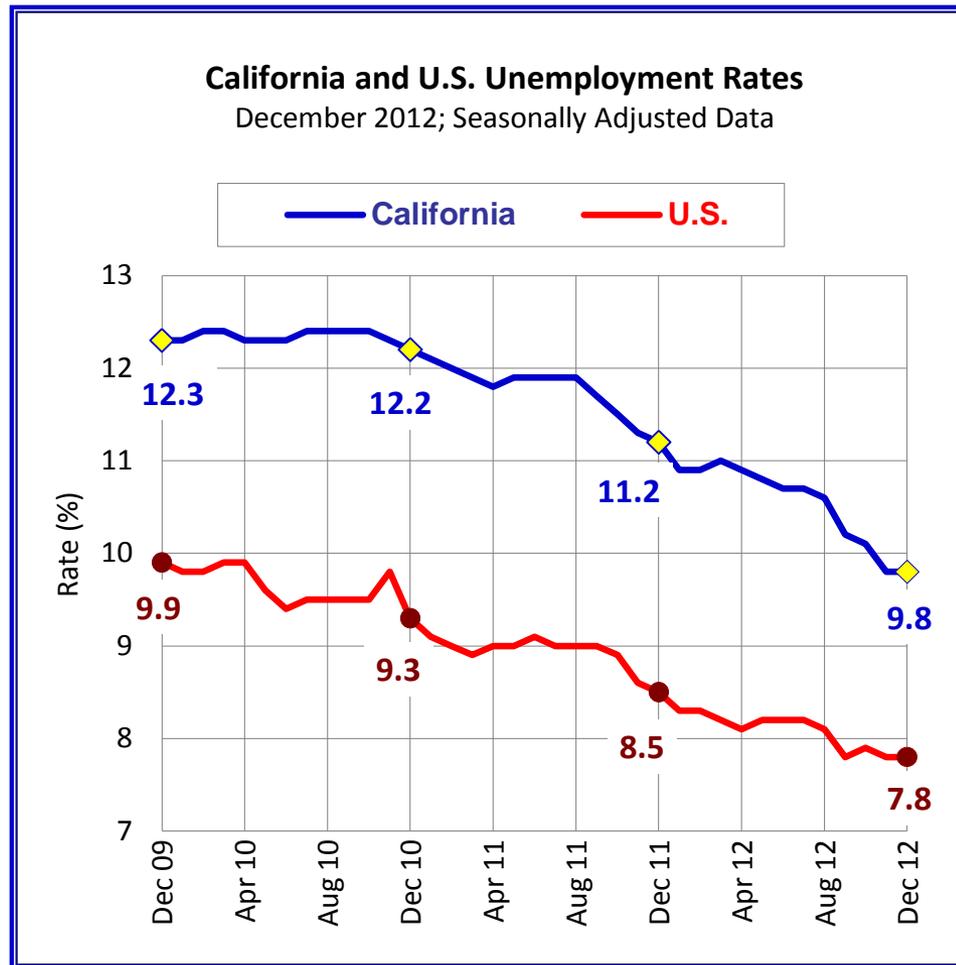


Economic Update
LMID Advisory Group
January 24, 2013

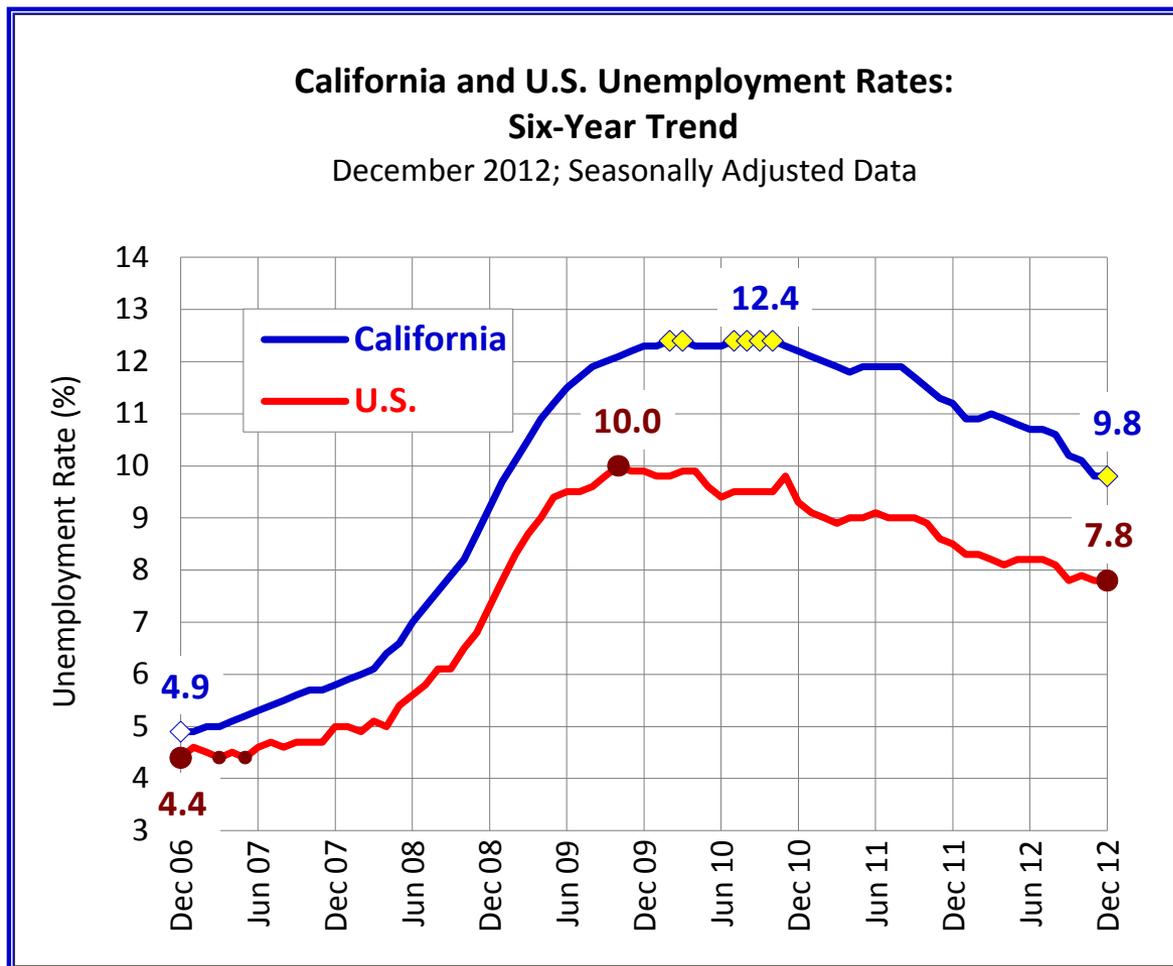
Paul Wessen
Employment Development Department
Labor Market information Division

UNEMPLOYMENT AND EMPLOYMENT

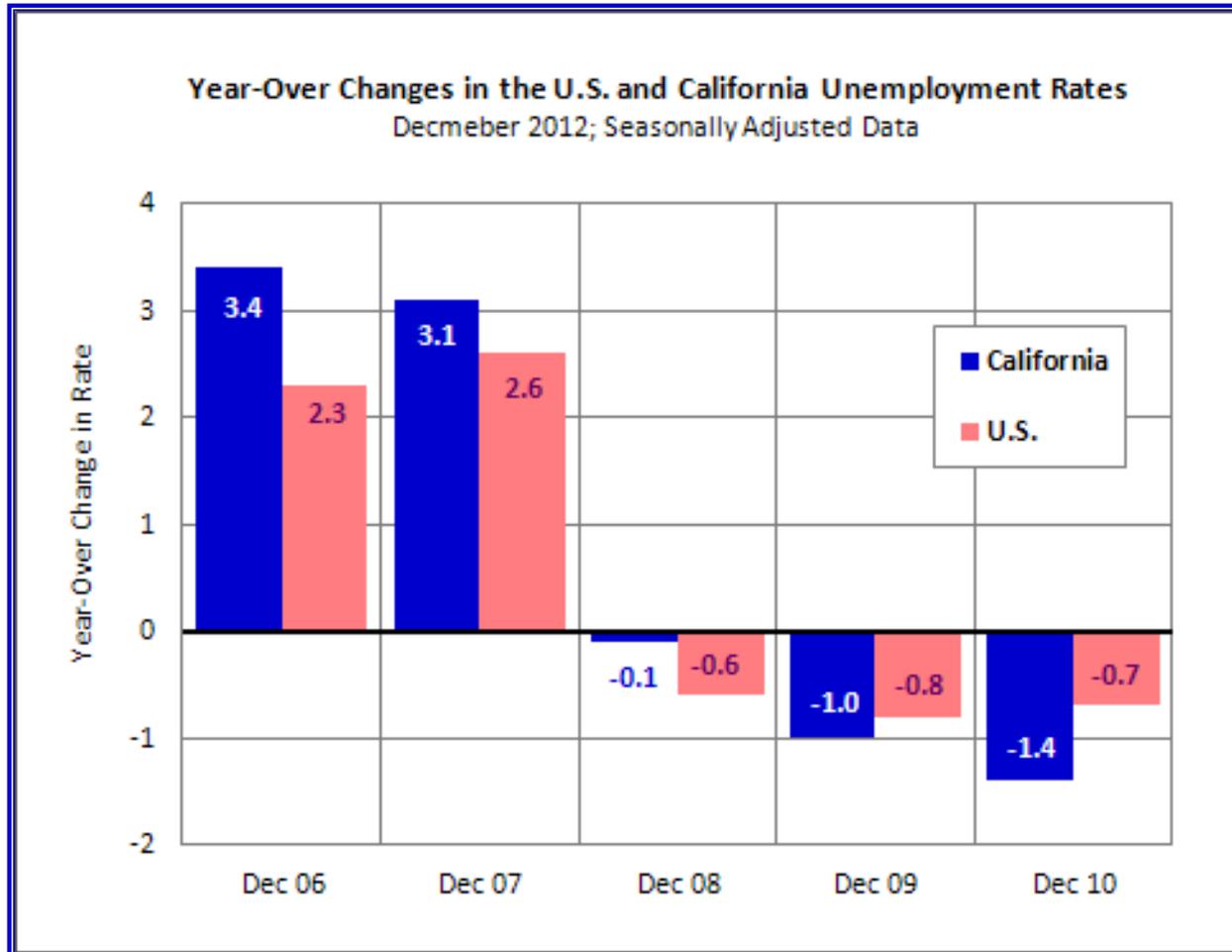
California's unemployment rate continues to fall. It fell below 10 percent in November and remained at 9.8 percent in December 2012. The U.S. unemployment rate held steady at 7.8 percent in December.



California's December 2012 unemployment rate was 2.6 percentage points below its recessionary peak but remained 5.0 percentage points (ppts.) above its pre-recession low. The nation's December 2012 rate was 2.2 ppts. lower than its recessionary high, but remained 3.4 ppts. above its pre-recession low..

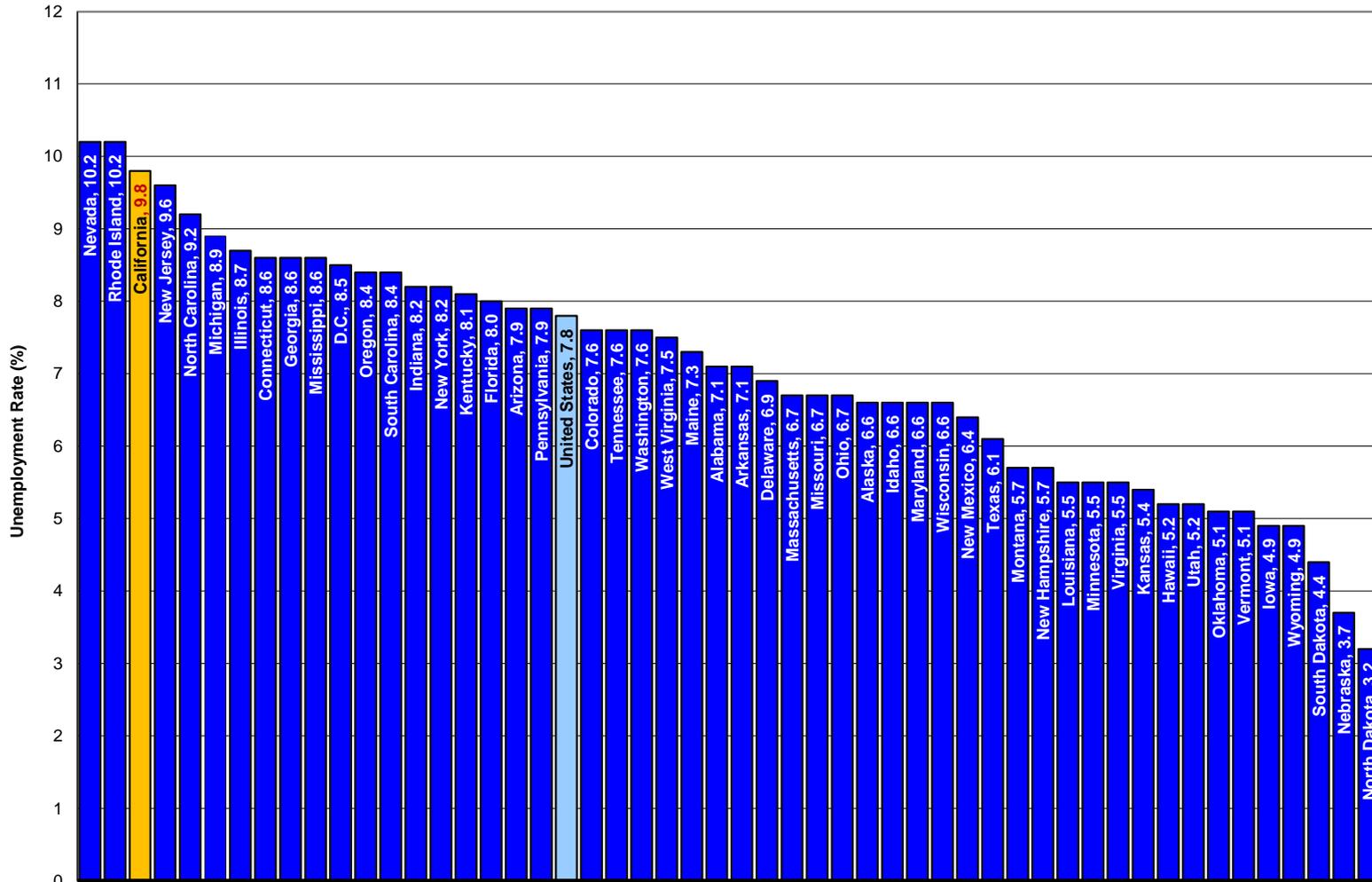


The California unemployment rate has fallen faster than the nation's over the last two years...



...but California continued to have the 3rd highest unemployment rate in the nation in December.

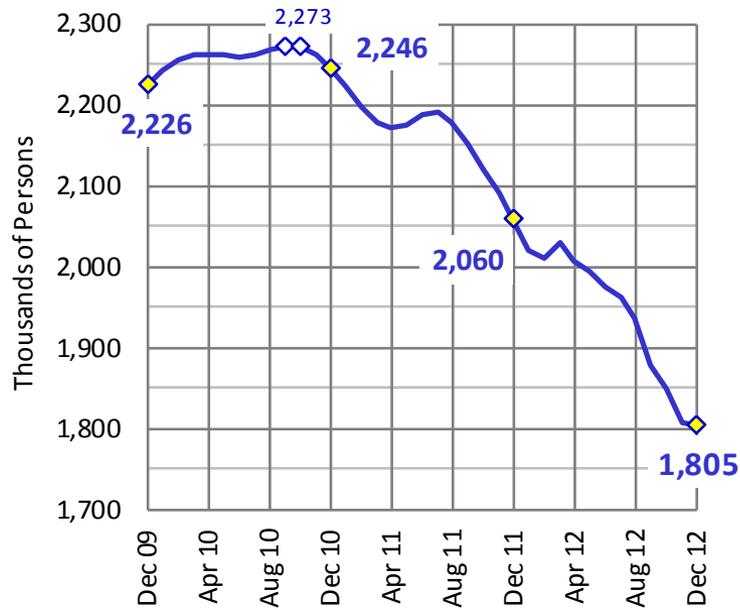
State Unemployment Rates, December 2012
(Seasonally Adjusted Data)



Unemployment continues to fall in California...

