

Defense Conversion

- **State 80% through defense job losses**

Industry

- **Broad support for pre-competitive R&D**

Communities

- **Planning and infrastructure support essential for recovery, especially for base closures**
—EDA, OEA

Workers

- **Early intervention, retraining important**

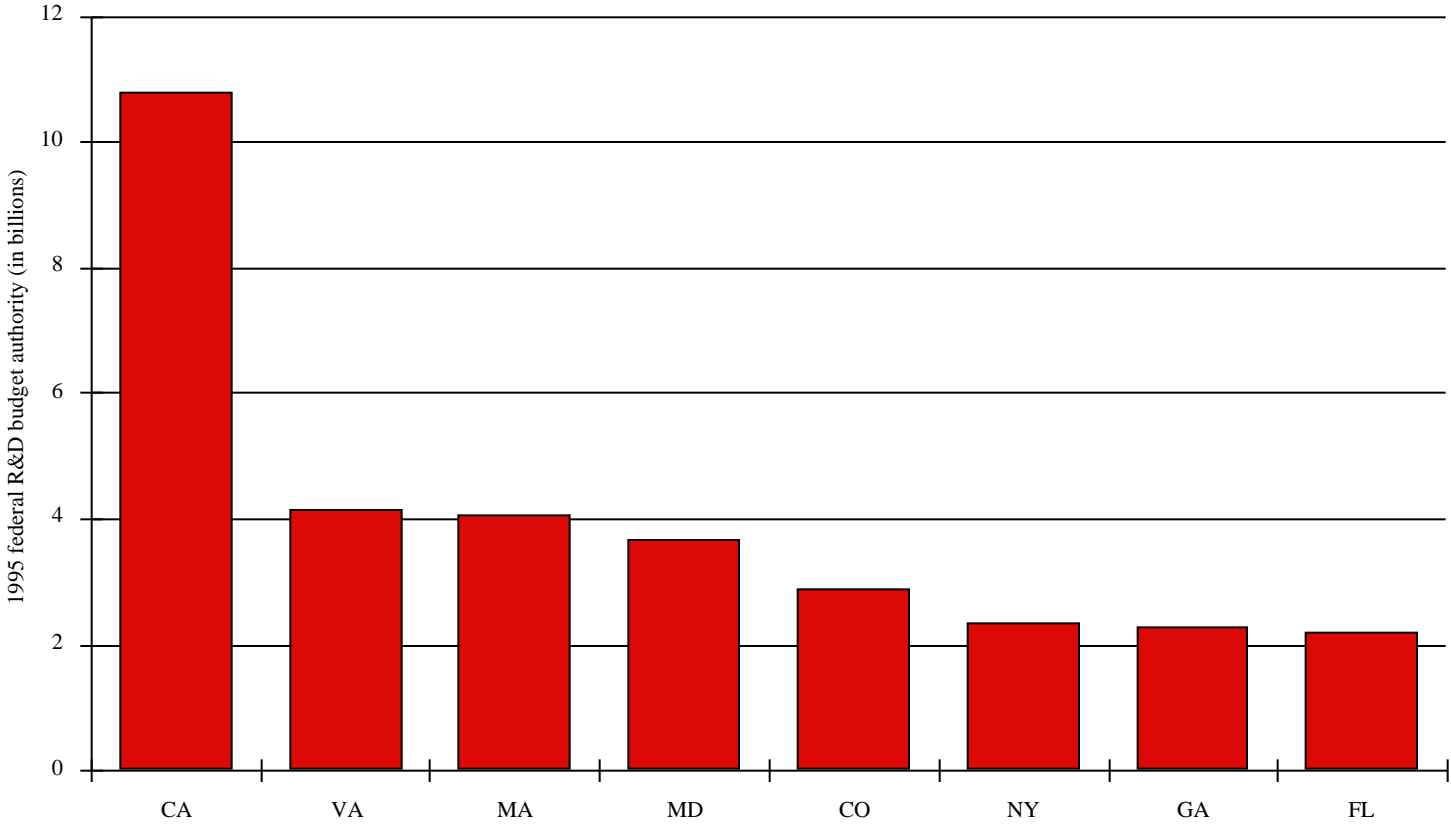
Continue Human Capital and Infrastructure Investment

