diego-Carlsbad-San Marcos MSA	1.2%
Salinas MSA	1,700	Oxnard-Thousand Oaks-Ventura MSA	1.1%
Redding MSA	1,600	Sacramento-Arden Arcade-Roseville MSA	1.0%
El Centro MSA	1,300	Santa Cruz-Watsonville MSA	0.8%
Fresno MSA	1,300	Modesto MSA	0.7%
Modesto MSA	1,000	San Jose-Sunnyvale-Santa Clara MSA	0.5%
Santa Cruz-Watsonville MSA	700	Fresno MSA	0.5%
Yuba City MSA	500	Los Angeles-Long Beach-Glendale Metro Div	0.4%
Visalia-Porterville MSA	0	Visalia-Porterville MSA	0.0%
Madera-Chowchilla MSA	-100	Madera-Chowchilla MSA	-0.3%
Chico MSA	-300	Chico MSA	-0.4%
Napa MSA	-500	Oakland-Fremont-Hayward Metro Div	-0.5%
Merced MSA	-900	Napa MSA	-0.8%
Santa Barbara-Santa Maria-Goleta MSA	-1,600	Santa Barbara-Santa Maria-Goleta MSA	-1.0%
Santa Rosa-Petaluma MSA	-3,800	Merced MSA	-1.6%
Oakland-Fremont-Hayward Metro Div	-5,100	Santa Rosa-Petaluma MSA	-2.2%

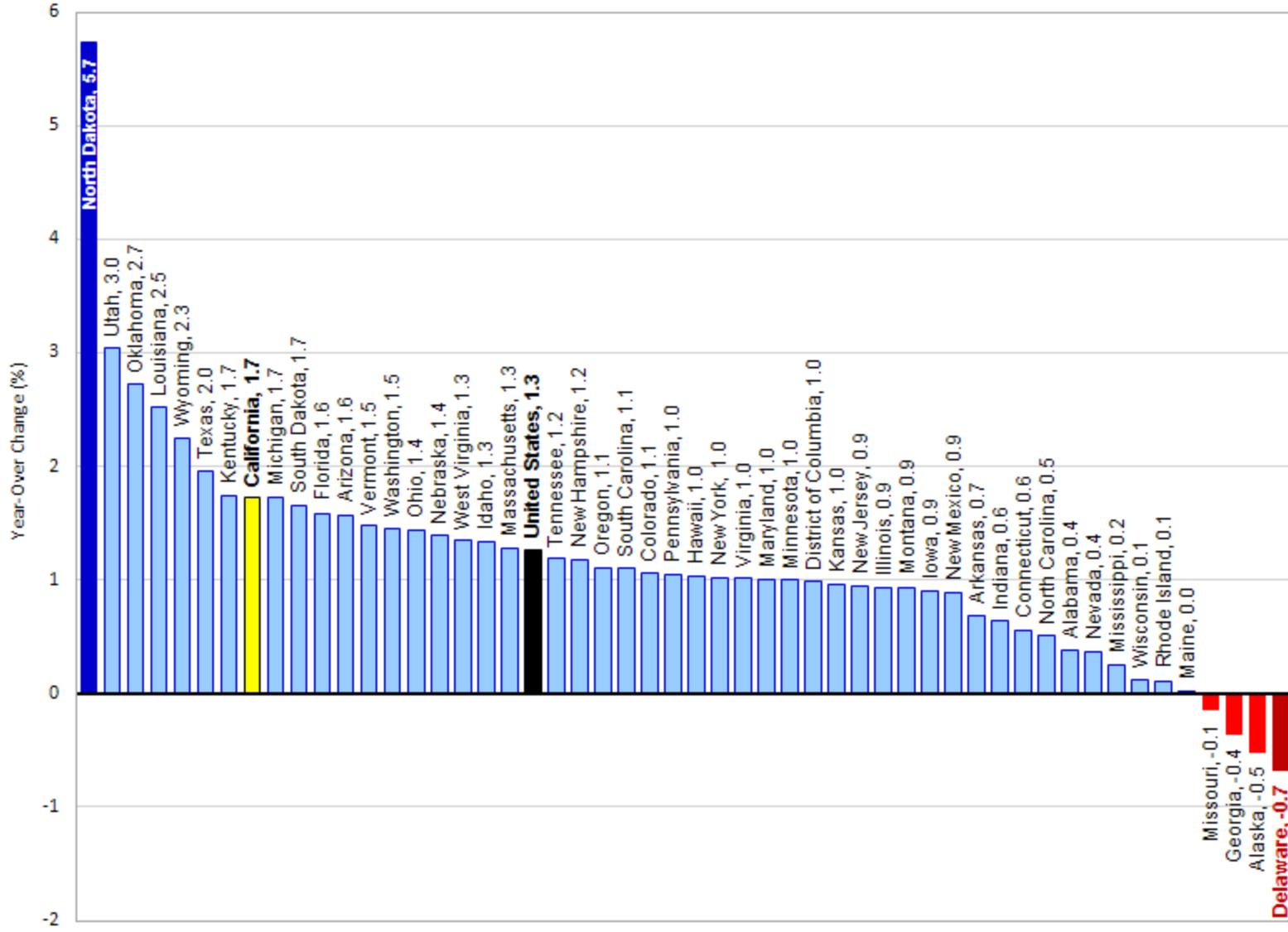
State Unemployment Rates, December 2011
(Seasonally Adjusted Data)