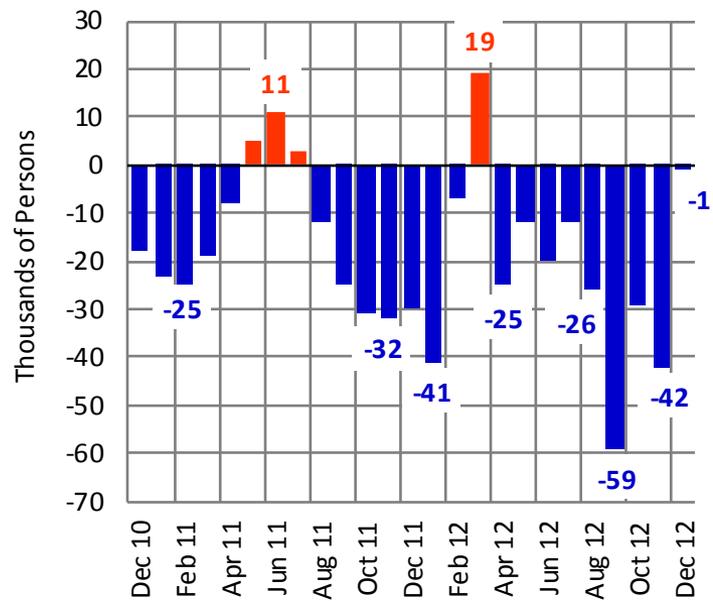
California Civilian Unemployment Three-Year Trend

December 2012; Seasonally Adjusted Data

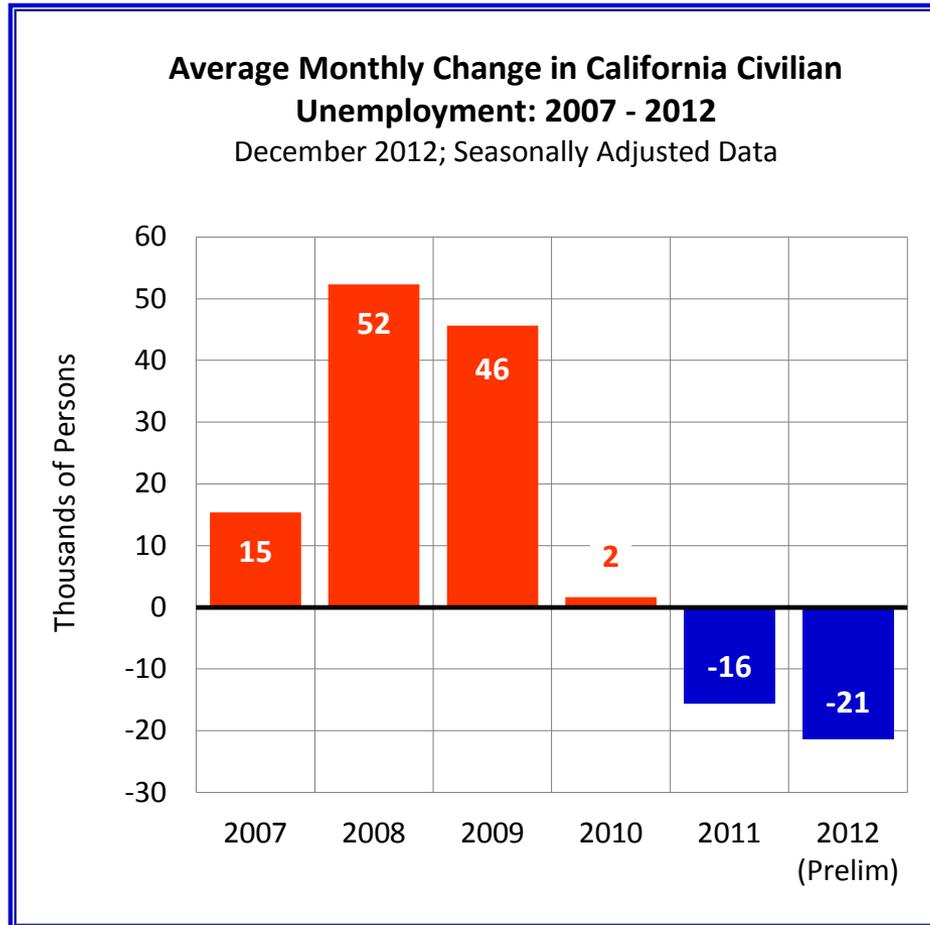


Month-Over Changes in California Civilian Unemployment

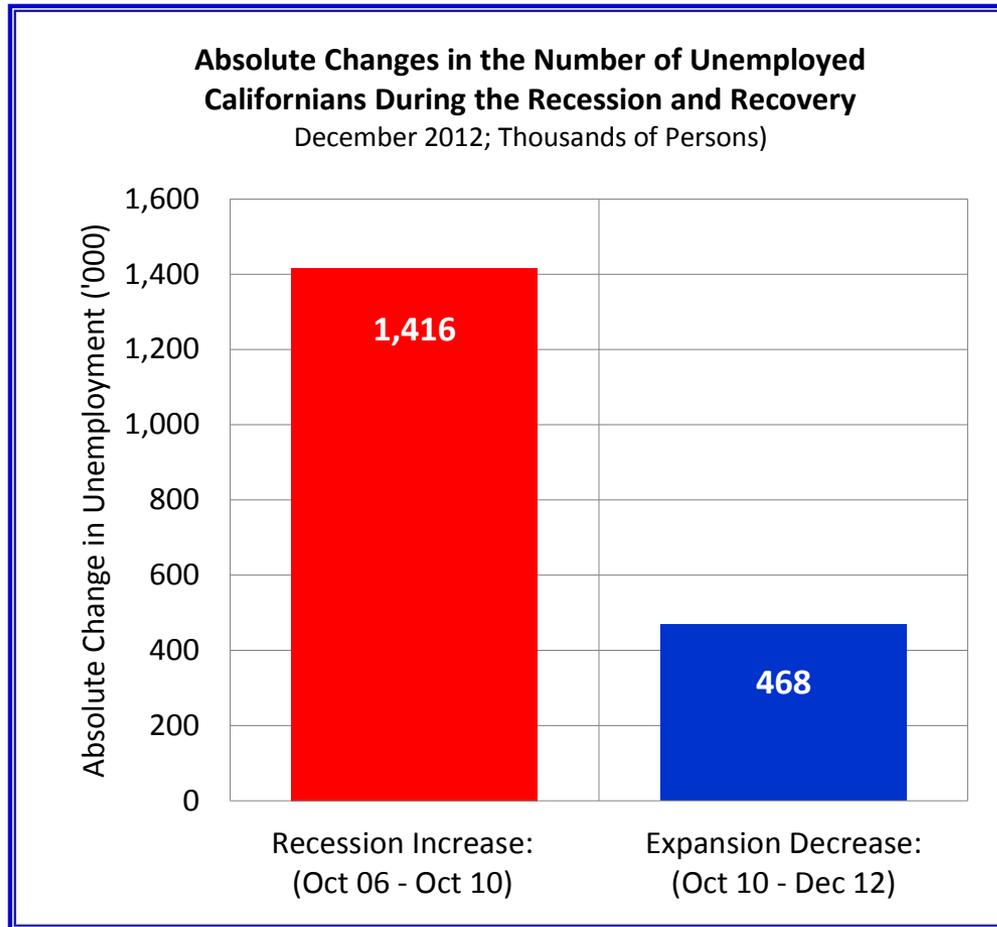
December 2012; Seasonally Adjusted Data



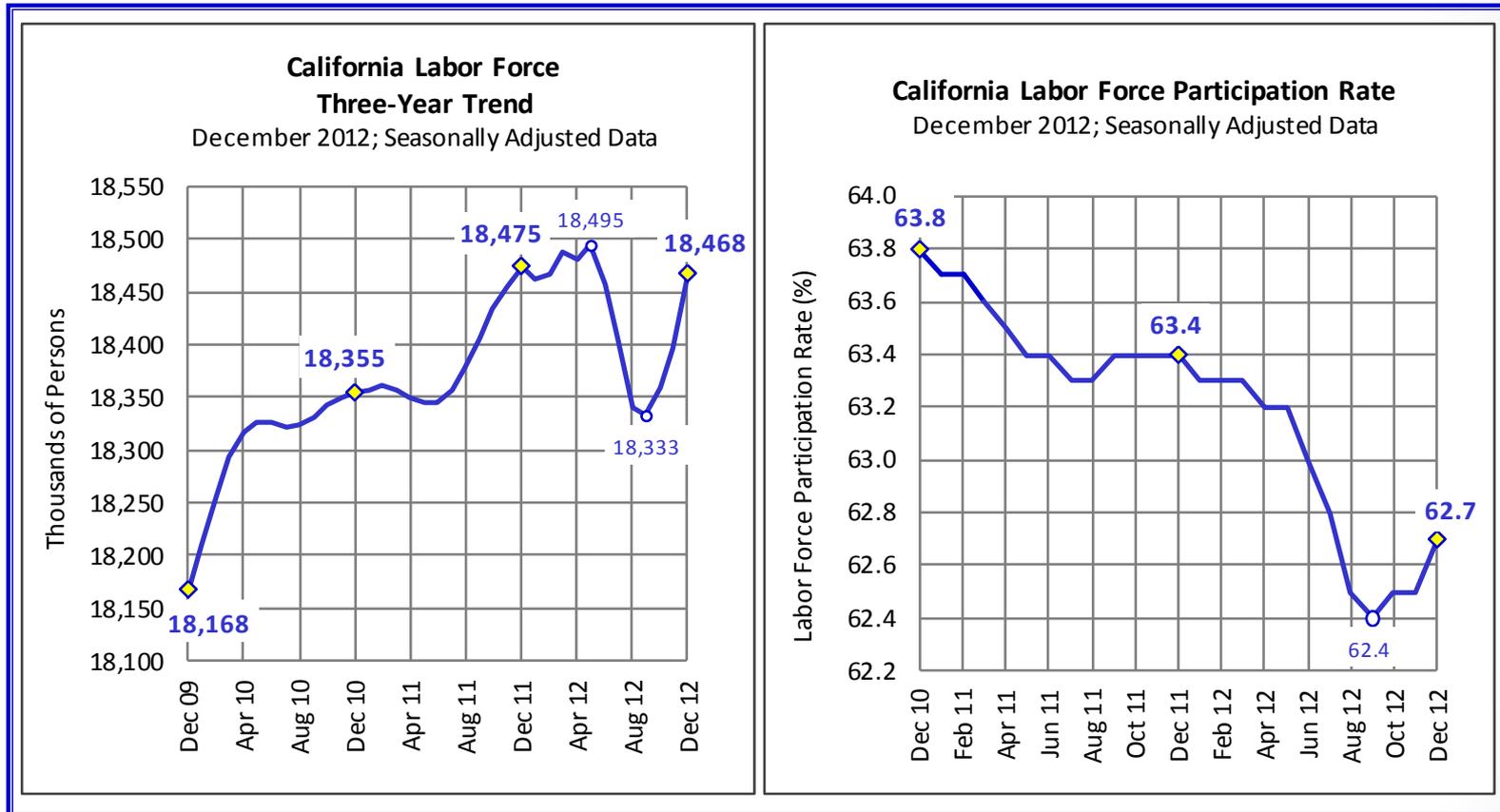
... and at an increasing rate.



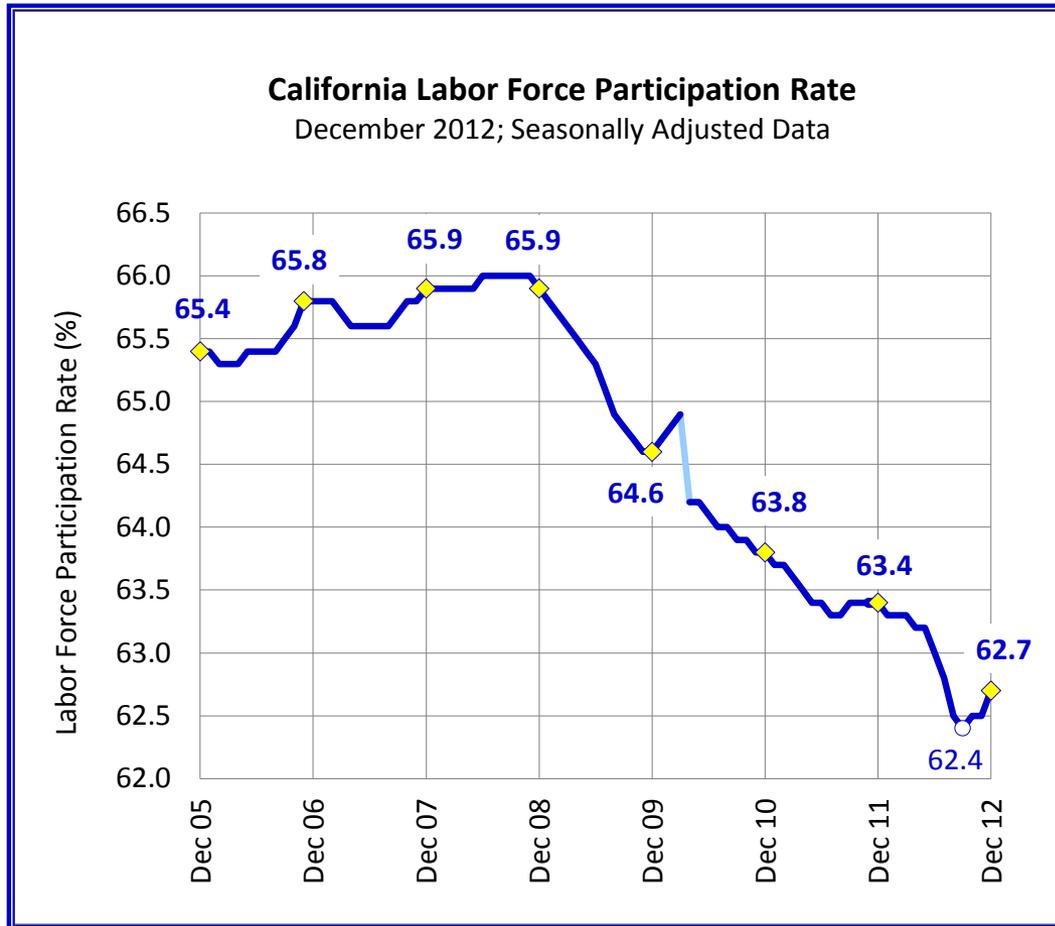
There were 468,000 (20.6 percent) fewer unemployed Californians in December 2012 than there were at the October 2010 peak. Still, 948,000 more Californians were unemployed in December 2012 than in October 2006, the pre-recession low.



Labor force participation in California has risen in recent months...

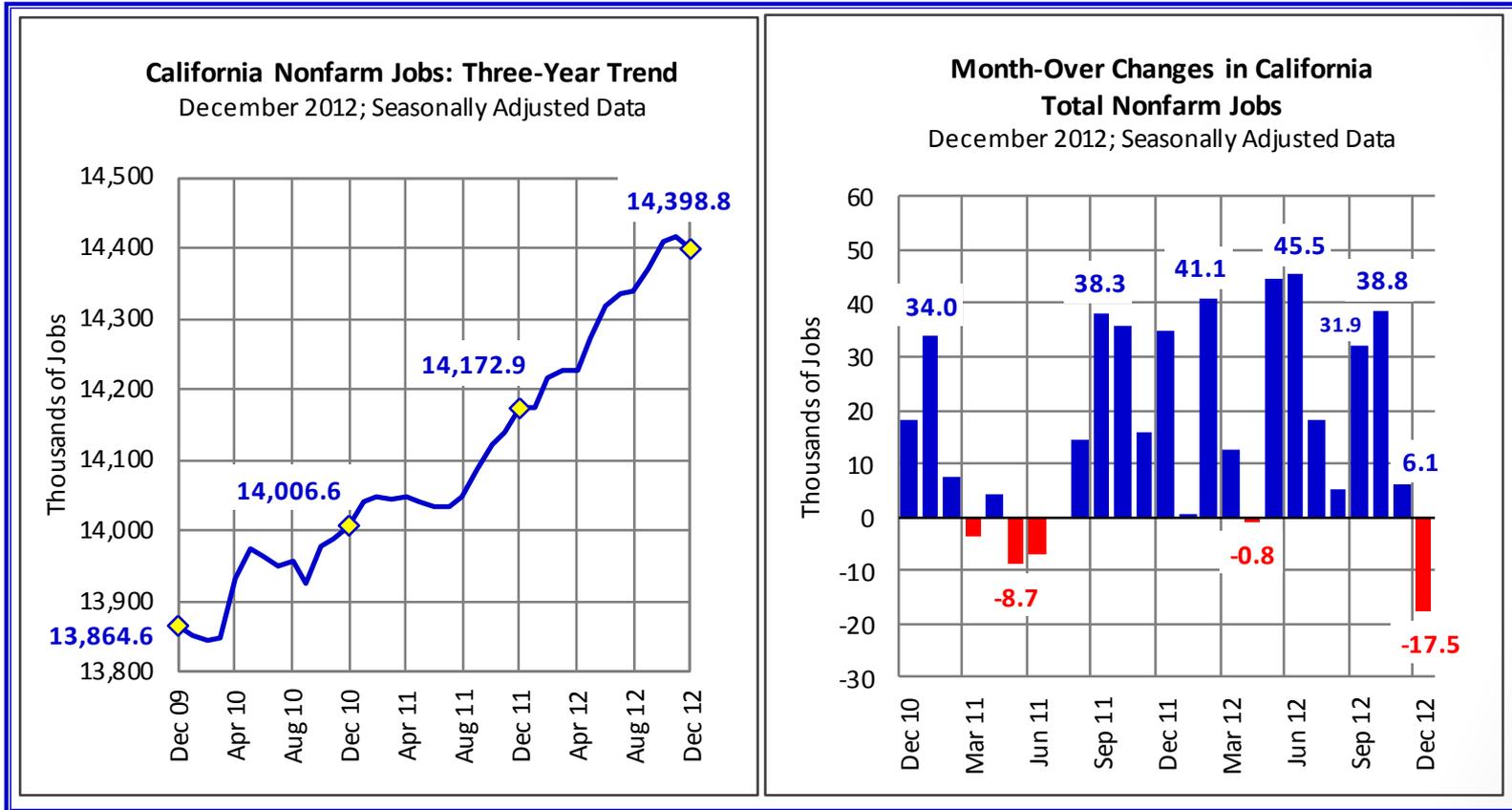


...but has fallen to historically low levels.



NONFARM EMPLOYMENT

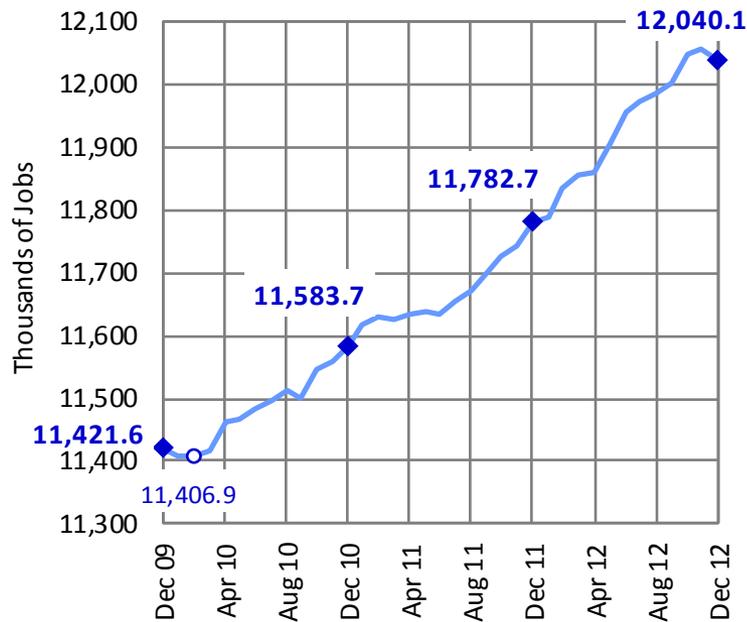
While the California economy continues to expand steadily, the year 2012 ended not with a bang but with a muffled dud. December's 17,500-job loss was only the state's second in the 18 months, and its largest since September 2010.



More surprisingly, California's private sector shed 15,700 nonfarm jobs in December 2012, breaking a string of 17 consecutive months of job gains.