- **Quality education increasingly important to California**
 - Growing business interest in education, training; view education as quality of life issue
 - Education and experience lead to higher earnings
 - California's technology-based industries need skilled workers
- **Physical infrastructure important for expanding economy**
 - Airport, seaport modernizations (e.g., Alameda corridor)
 - Water markets remain most efficient allocation method

Explore Sources of Financing for High-Technology Businesses

- **Venture capital shortfall**
 - Only 7-10 percent venture capital funds allocated to early stage financing
 - Shortfall nationally up to \$45 billion; \$7 billion in California
- **Several steps to increase funding levels should be considered**
 - Increase number of SBIC-like organizations
 - Reduce capital gains taxes for small, high technology firms
 - Harmonize federal and California exemptions

California is the Largest Recipient of Federal R&D Outlays



Source:Critical Technologies Institute (RAND)

Maintain Strong R&D Base

- **California's economic future increasingly technology based**
 - High tech exports booming
 - New industries represent marriage of emerging technologies
- **Link between technology and wage growth**
- **Concerned about federal technology funding cuts**

Continue to Liberalize Trade

- **Intellectual property protections**
 - Key to many California industries (e.g., software, multimedia, entertainment, professional services)
- **NAFTA update**
 - Uncertain results in job market
 - US exports boomed prior to peso crisis
 - Long-term outlook remains promising