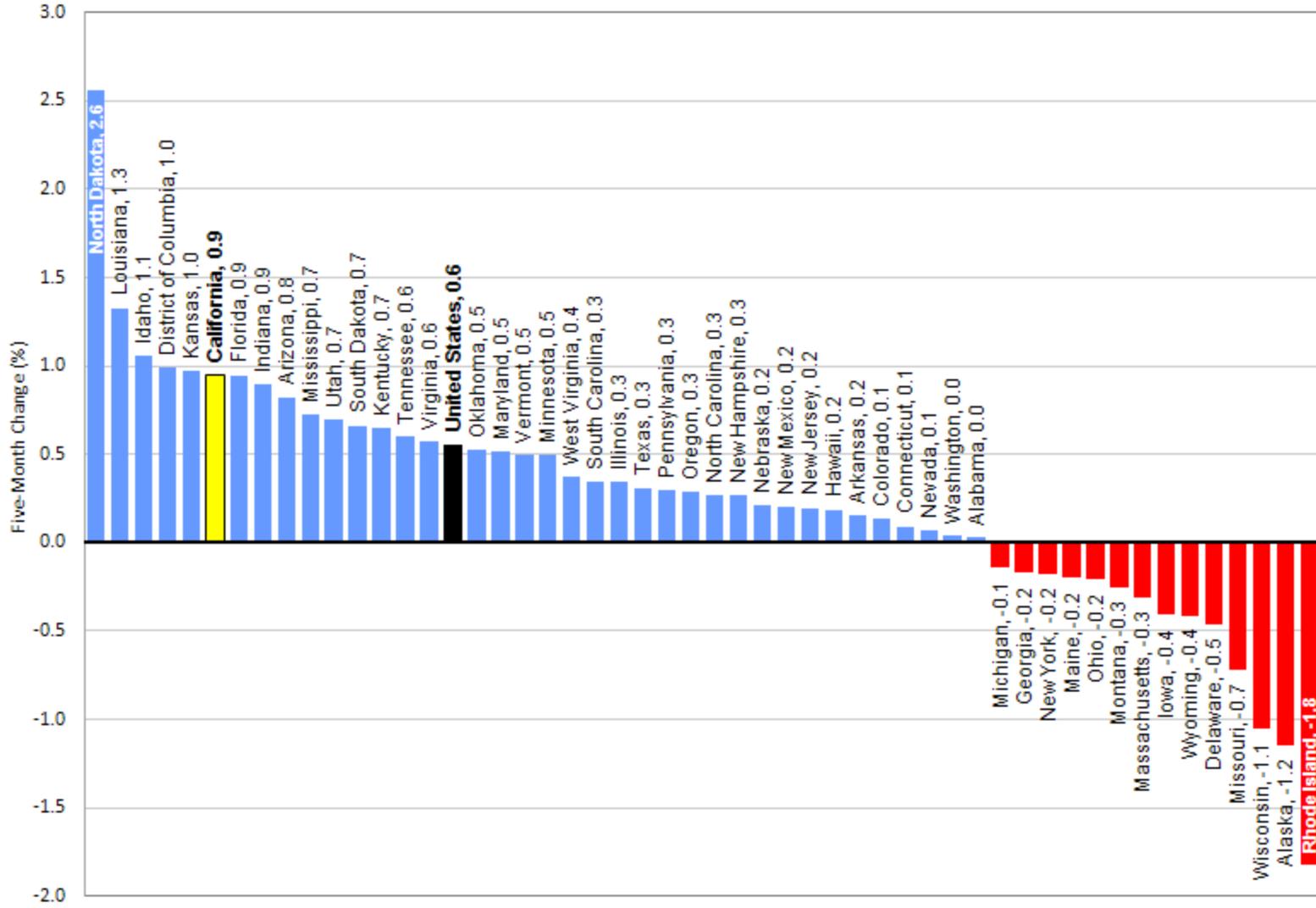
Year-Over Changes in State Unemployment Rates, December 2011
(Seasonally Adjusted Data)



Year-Over Percent Changes in State Nonfarm Payrolls
(December 2011: Seasonally Adjusted Data)



Five-Month Percent Changes in State Nonfarm Payrolls
 (December 2011: Seasonally Adjusted Data)



Could It Be?

- For much of the current recovery, the economy was stuck in a *vicious cycle*: For the economy to improve, consumers needed to spend more (i.e., demand had to increase), but for consumers to spend more, the pace of employment and income growth needed to grow. But before this could happen, consumer spending/demand first needed to increase. As a result, although the economy was expanding, job growth was weak and unemployment remained high.
- Recent labor market data suggests that the economy has broken through, hinting that the economy has entered a more *virtuous cycle*—a self-reinforcing process in which more jobs/income earning opportunities leads to more consumer spending and demand, which leads to more jobs/income earning opportunities, which leads to more spending, which leads to more jobs and so on... If so, economic and employment growth in California and the nation could surprise in 2012.

Caveats:

- One month does not a trend make, only six months do. While not quite a trend, four months are a lot more encouraging than just one or two.
- Government is an unlikely candidate to lead California's job growth in the months to come.
- Benchmarked data will likely reveal that job growth during the expansion was less robust than first estimated. However, the growth trends of the last months of should remain comparatively intact.

Risks :

- The debt crisis in Europe could force a global financial crisis. However, the consensus is that Europe will probably muddle through. If so, the U.S. economy may not suffer.
- A slowdown in the global economy. While much of the European economy has already slipped into recession, a significant slowdown in China's economy could have larger consequences.
- Will gas prices spike again in 2012 as they have in recent years? If they do, they will spike upwards from an already high base price.
- Political paralysis in Washington: payroll tax and unemployment insurance extensions still unsettled. Occasional rumblings of a possible government shutdown.
- Unanticipated shocks and/or hostilities: escalation of war of words in the Persian gulf, spread of the Arab spring in the Arabian Peninsula, devastating natural disasters.