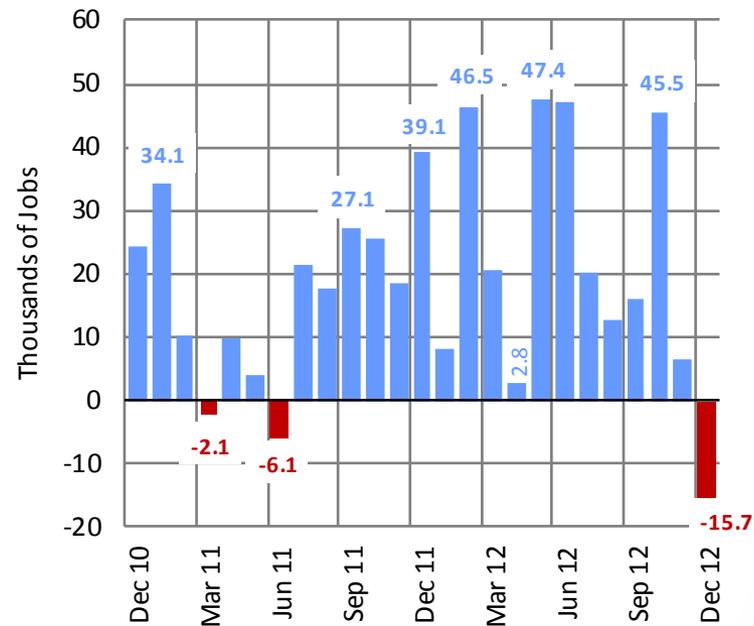
California Private Nonfarm Jobs: Three-Year Trend

December 2012; Seasonally Adjusted Data

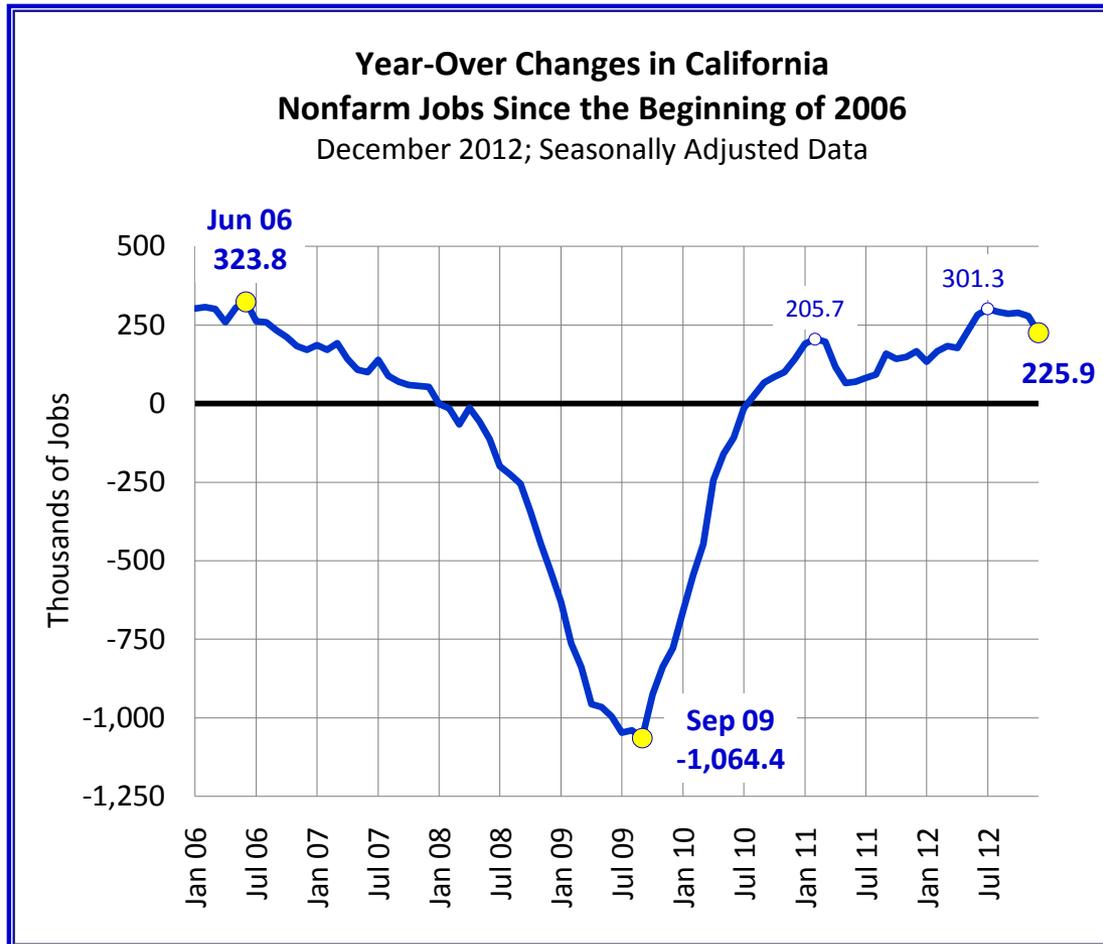


Month-Over Changes in California Private Nonfarm Jobs

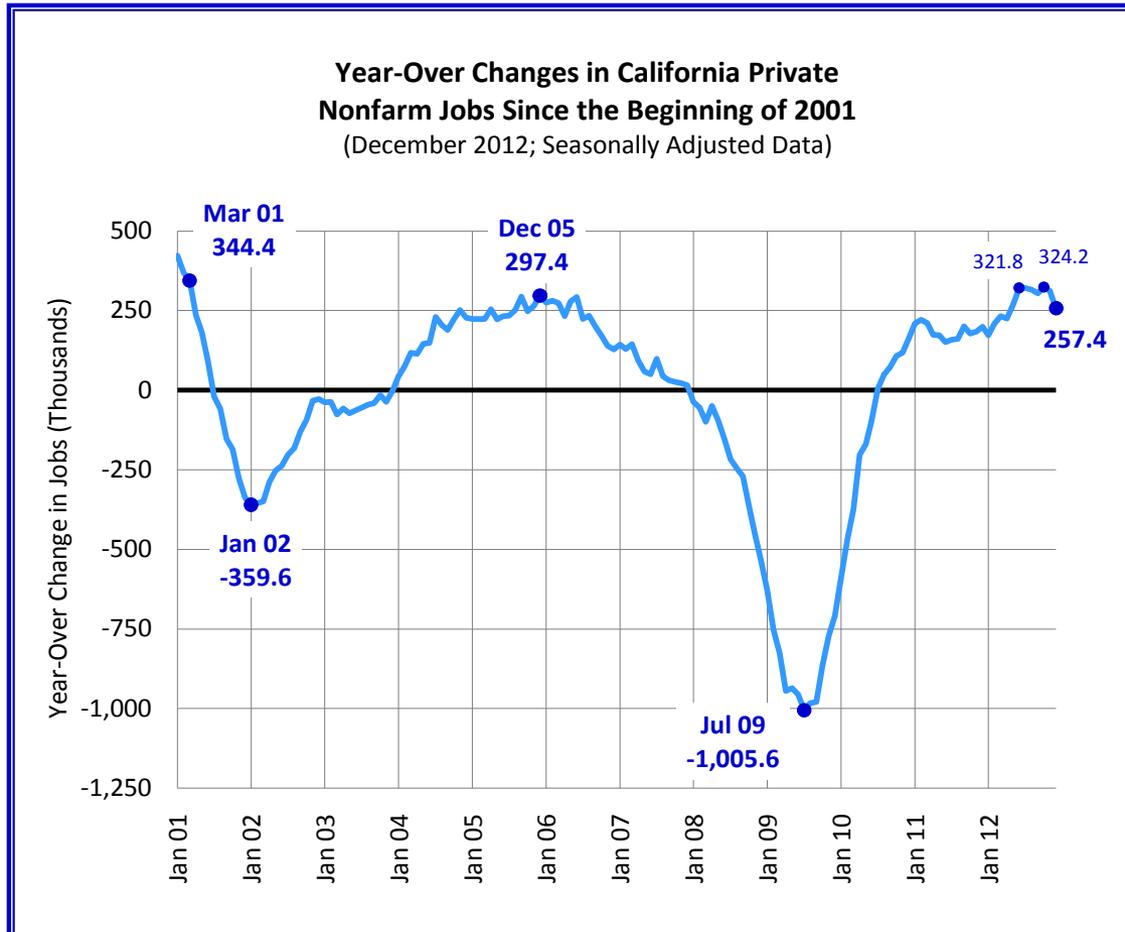
December 2012; Seasonally Adjusted Data



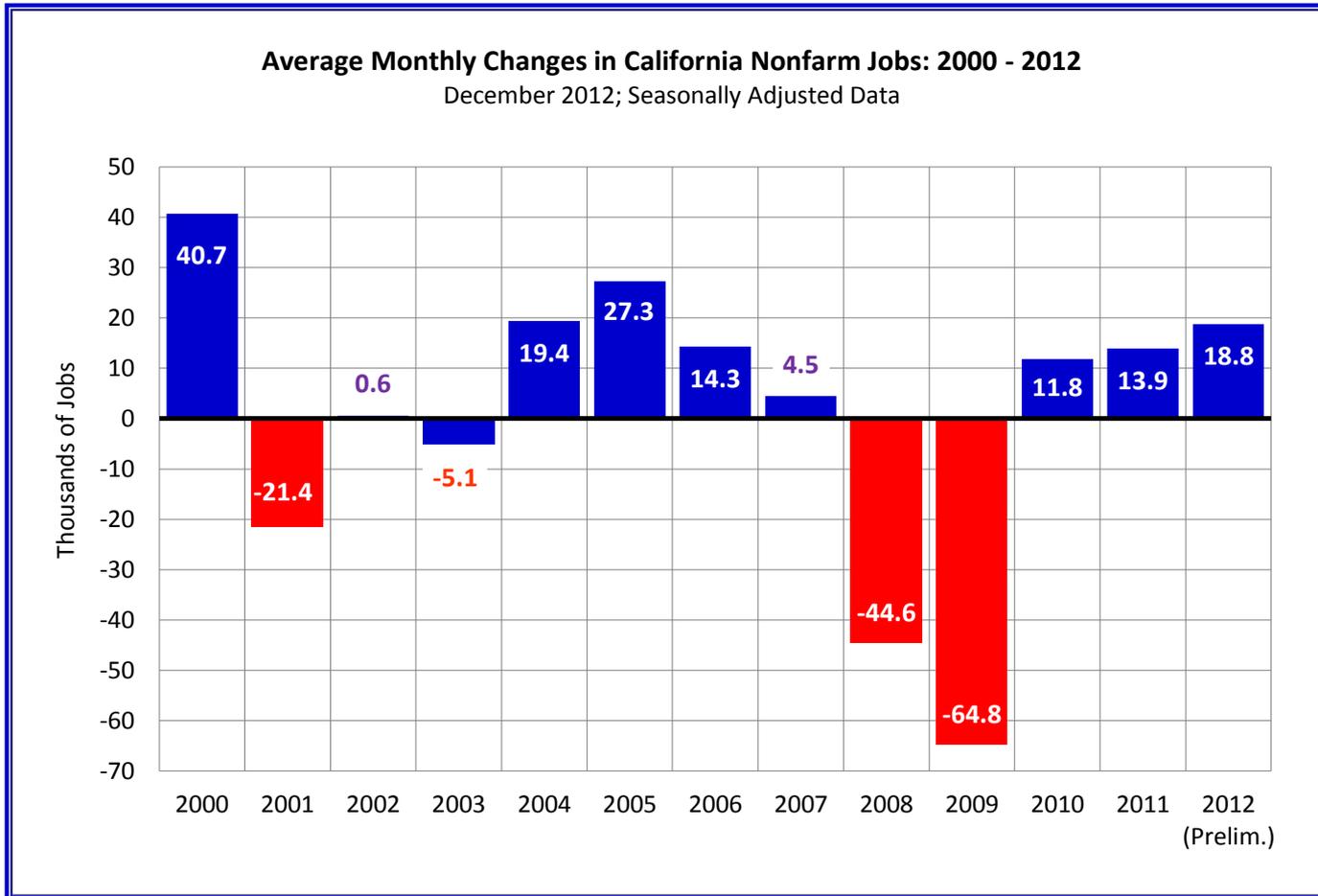
California's year-over total nonfarm job gains slowed to 225,900 (1.6 percent). In December 2012. This was a decrease of 52,600 jobs from November 2012's year-over 278,500-job increase. As recently as July, California's year-over job gains totaled 301,300 jobs (2.1 percent).



Year-over gains in California's private sector slowed to 257,400 jobs (2.2 percent) in December 2012. As recently as June 2012, California's year-over job gains totaled 321,800 jobs (2.8 percent).

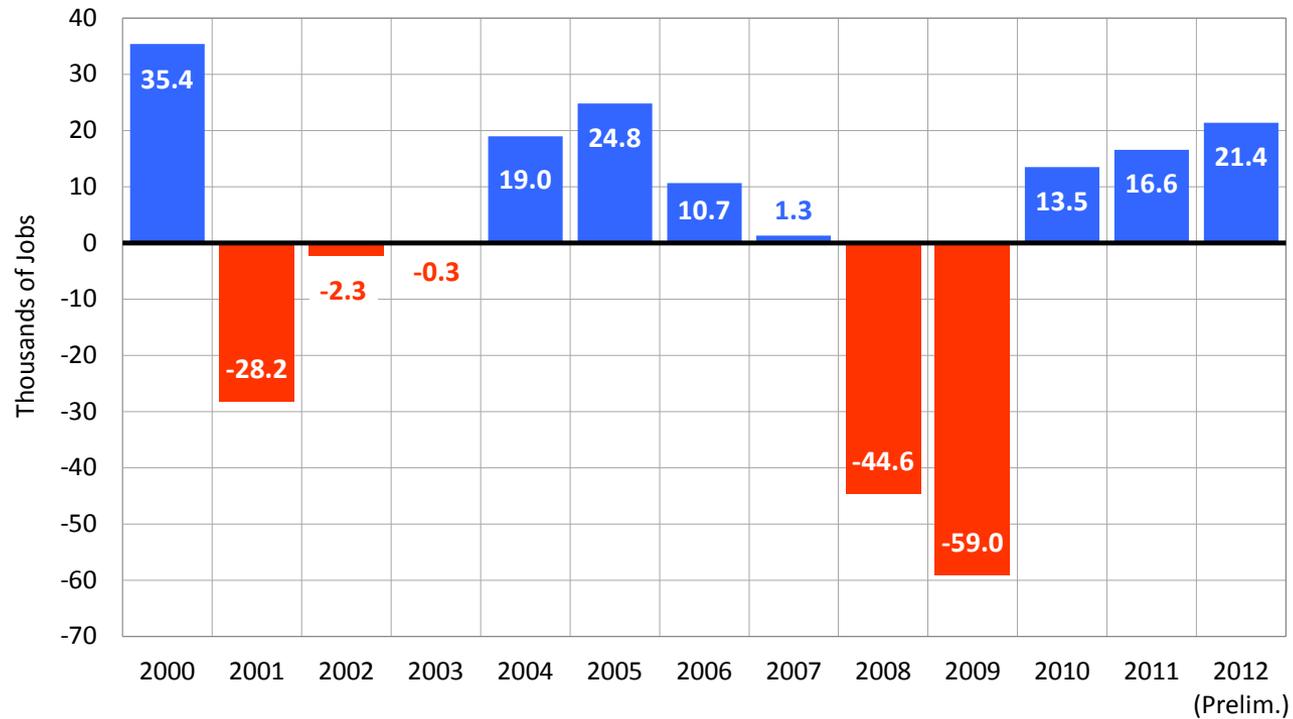


Despite the December 2012 slowdown, job growth in California strengthened in 2012.