Federal Roles in Support of California Economic Growth

Trade

- Continue expansion of free trade agreements

R&D

- Support basic research and precompetitive R&D

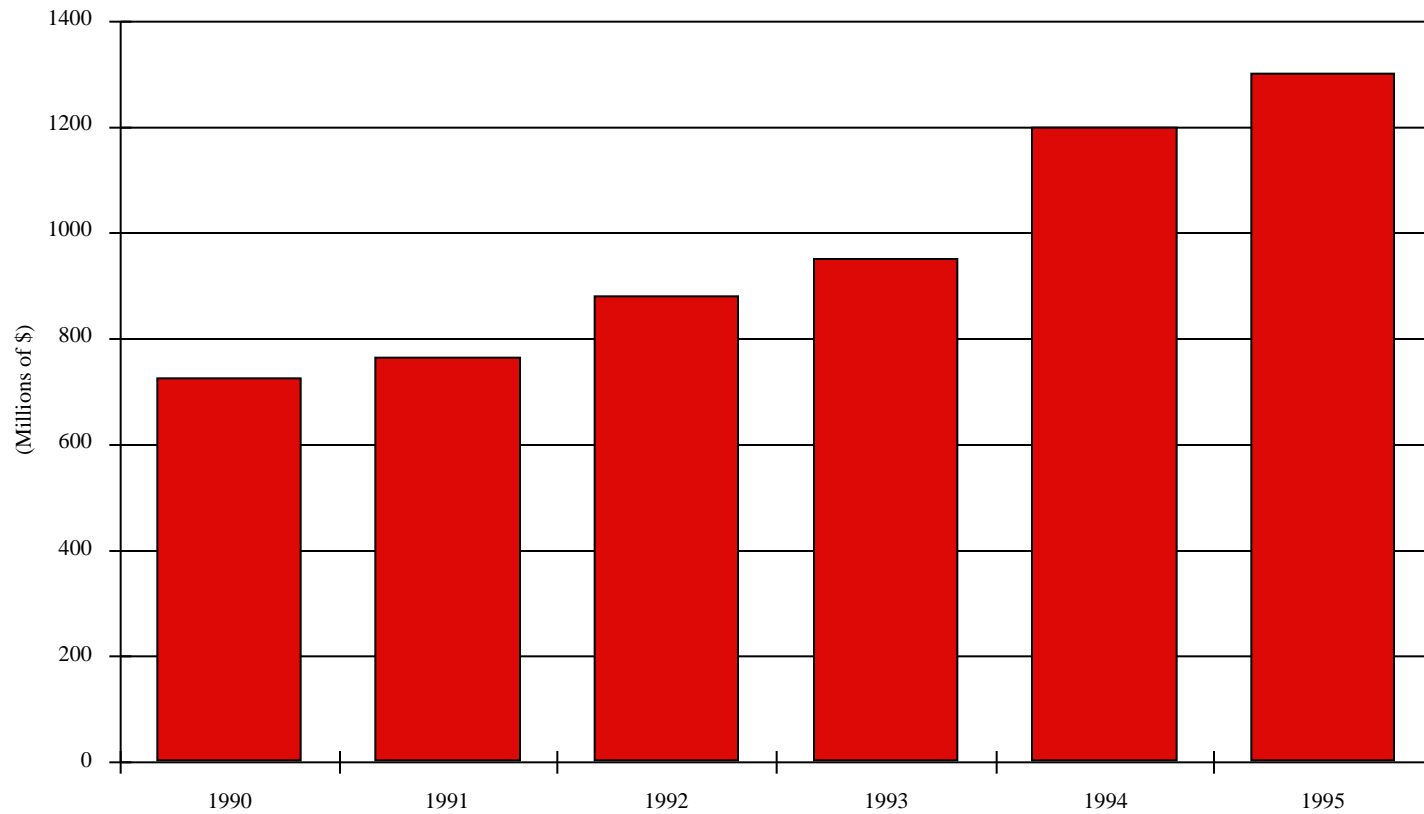
Skills and Infrastructure

- Encourage, support investment in human capital and physical, technological infrastructure

Defense Conversion

- Range of activities still needed

Venture Capital Funding In Silicon Valley Continues To Rise

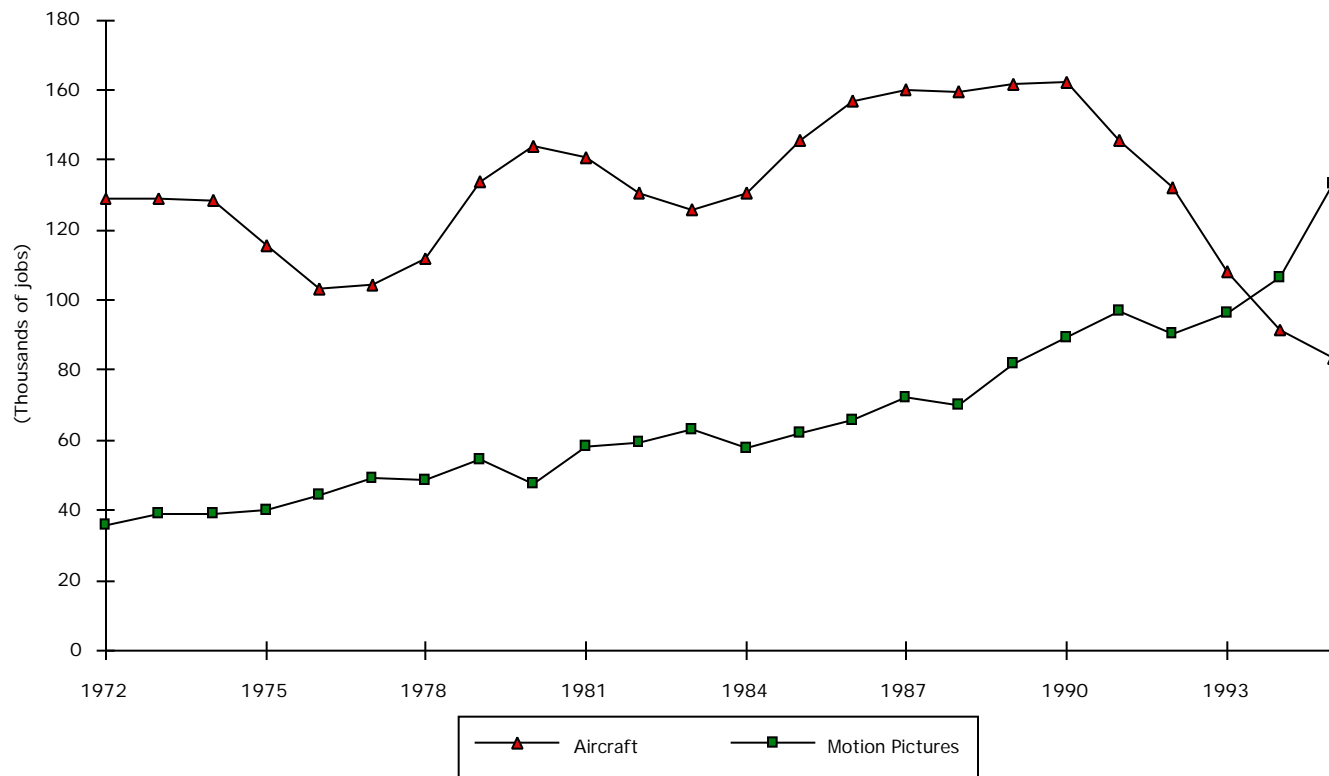


Source: San Jose Mercury News

California Leads in Exciting, New Technologies

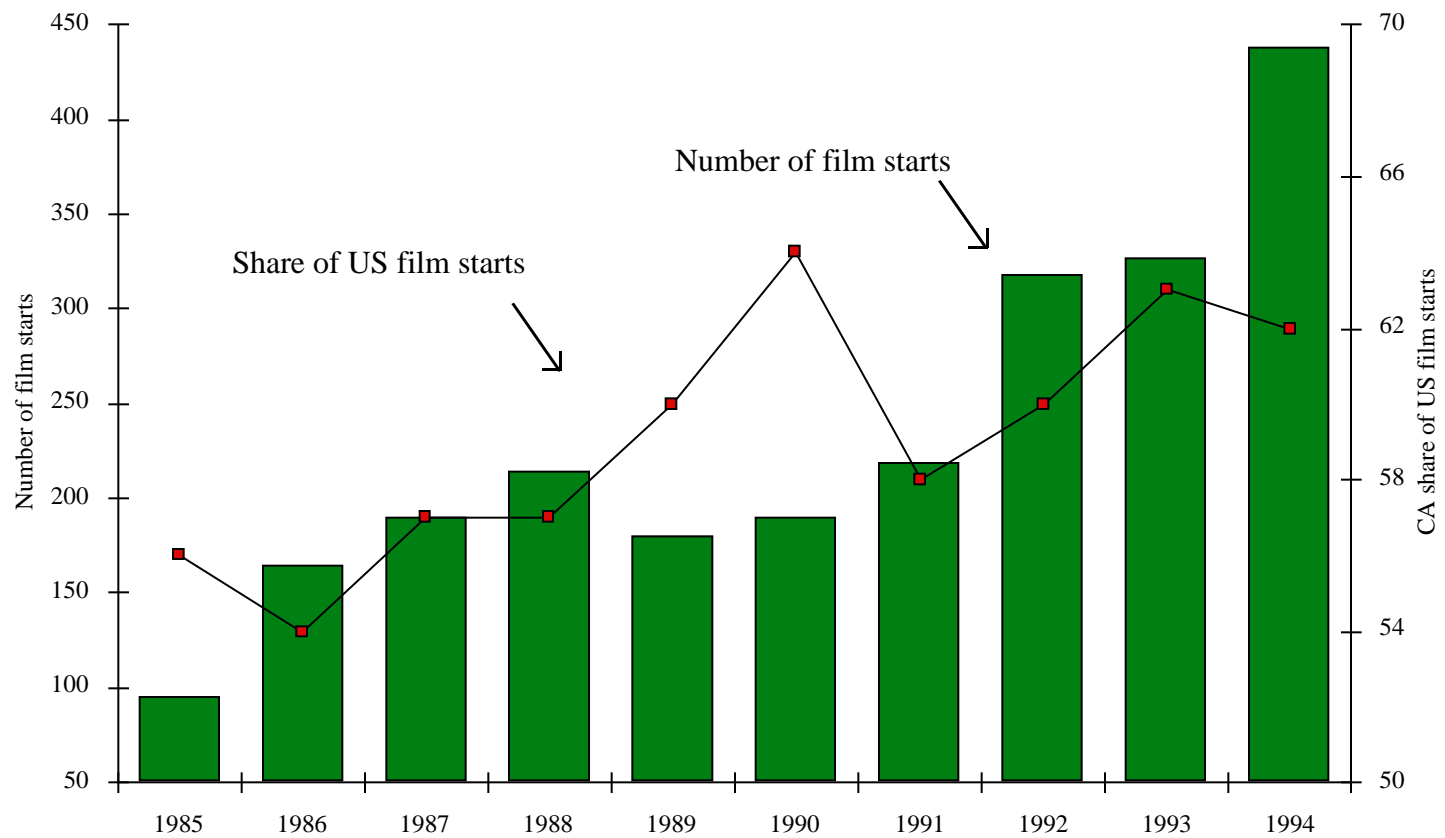
- **Multimedia**
- **Advanced telecommunications**
- **Using the Internet as a business tool**