Average Monthly Change in California Private Nonfarm Jobs Since 2000

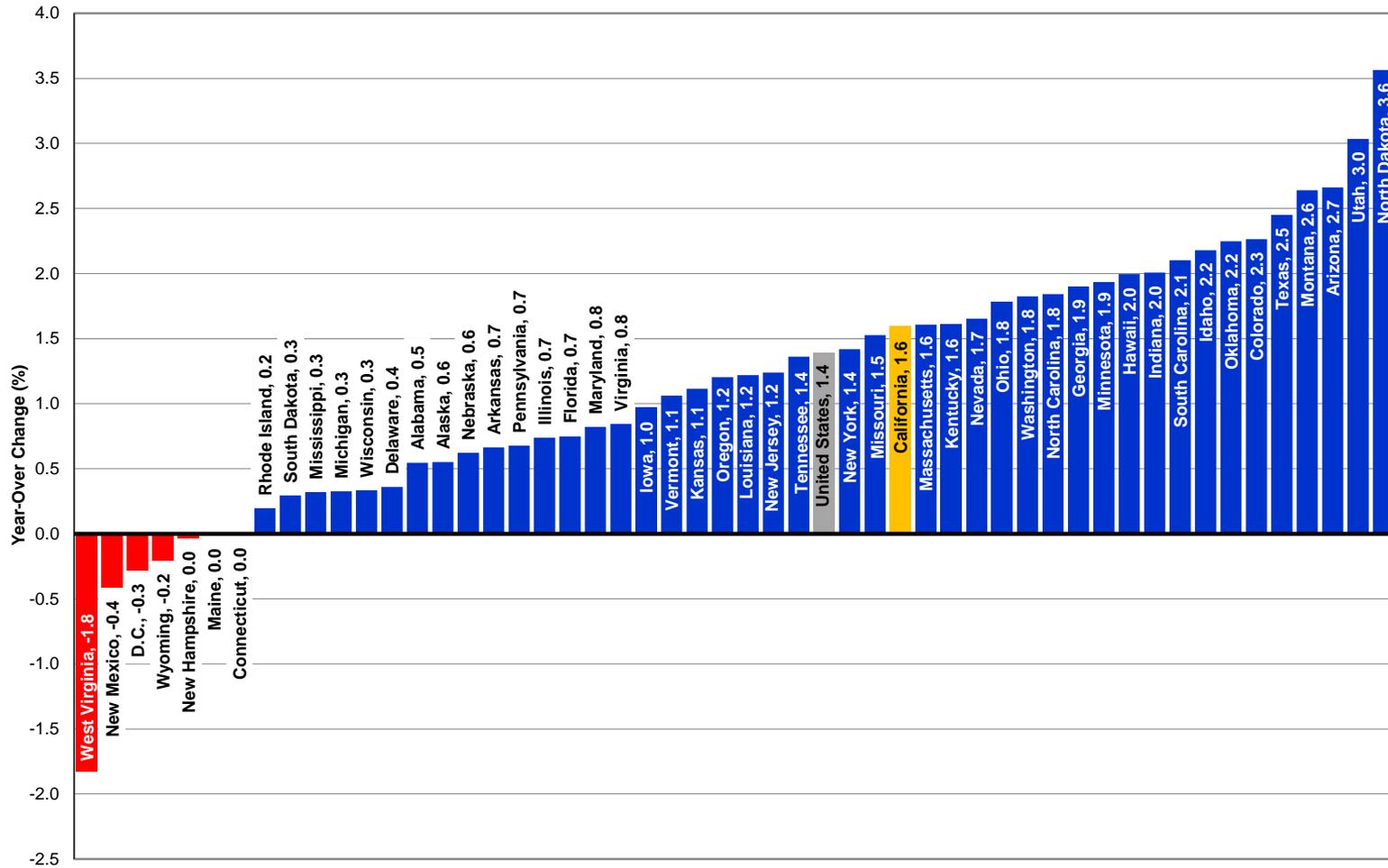
December 2012; Seasonally Adjusted Data



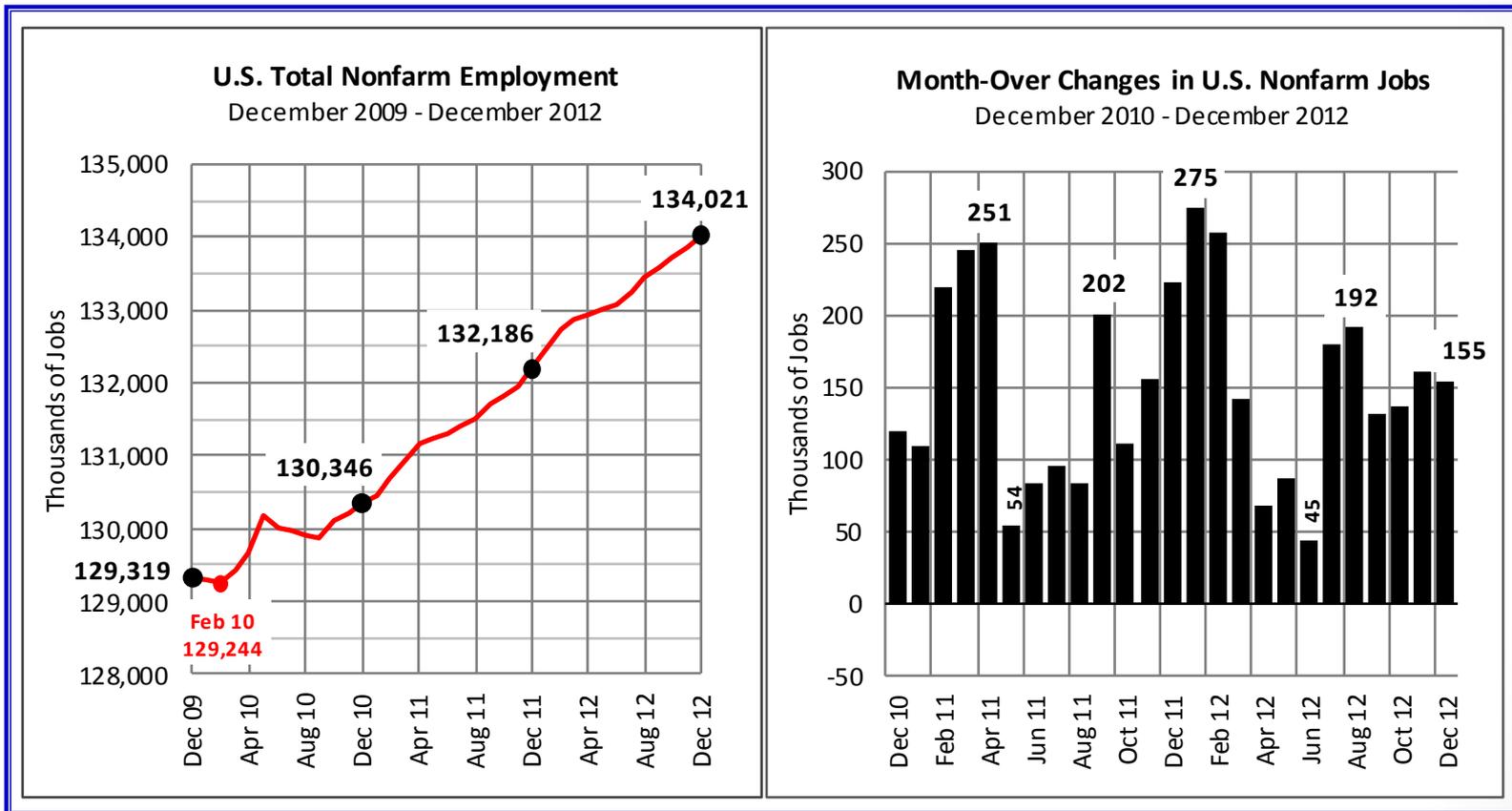
The state's pace of job growth over the course of 2012 ranked 20th in the nation. California's pace of private sector job growth tied for 11th highest in the nation.

Year-Over Percent Changes in State Nonfarm Payrolls

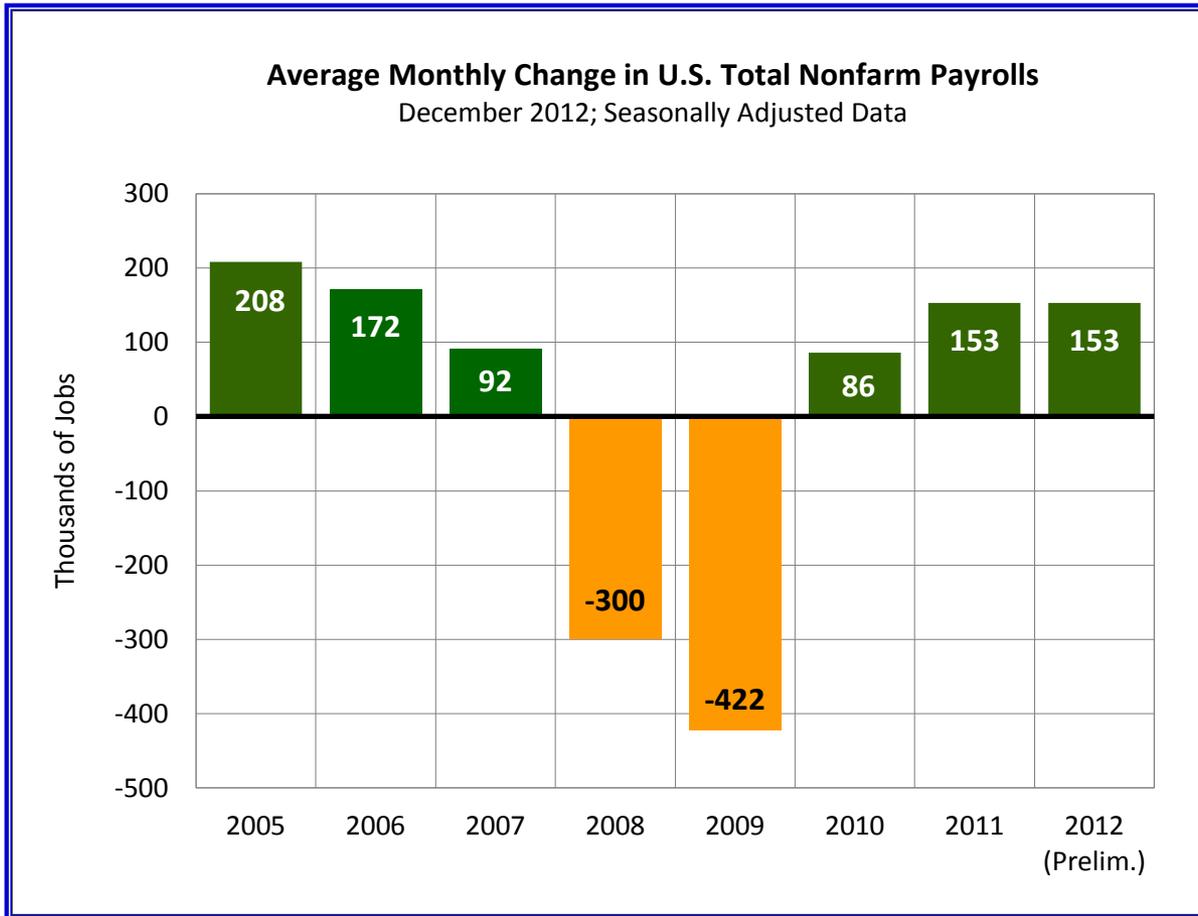
(December 2012: Seasonally Adjusted Data)



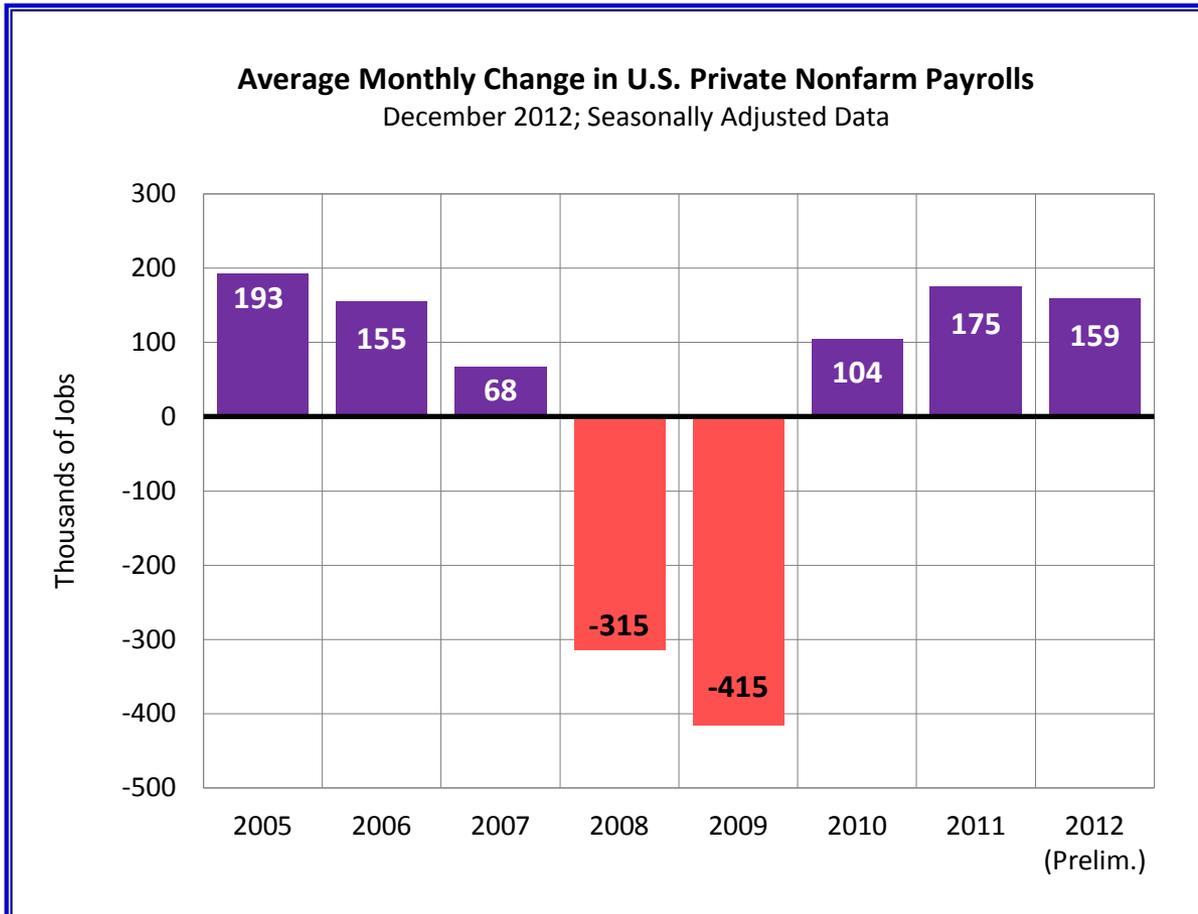
Unlike California, the nation enjoyed an unexpectedly strong job gain of 155,000 jobs in December 2012, and has now gained jobs in 27 consecutive months. The U.S. private sector has gained jobs in 34 consecutive months.



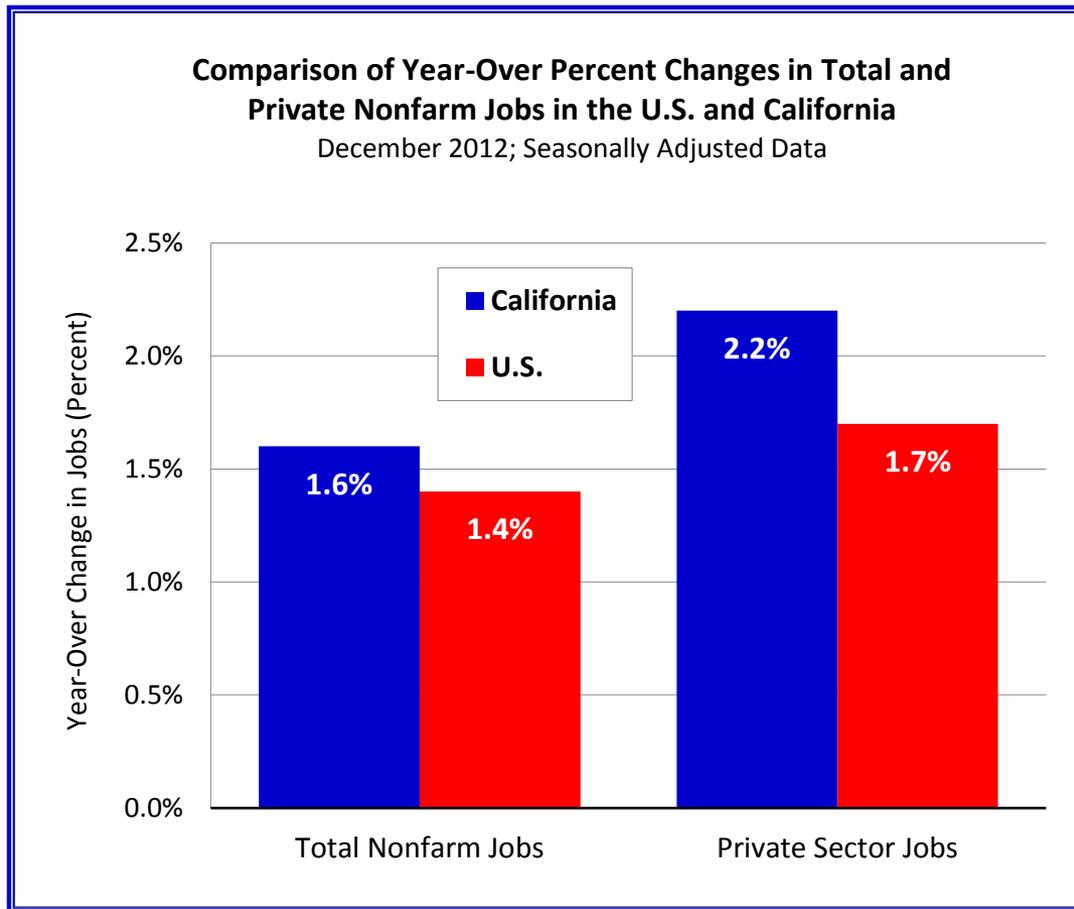
The pace of U.S. total nonfarm growth in 2012 was identical to that in 2011...



...but the pace of 2012 growth in the private sector was slightly weaker than in 2011.



Pending the release of benchmarked jobs data in our next release, California enjoyed stronger job growth than the nation in 2012...



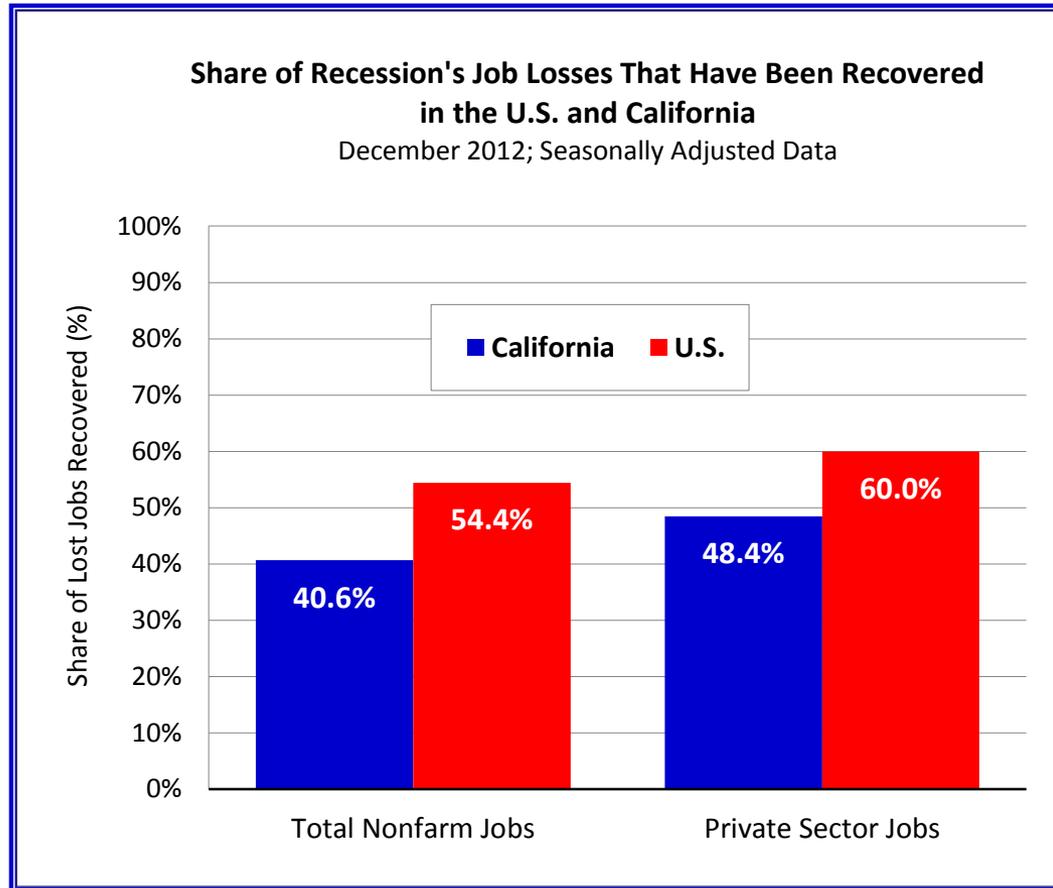
...but lags behind the nation in its jobs recovery.