Motion Pictures Have Replaced Aircraft as California's High Wage Leader



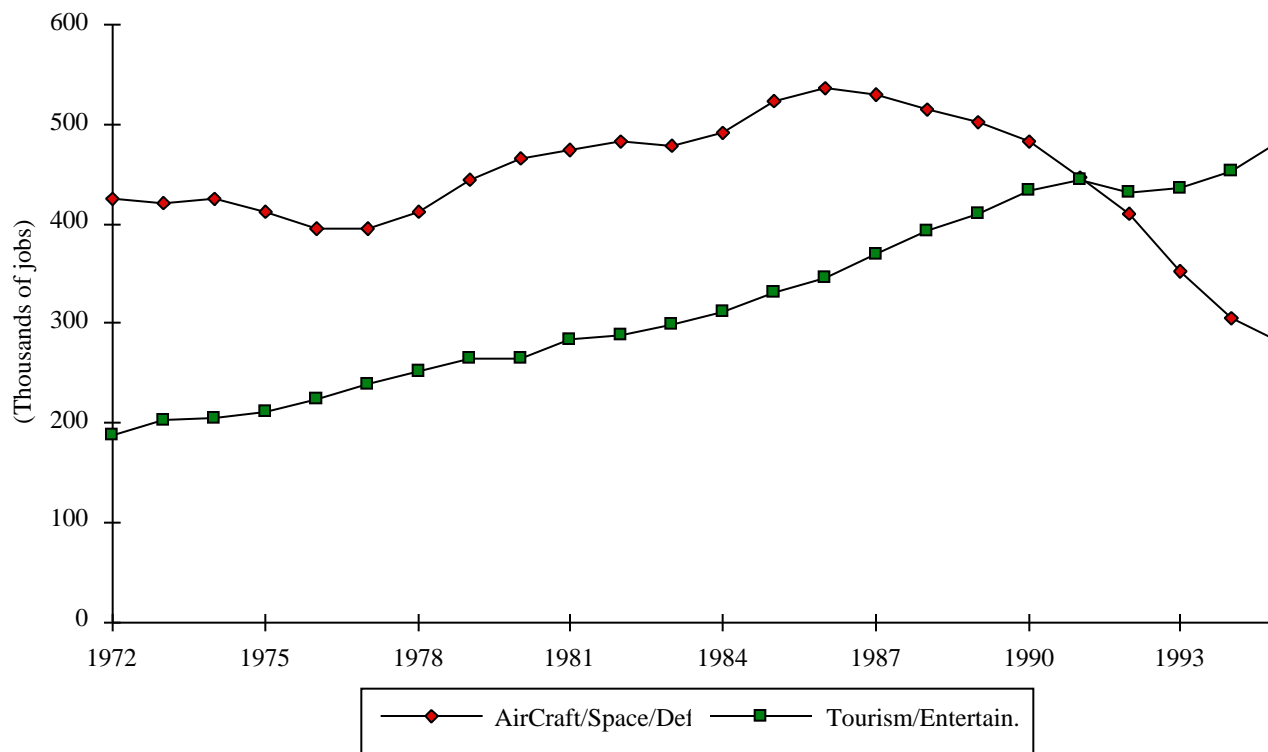
Source: Employment Development Department

California Film Industry Continues Rapid Growth



Source: California Film Commission

California's Economic Base, Especially Aerospace, is in Transition



Source: Employment Development Department

California's Economic Future

- **Change**
- **Opportunities**
 - High tech
 - Foreign trade
 - Tourism, entertainment
 - Professional services
 - Agriculture
 - Apparel
- **Challenges**