* California total nonfarm losses (7/07-2/10) = 1,369,900; Gains (2/10-12/12)=556,500; Deficit (12/12)=813,400.

California private job losses (7/07-2/10) = 1,307,300; Gains (2/10-12/12)=663,200; Deficit (12/12)=674,100.

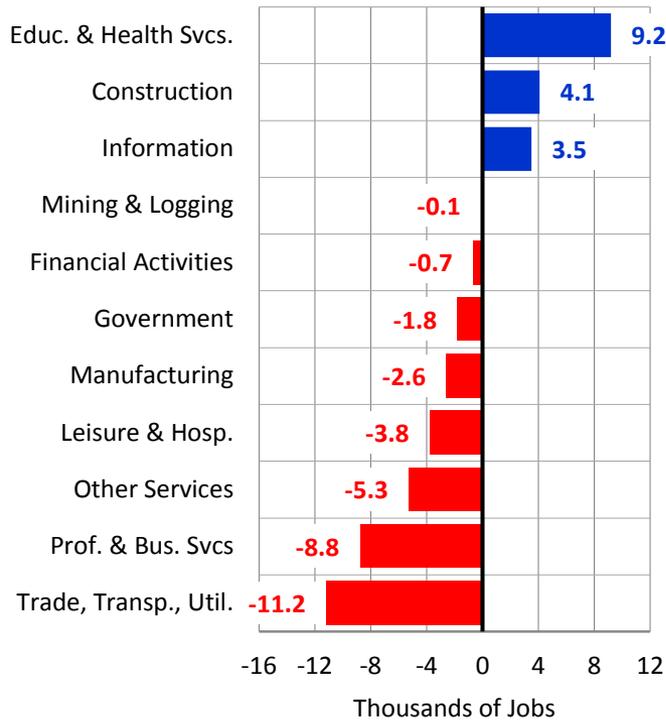
* U.S. total nonfarm losses (1/08-2/10) = 8,779,000; Gains (2/10-12/12)=4,777,000; Deficit (12/12)=4,002,000.

U.S. private job losses (1/08-2/10) = 18,874,000; Gains (2/10-12/12)=5,323,000; Deficit (12/12)=3,551,000.

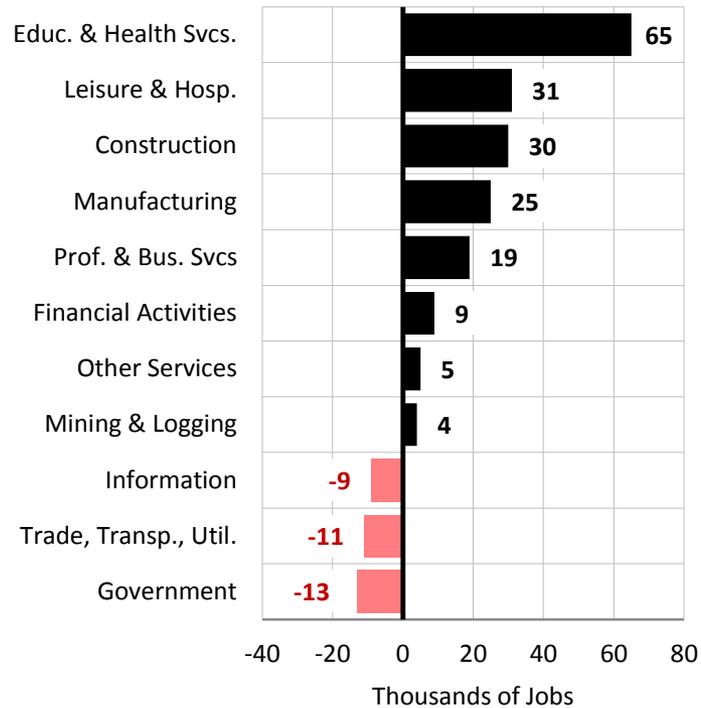


What happened in California and the nation in December 2012?

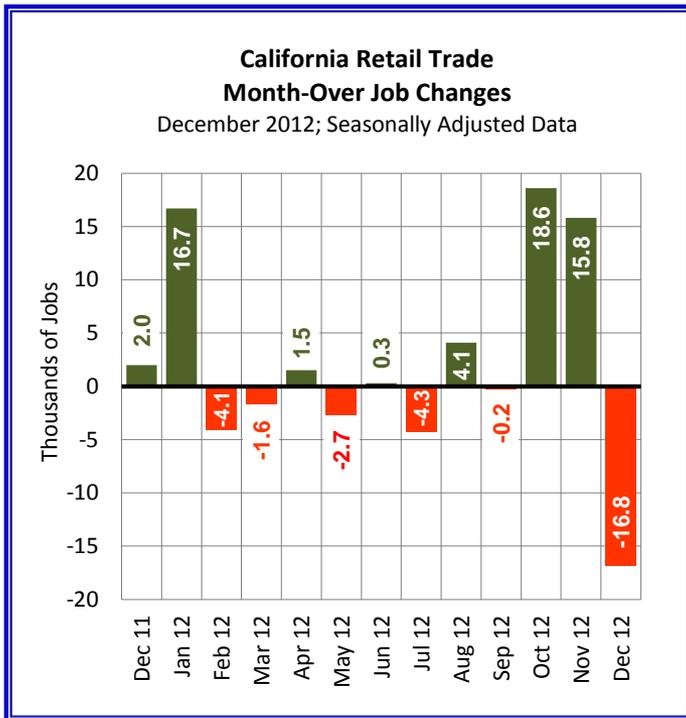
Month-Over Changes in California Industry Sector Jobs: December 2012
(Seasonally Adjusted Data)



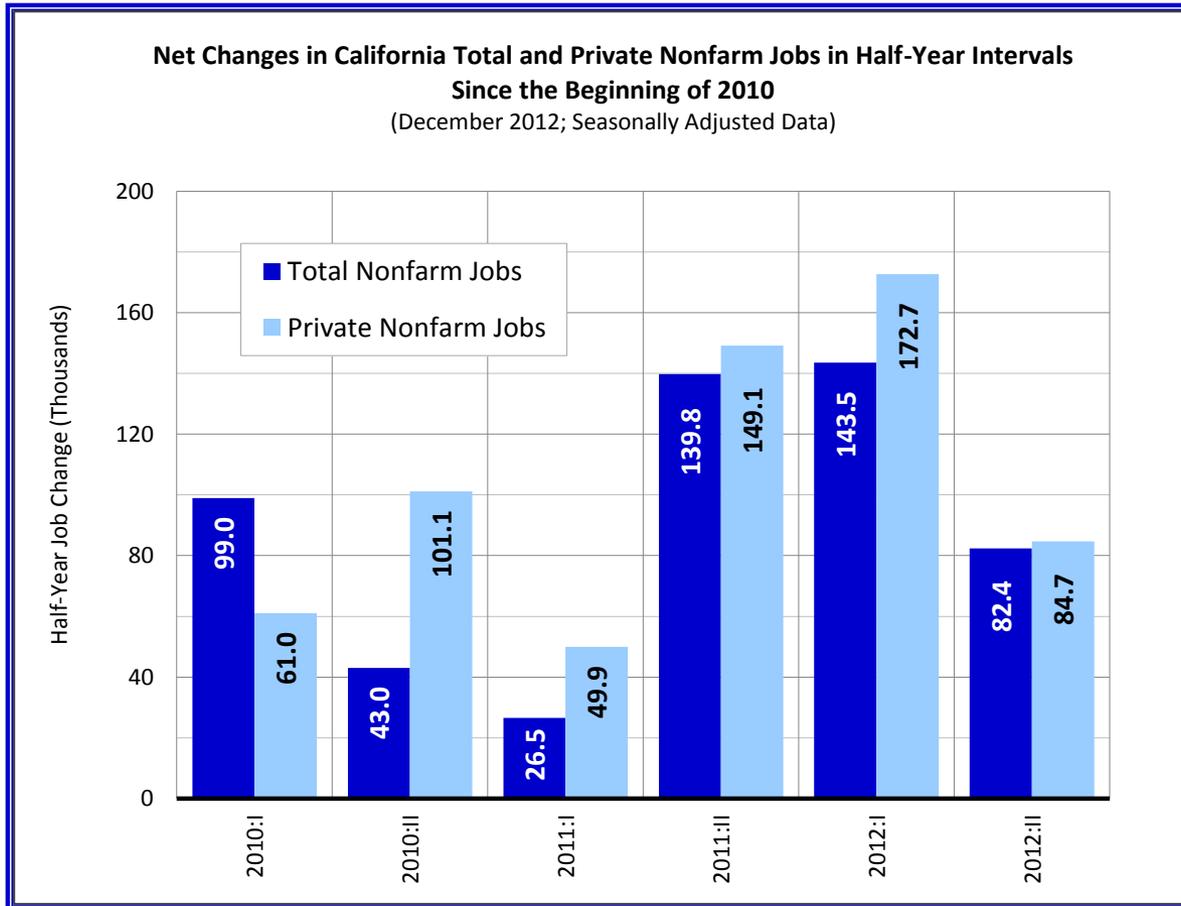
Month-Over Changes in U.S. Industry Sector Jobs: December 2012
(Seasonally Adjusted Data)



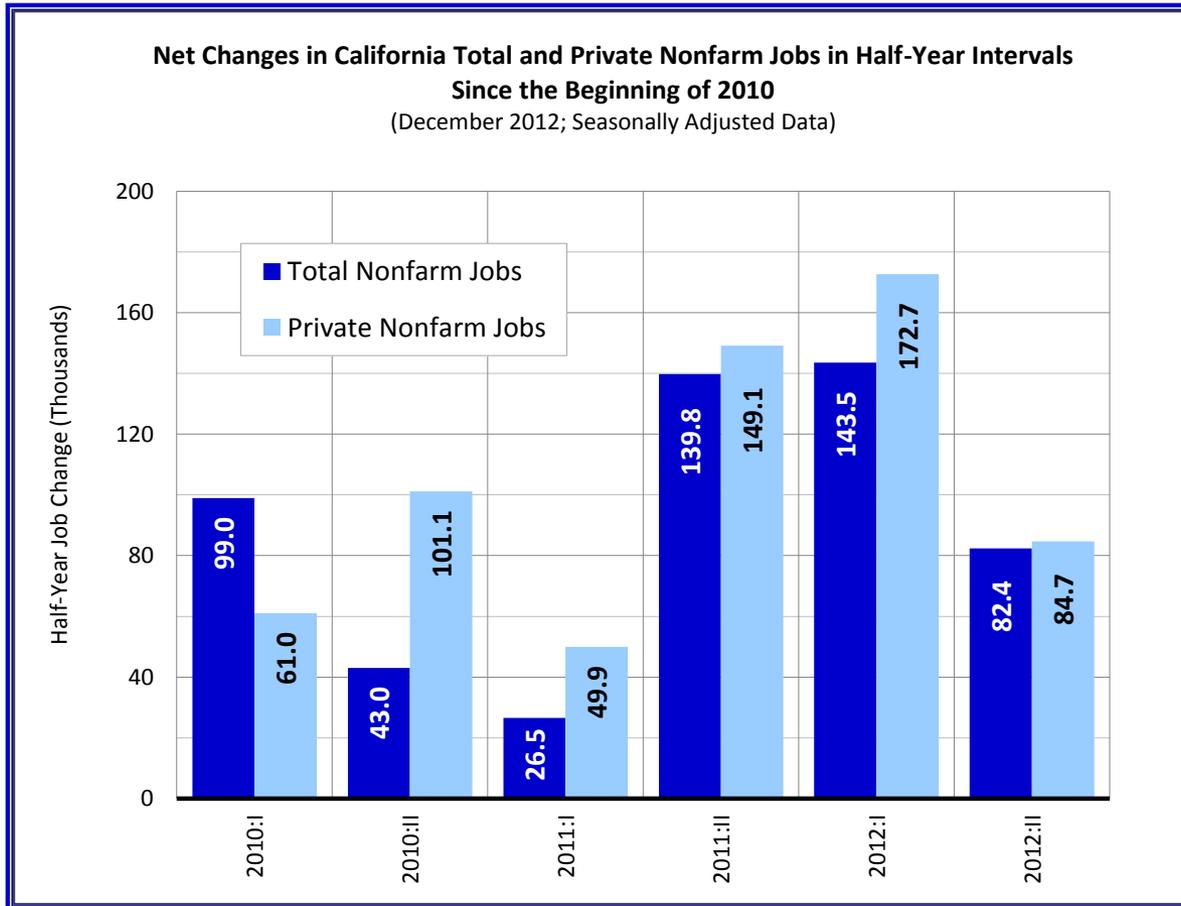
California retail trade lost 16,800 jobs in December 2012, but gained 17,600 jobs during the October – December 2012 hiring period. Even with the large December loss, California retail hiring appears to have been strong in 2012.



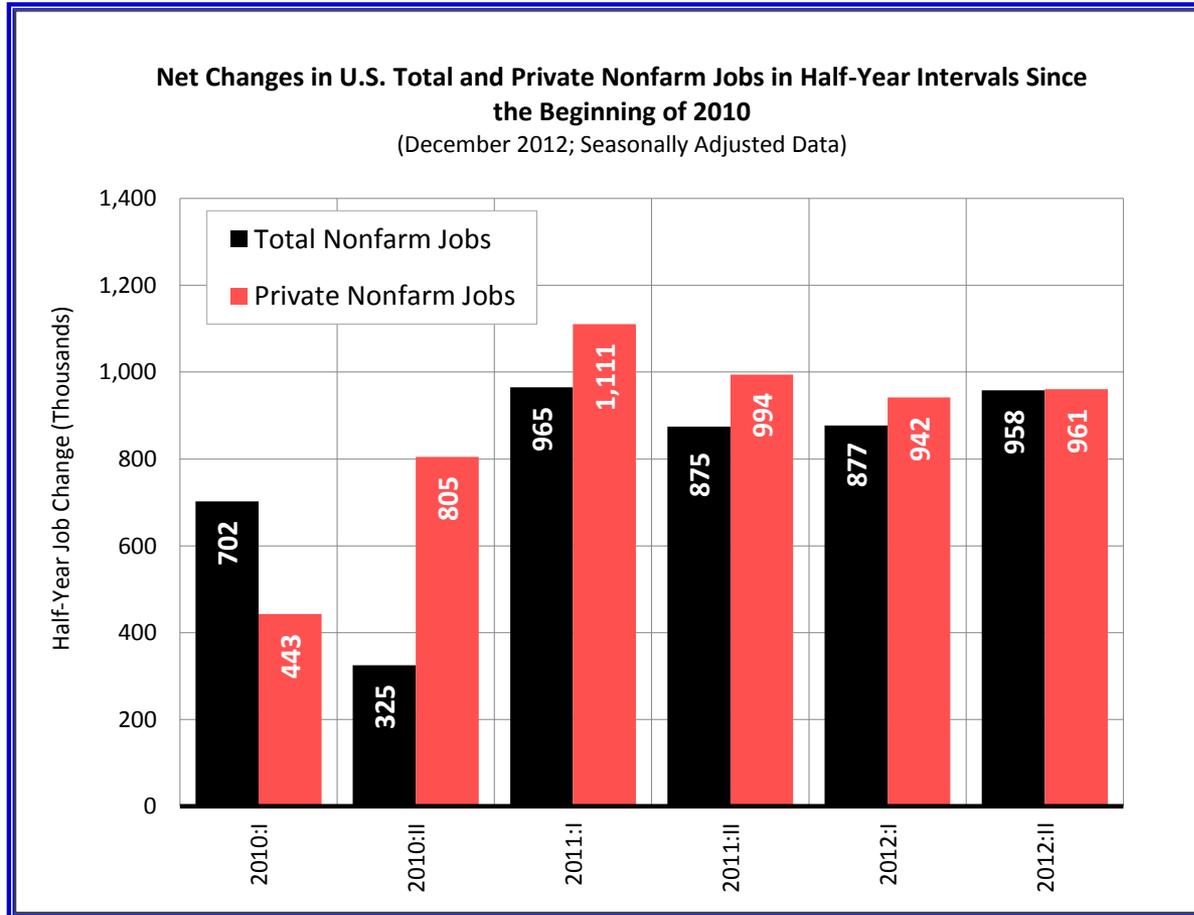
However, even after accounting for the pattern of holiday hiring in 2012, California's job growth was flat in November and December, and slowed considerably in the last half of 2012.



However, even after accounting for the pattern of holiday hiring in 2012, California's job growth was flat in November and December, and slowed considerably in the last half of 2012.



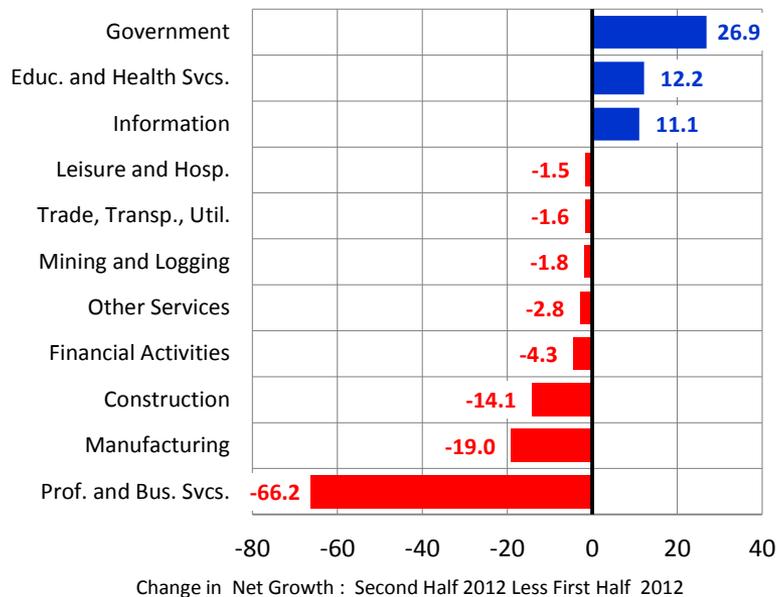
Unlike California, the nation did not experience a second half slowdown in job growth in 2012.



California's job slowdown in the second half of 2012 was widespread across most industry sectors, but concentrated in professional and business services. High tech. and export oriented industry sectors tended to experience weaker job growth both nationally and in California.