Outlook for 1996 and Beyond

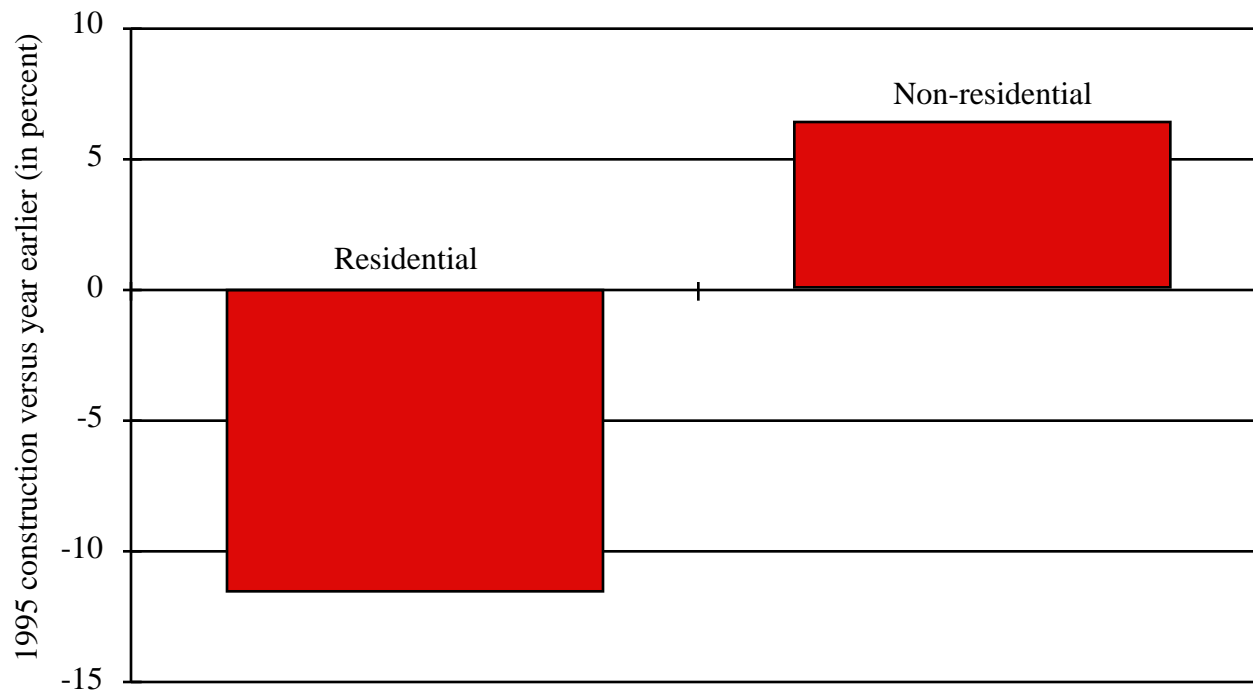
- **Economists expect California to grow faster than the nation in 1996**
 - Personal income and spending up 6%
 - Continued growth in trade, high technology
- **Jobs up 300,000**
- **Travel, technology, and entertainment/tourism will be leading sectors**
- **Residential construction up, perhaps by one-third**
- **Consumer prices up 3% at most**

California Defense Manufacturing Jobs Have Been Cut in Half Since 1990

	(thousands)		
	<u>1986</u>	<u>1990</u>	<u>August 1995</u>
Aircraft	157.0	162.3	80.7
Missiles, space	79.8	75.7	30.6
Search and navigation	142.5	99.3	55.9
Other	<u>18.1</u>	<u>14.2</u>	<u>12.5</u>
Subtotal defense manufacturing	397.4	351.5	179.7
Federal DOD	<u>138.8</u>	<u>130.6</u>	<u>96.4</u>
Total	526.2	482.1	276.1

Source: Employment Development Department

Non-Residential Construction Has Grown; Residential Construction Has Stalled in 1995