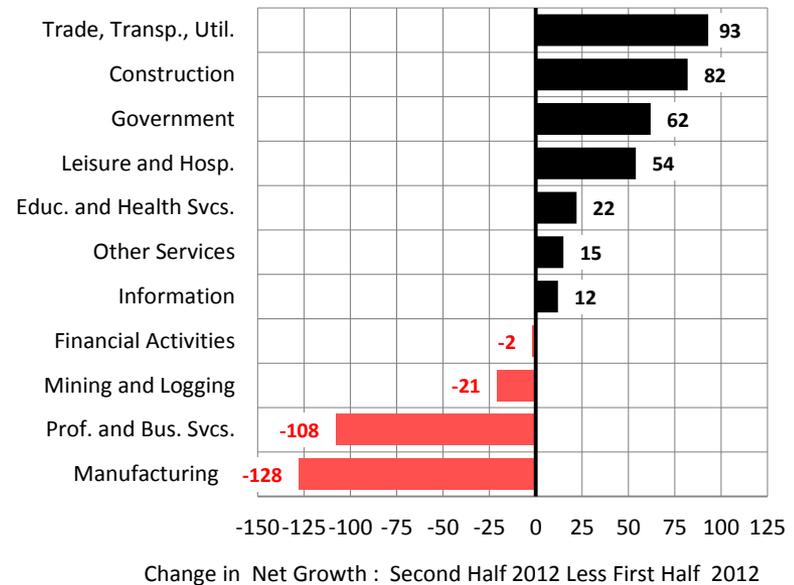
Net Changes in California Industry Jobs in the Second Half of 2012 In Comparison to the First Half of 2012

(December 2012; Seasonally Adjusted Data; Thousands of Jobs)



Net Changes in U.S. Industry Jobs in the Second Half of 2012 In Comparison to the First Half of 2012

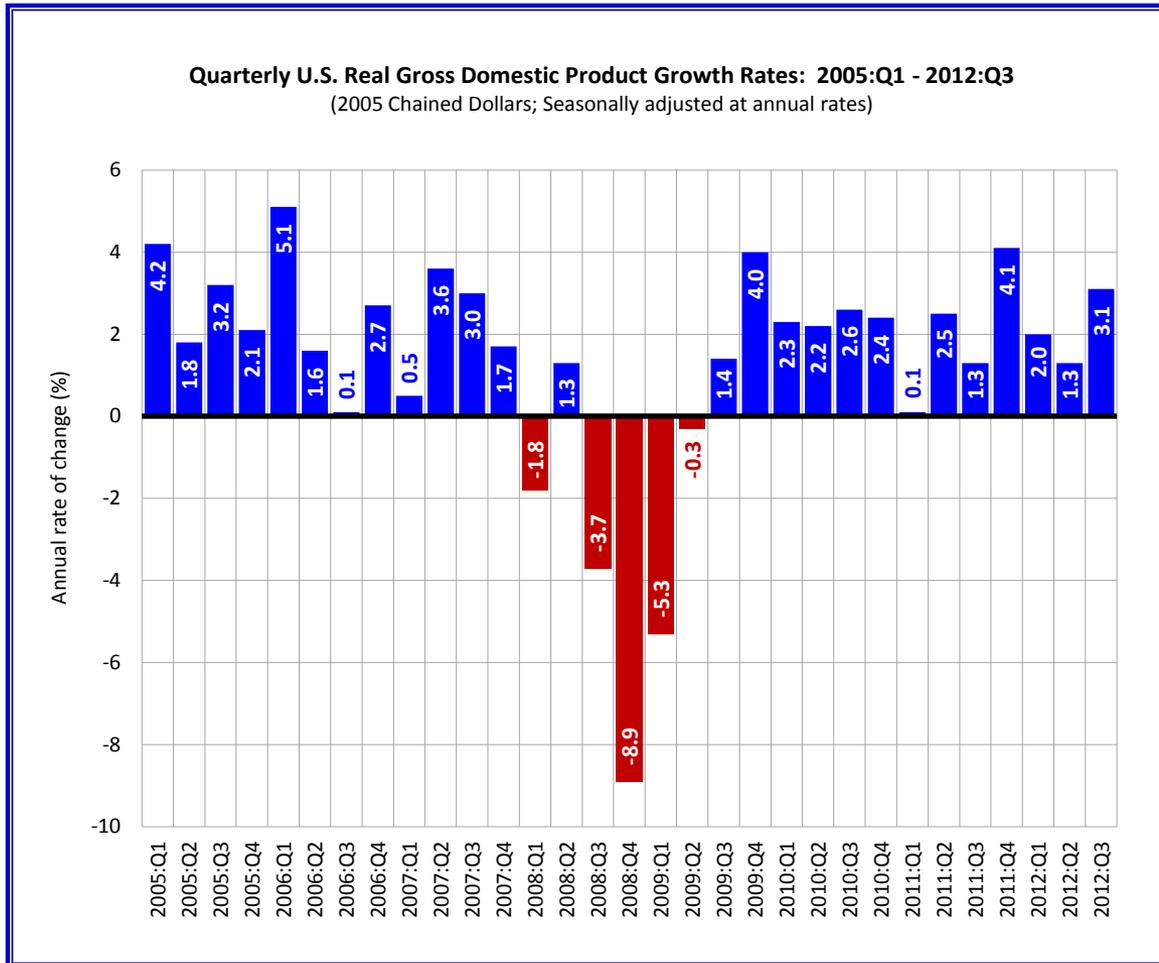
(December 2012; Seasonally Adjusted Data; Thousands of Jobs)



Economic Indicators

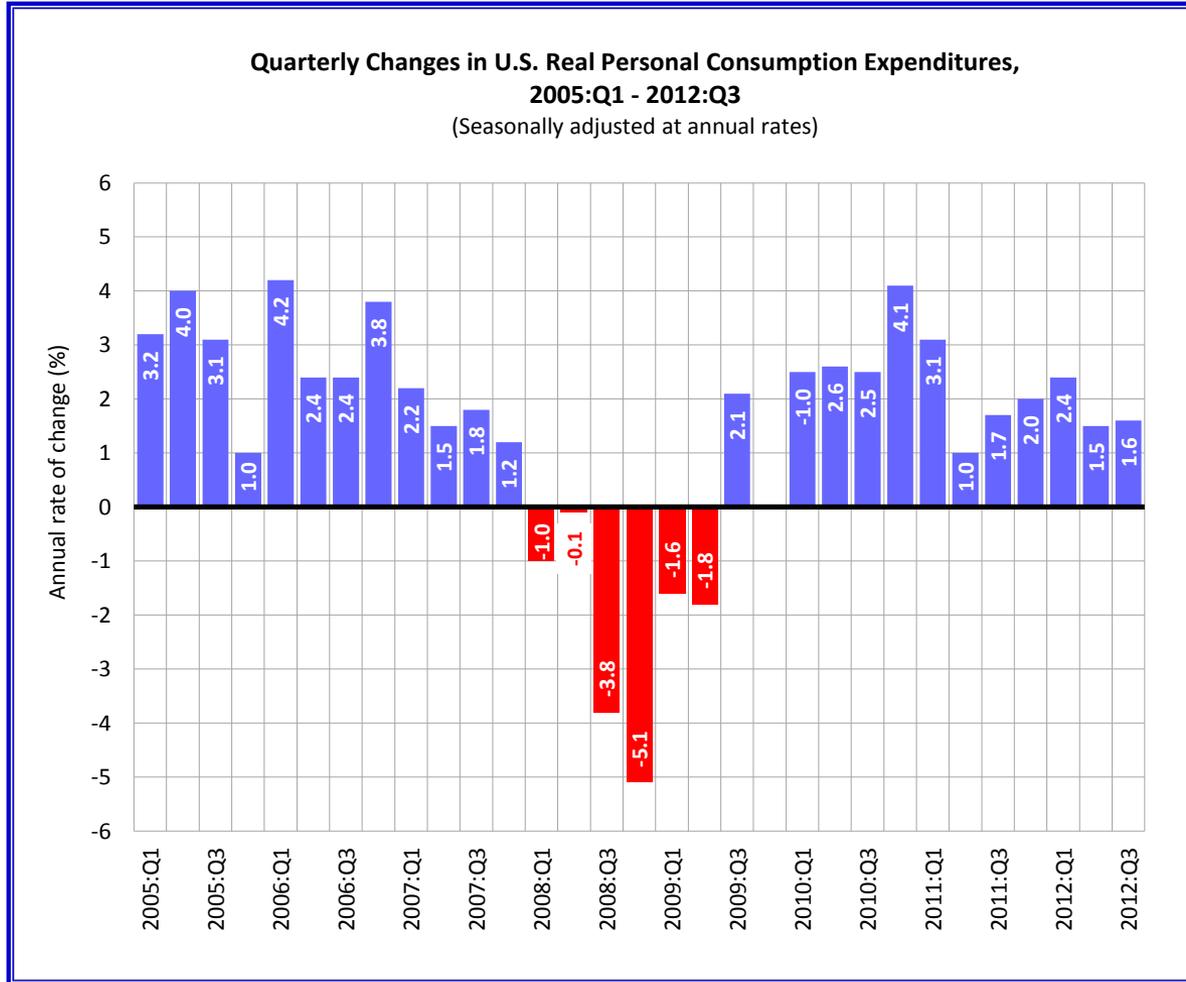
GDP = Consumer Spending + Business Investment + Government Spending + Net Exports

GDP shows sustained, but moderate growth. Hence, the slow jobs recovery.



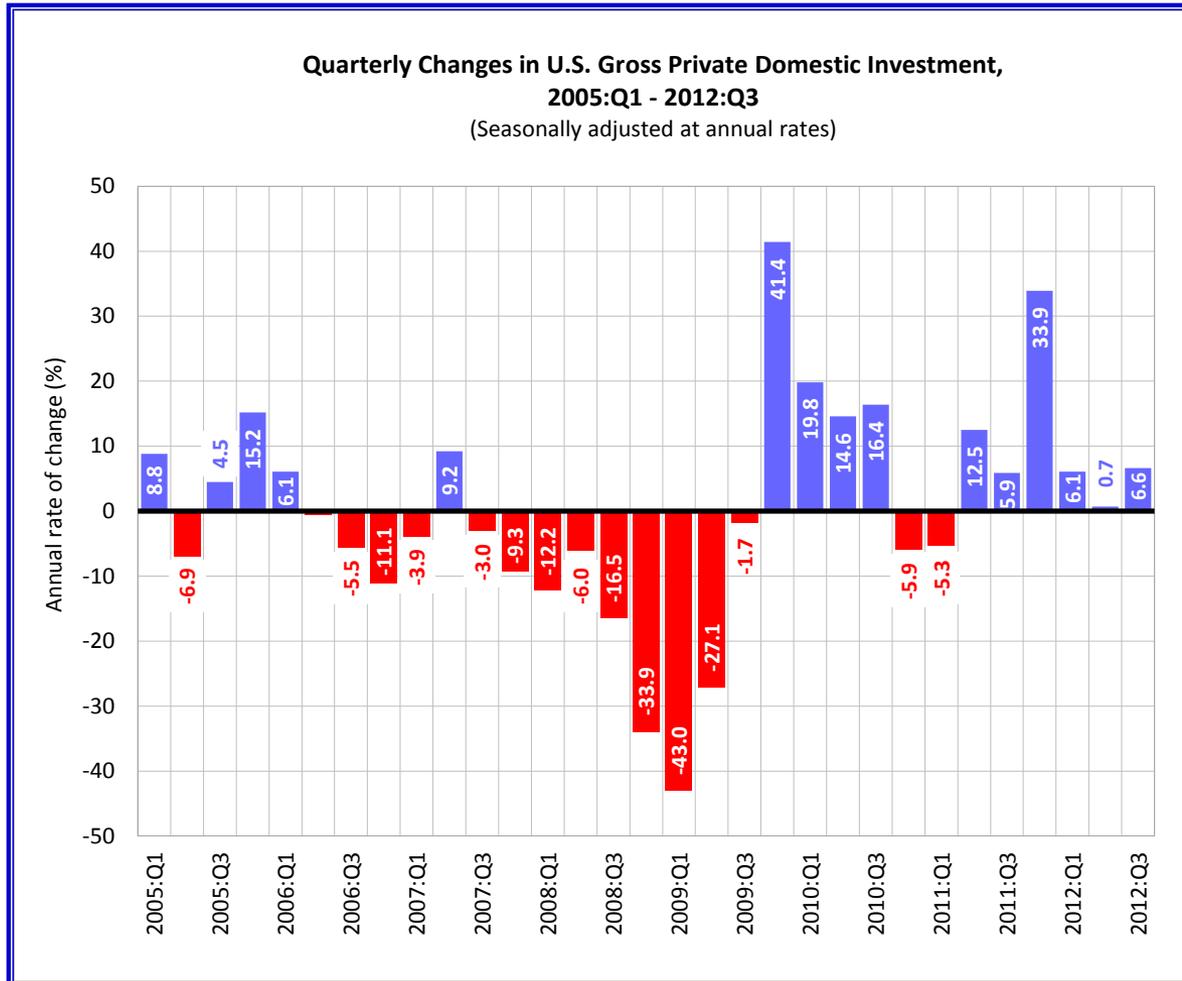
Economic Indicators:

Consumer spending (70+ percent of GDP) continues to grow at a moderate rate, but isn't strong enough to propel the U.S. economy.



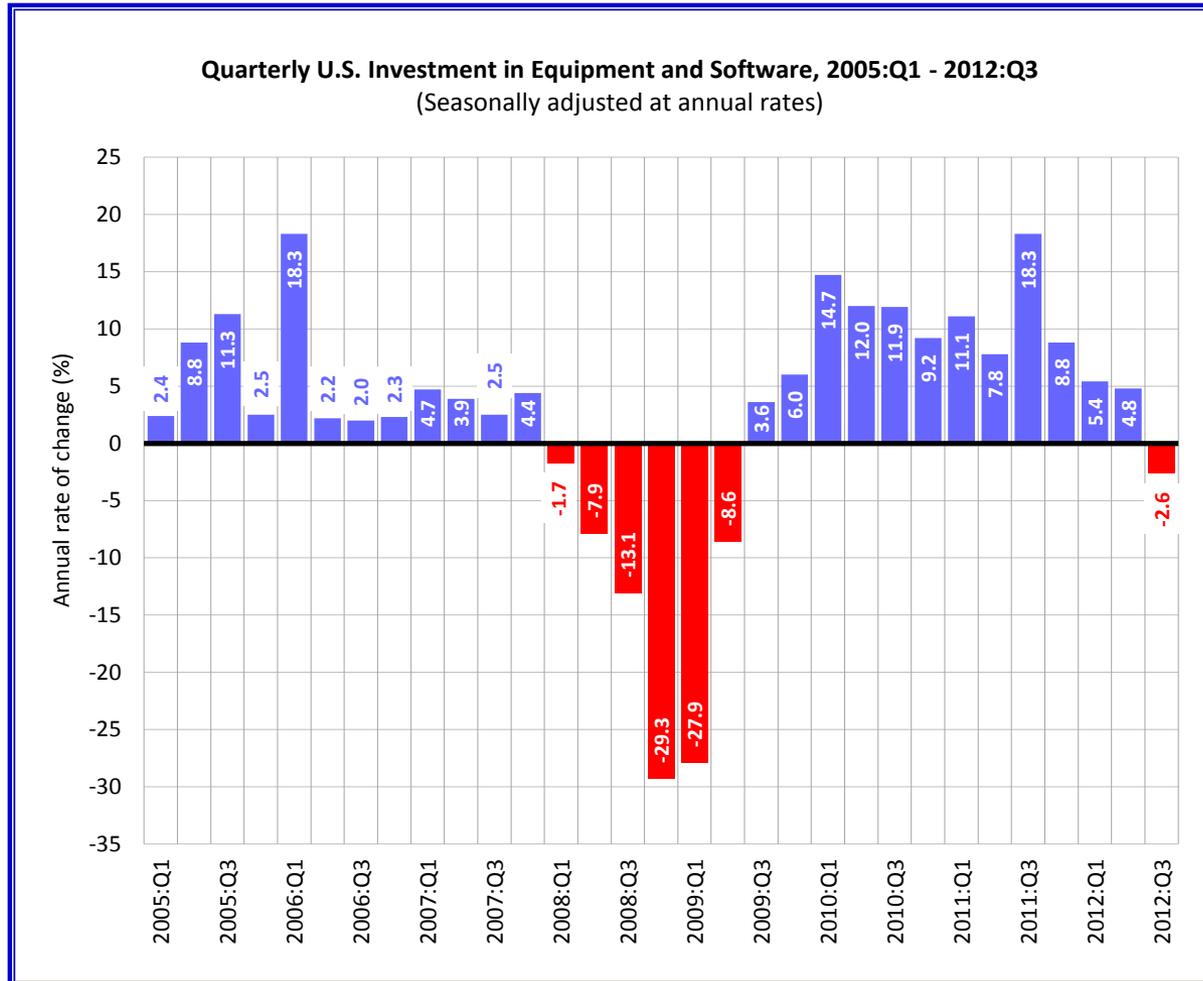
Economic Indicators:

Business investment, or gross private domestic investment (~14 percent of GDP), is also growing and contributing to economic growth—if somewhat ambiguously. so Overall, it is a small plus for the economy.



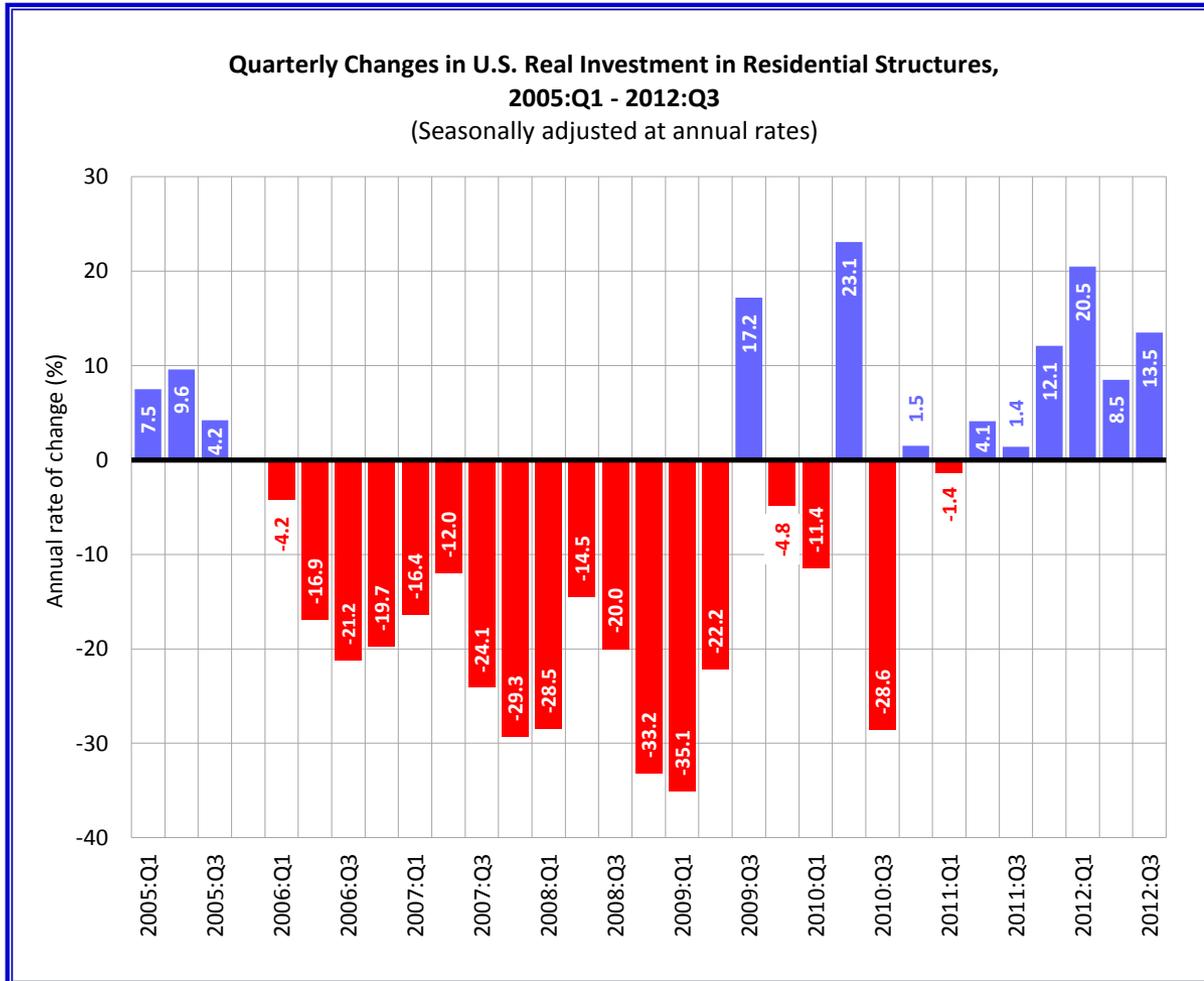
Economic Indicators: Business Investment

Investment in equipment and software (or high tech.), which has had a dynamic role in California's recovery-to-date, stalled in the third quarter of 2012 and no doubt played a key role in the slowdown in job growth in California's professional and business services sector in the second half of 2012.



Economic Indicators: Business Investment

Investment in residential structures (or housing) has grown in six consecutive quarter and appears to be strengthening. A strengthening housing market is expected to be a key source of U.S. economic growth going forward, enabling the U.S. economy to navigate through headwinds from other sources.

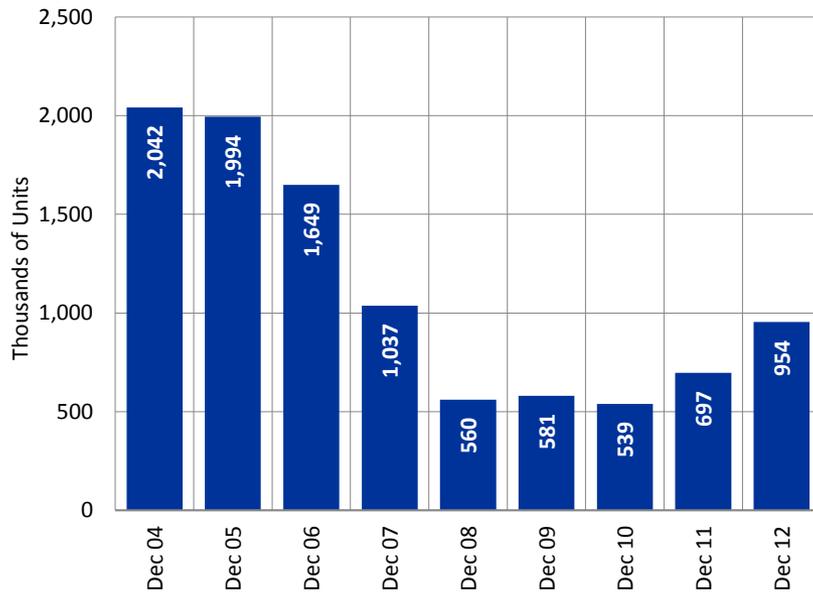


More on Housing: U.S. Housing Starts

U.S. Housing Starts: December 2004 - December 2012

(Seasonally Adjusted at Annualized Rates; Thousands of Units)

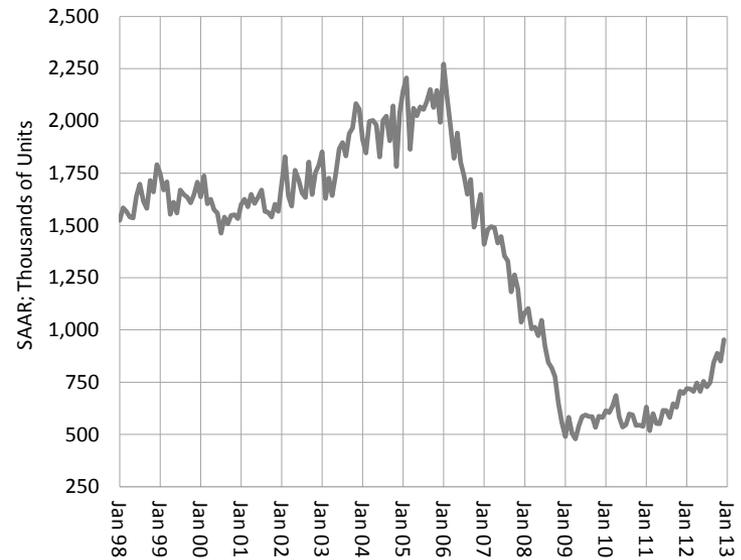
Source: Bank of Tokyo-Mitsubishi; Haver Analytics



U.S. Housing Starts Since 1998

(Seasonally Adjusted at Annualized Rates; Thousands of Units)

Source: Bank of Tokyo-Mitsubishi; Haver Analytics

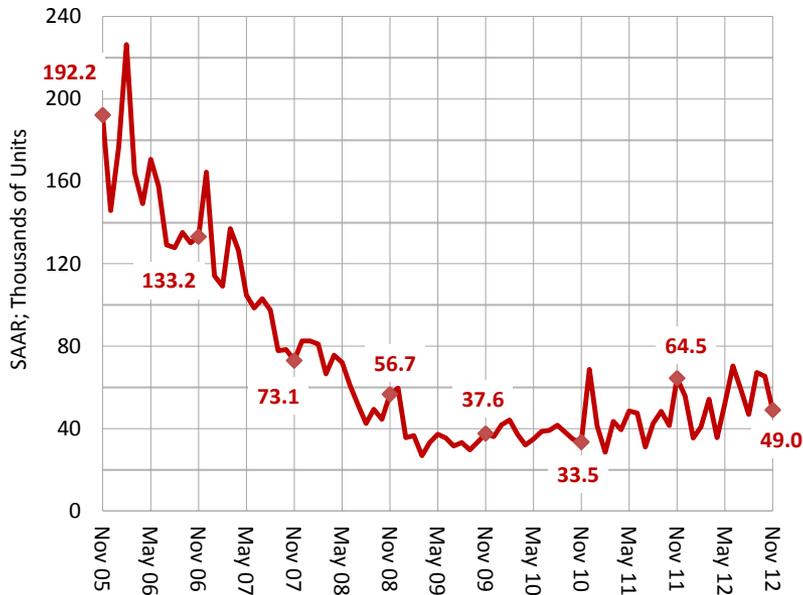


California's housing recovery is less well-defined than the nation's...

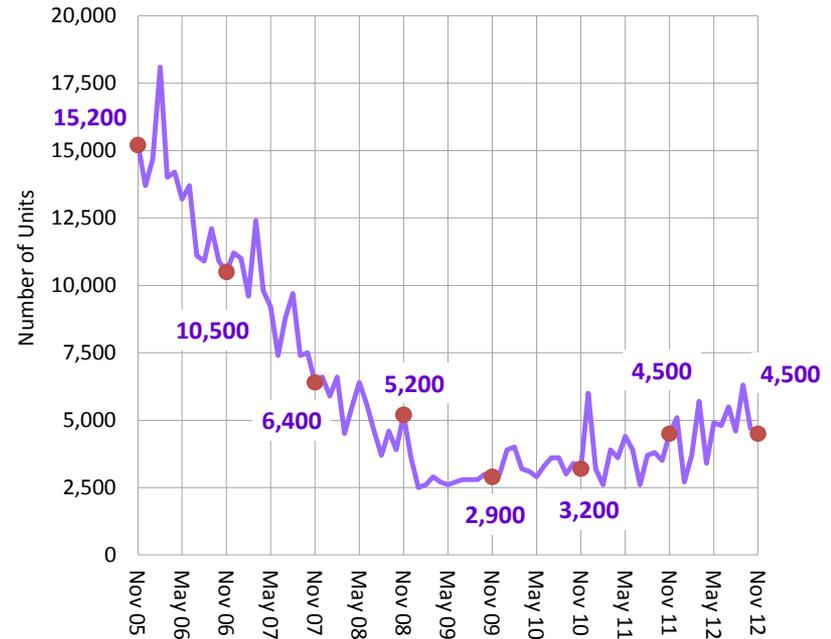
California Housing Starts: November 2005 - November 2012

(Seasonally Adjusted at Annualized Rates; Thousands of Units)

Source: Bank of Tokyo-Mitsubishi; Haver Analytics



California New Housing Permits: Five-Year Trend
November 2012; Seasonally Adjusted by Haver Analytics)

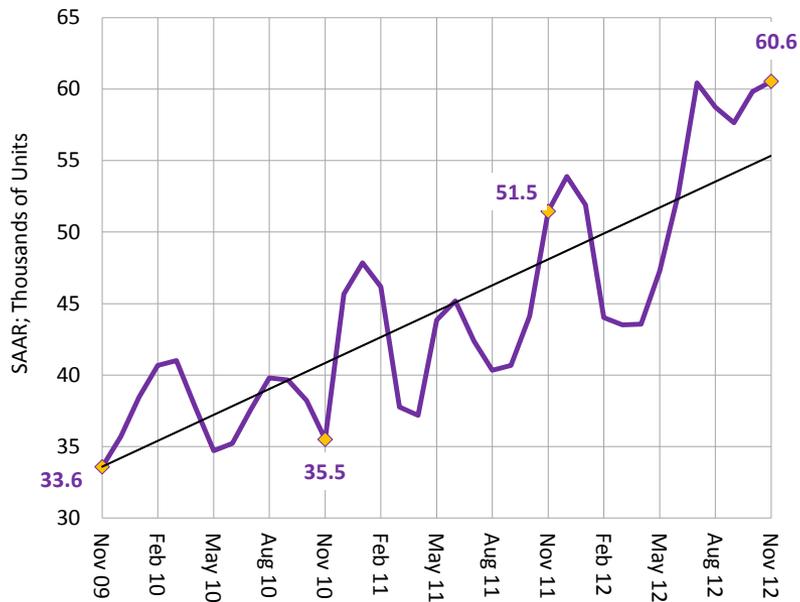


...but, with the help of a little data manipulation, seems to be clearly underway.

California Housing Starts: Three-Month Average Data

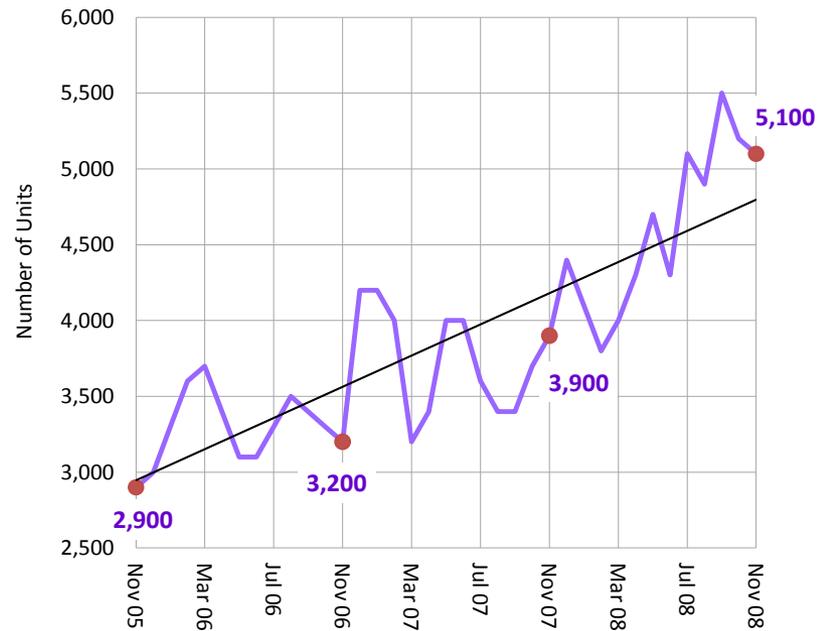
(Seasonally Adjusted at Annualized Rates; Thousands of Units)

Source: Bank of Tokyo-Mitsubishi; Haver Analytics

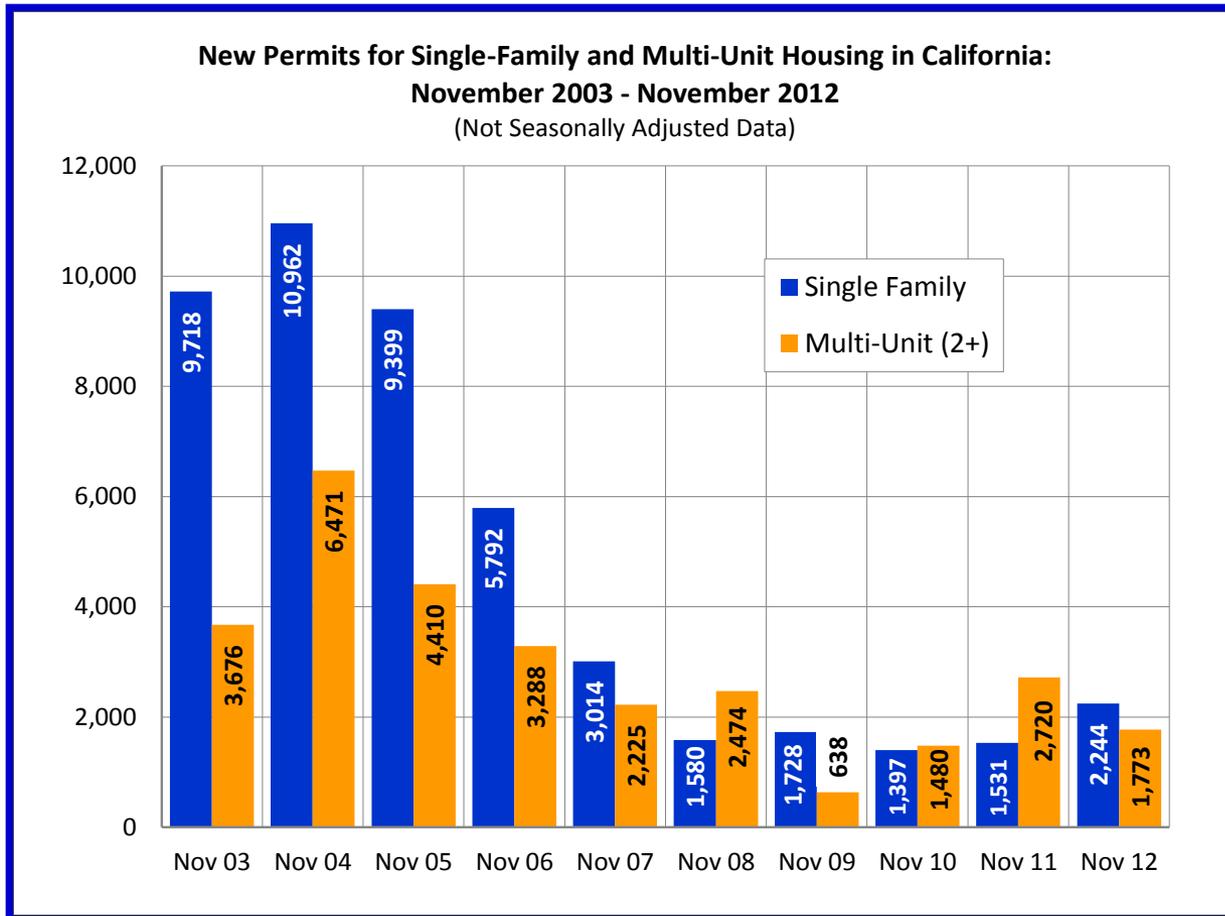


California New Housing Permits: Five-Year Trend

November 2012; Seasonally Adjusted by Haver Analytics)



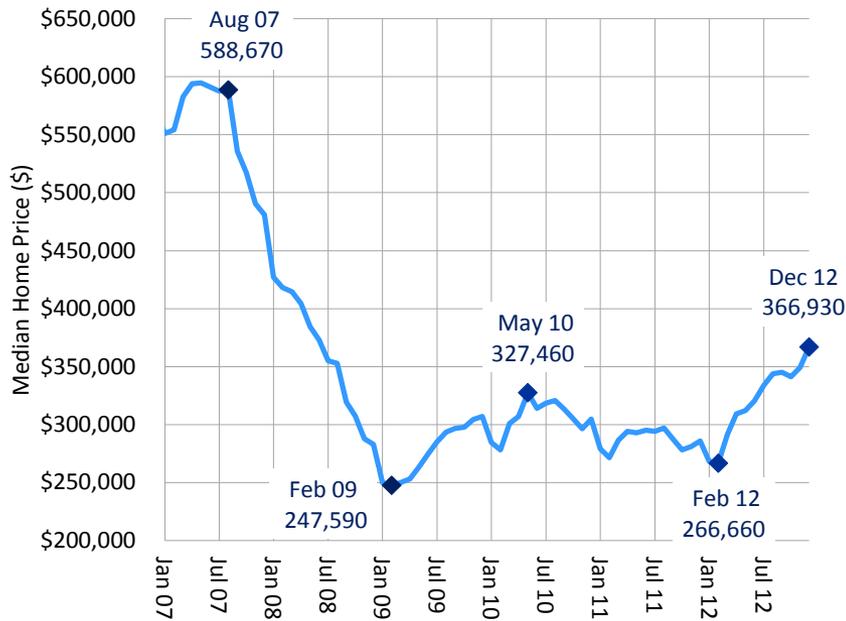
Multi-unit dwellings have accounted for much of the renewed activity in California's housing, but single-family dwellings are now picking up to and should continue to do so in the future. Over the long-term, California has a structural housing deficit (i.e., past home building has not matched the past of population growth).



Two more views of California's housing market:

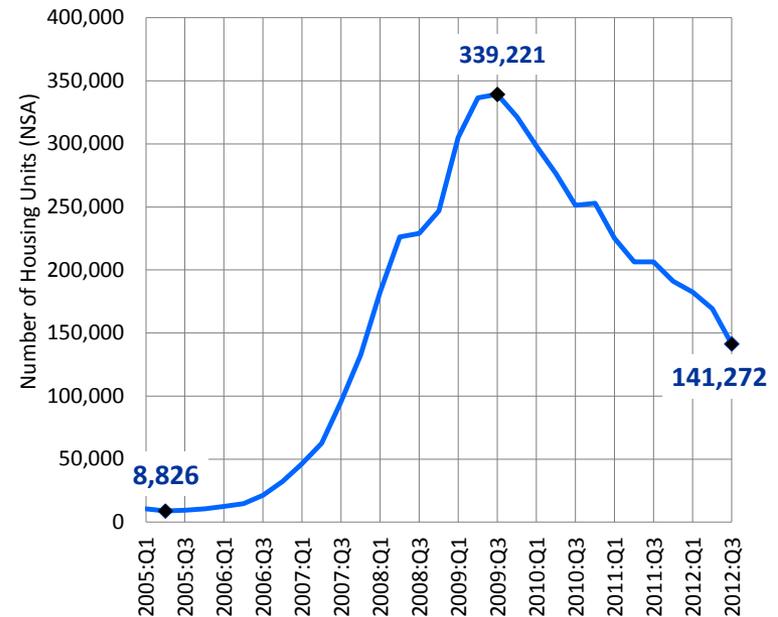
**California Median Home Price:
January 2007 - December 2012**

(Source: California Department of Finance; California Association of Realtors)



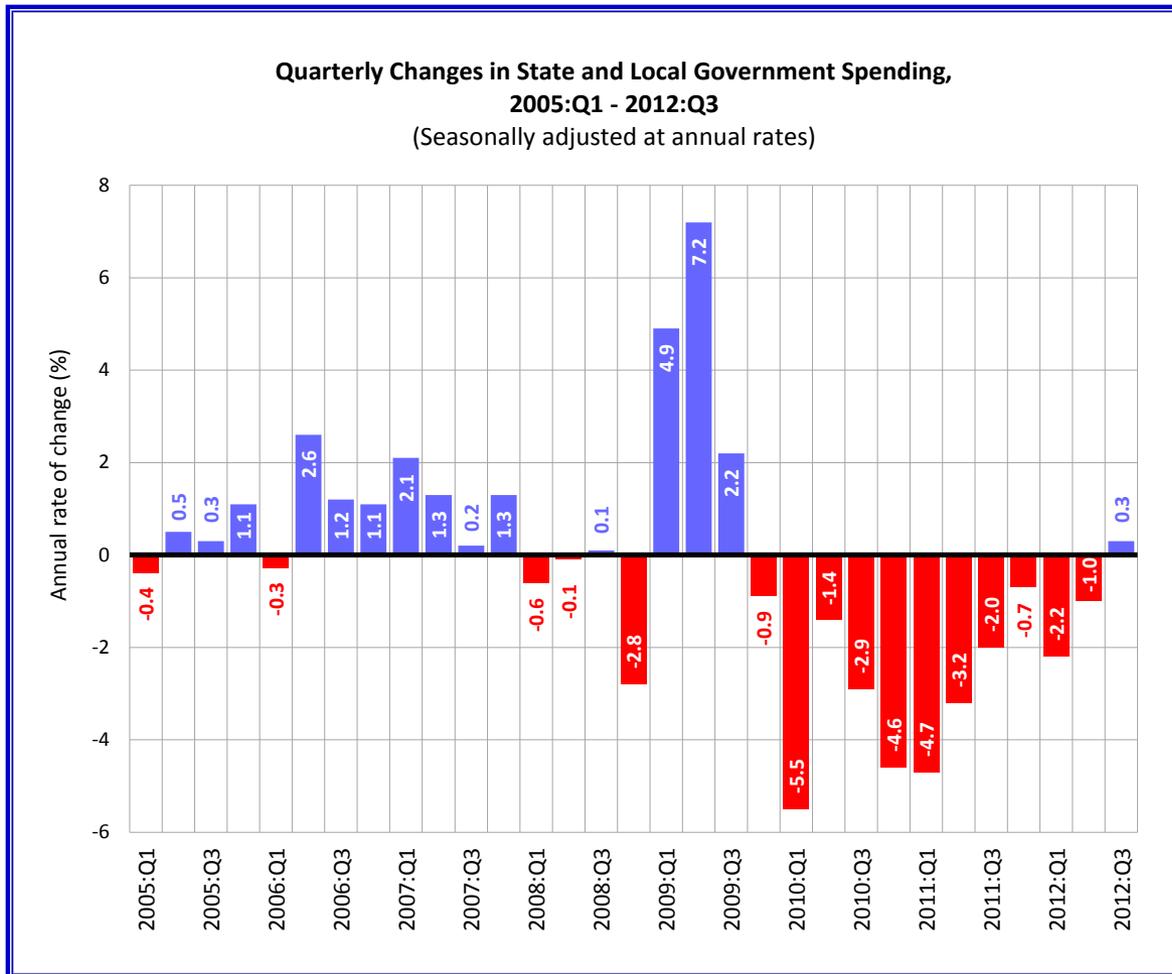
Inventory of Mortgages in Foreclosure, California

(Source: Mortgage Bankers Association; Haver Analytics)



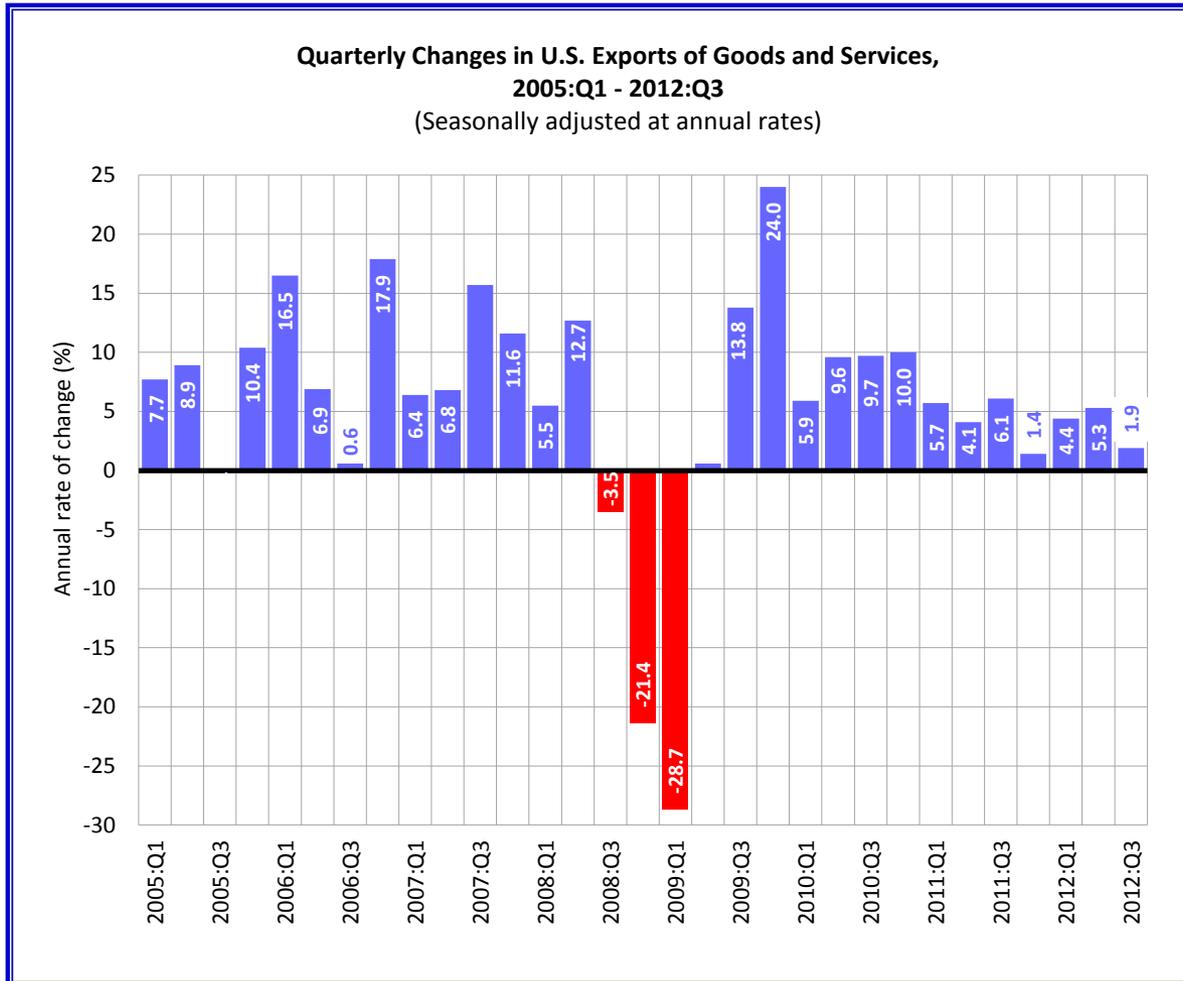
Economic Indicators: Government Spending

After 11 consecutive quarters of decreases, state and local government spending grew at an annualized pace of 0.3 percent in 2012:Q3 suggesting austerity pressures may be easing. Government job losses totaled 3,000 and 2,300 in the U.S. and California, respectively, in the second half of 2012. Neutral effects on the economy are infinitely preferable to a large negative effects.

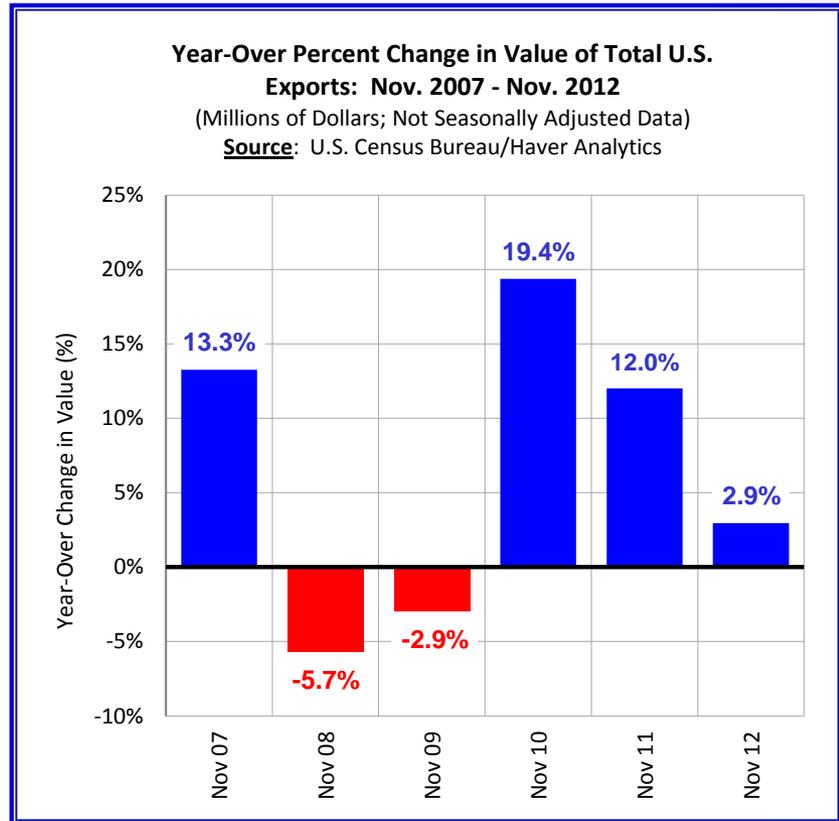
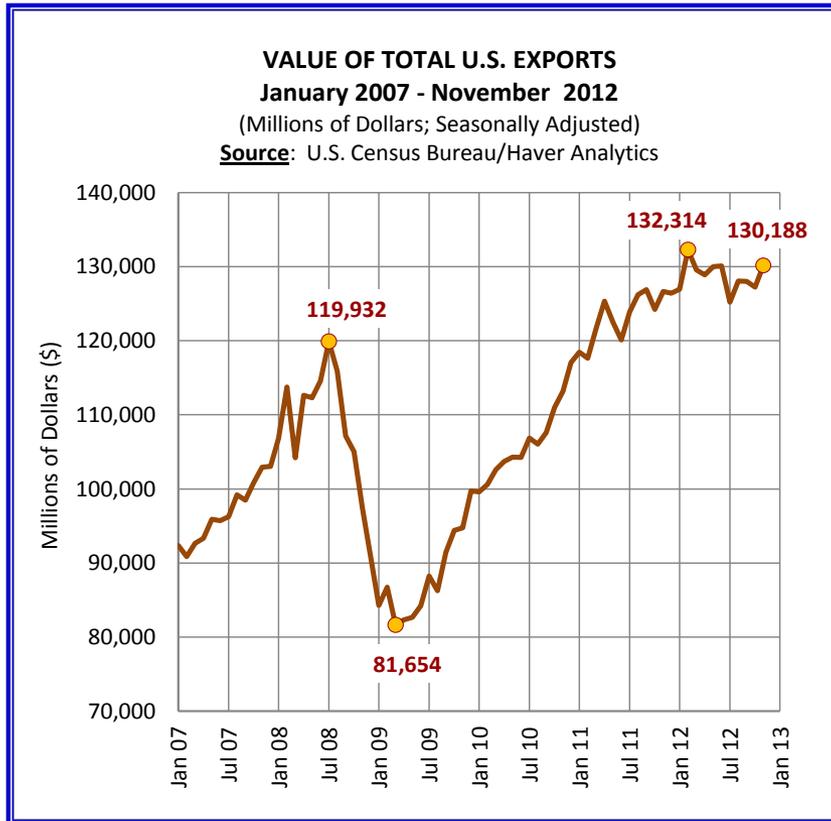


Economic Indicators: Net Exports

Expanding exports have provided a key role in the economic recovery to date –and particularly in California--by boosting sluggish domestic demand for goods and services. However, the pace of export growth has slackened off due to a slowdown in the global economy.



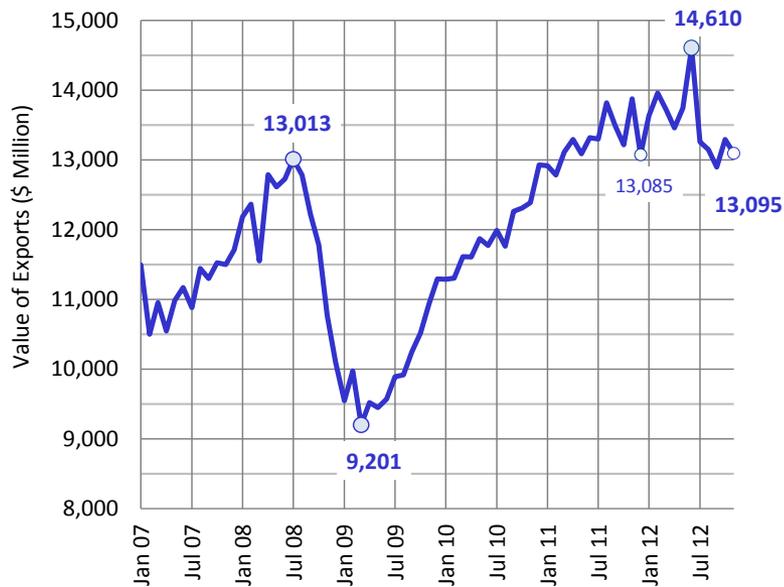
More evidence of slowing export growth in the U.S....



...and a deeper slowdown in California exports.

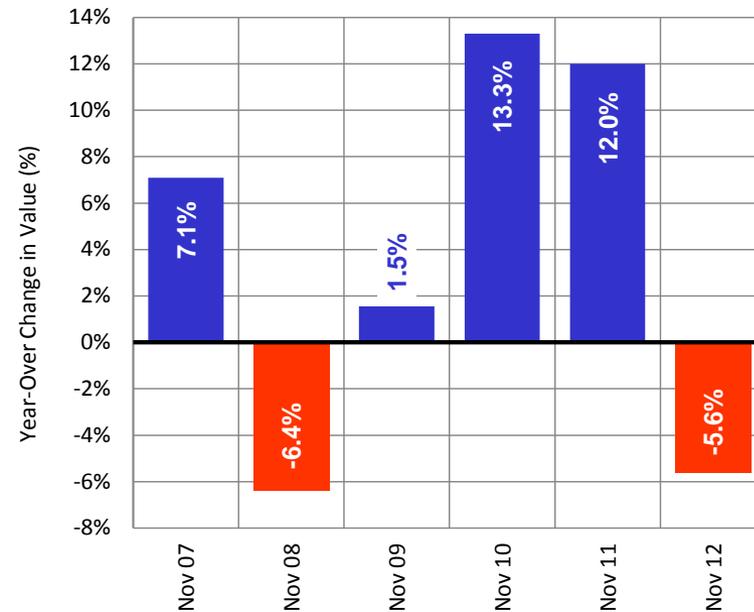
Value of Total Exports from California

January 2007 - November 2012
(Seasonally Adjusted by Haver Analytics)
Source: U.S. Census Bureau; Haver Analytics



Year-Over Percent Change in Value of California Total Exports: November 2007 - November 2012

(Seasonally Adjusted by Haver Analytics)
Source: U.S. Census Bureau/Haver Analytics



Conclusion: Where Things Stand

- The moderate pace of the recovery is expected to pick up pace, but could hit a rocky stretch in the next few months before strengthening in the second half of 2013 and beyond as the nation copes with its fiscal woes and the global economy strengthens.
- Positives in the economy: consumers are spending—if not dramatically; state and local government austerity policies ending (?); **housing recovery**.
- Negatives in the economy: weakening demand for U.S. and particularly California exports; high technology is losing its luster (?); policy uncertainty in Washington.
- What could go wrong? While the fiscal cliff and debt ceiling crises were avoided (for now), congress remains dysfunctional. Severe austerity measures at the national level would reverberate throughout the economy.