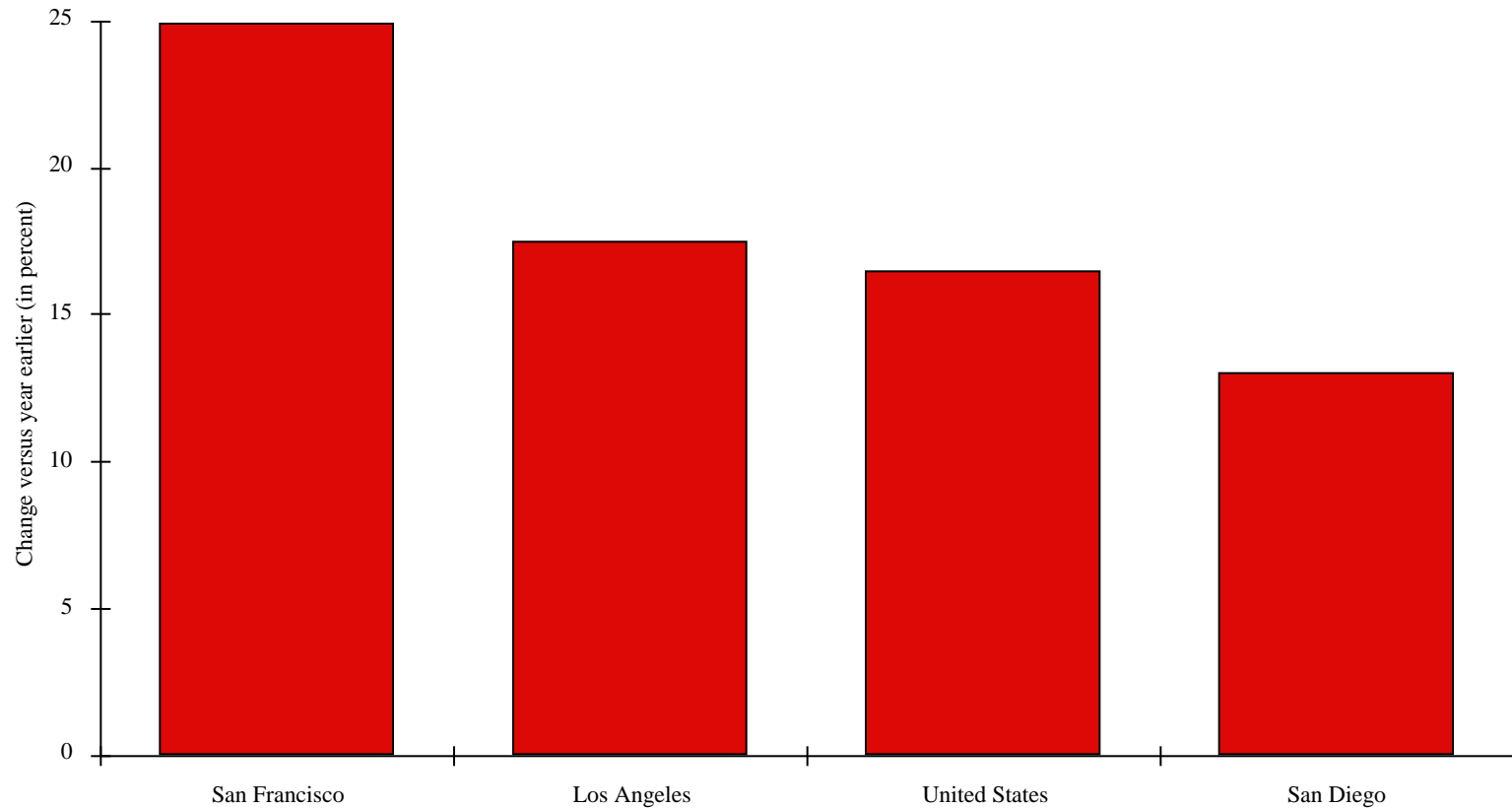
Source: Construction Industry Research Board

California Exports Have Grown Rapidly Led By High-Technology

Exported Products	1994 (\$billions)	% Change First Half 1995
— Electronics	\$21.1	32.0%
— Industrial Machinery including computers	19.0	20.0
— Transportation equipment	9.4	15.0
— Instruments	5.9	13.0
 Countries Importing CA Products		
— Japan	13.2	14.0
— Canada	8.5	13.0
— Mexico	7.7	-4.0
— Korea	5.5	63.0
— Taiwan	5.3	17.0

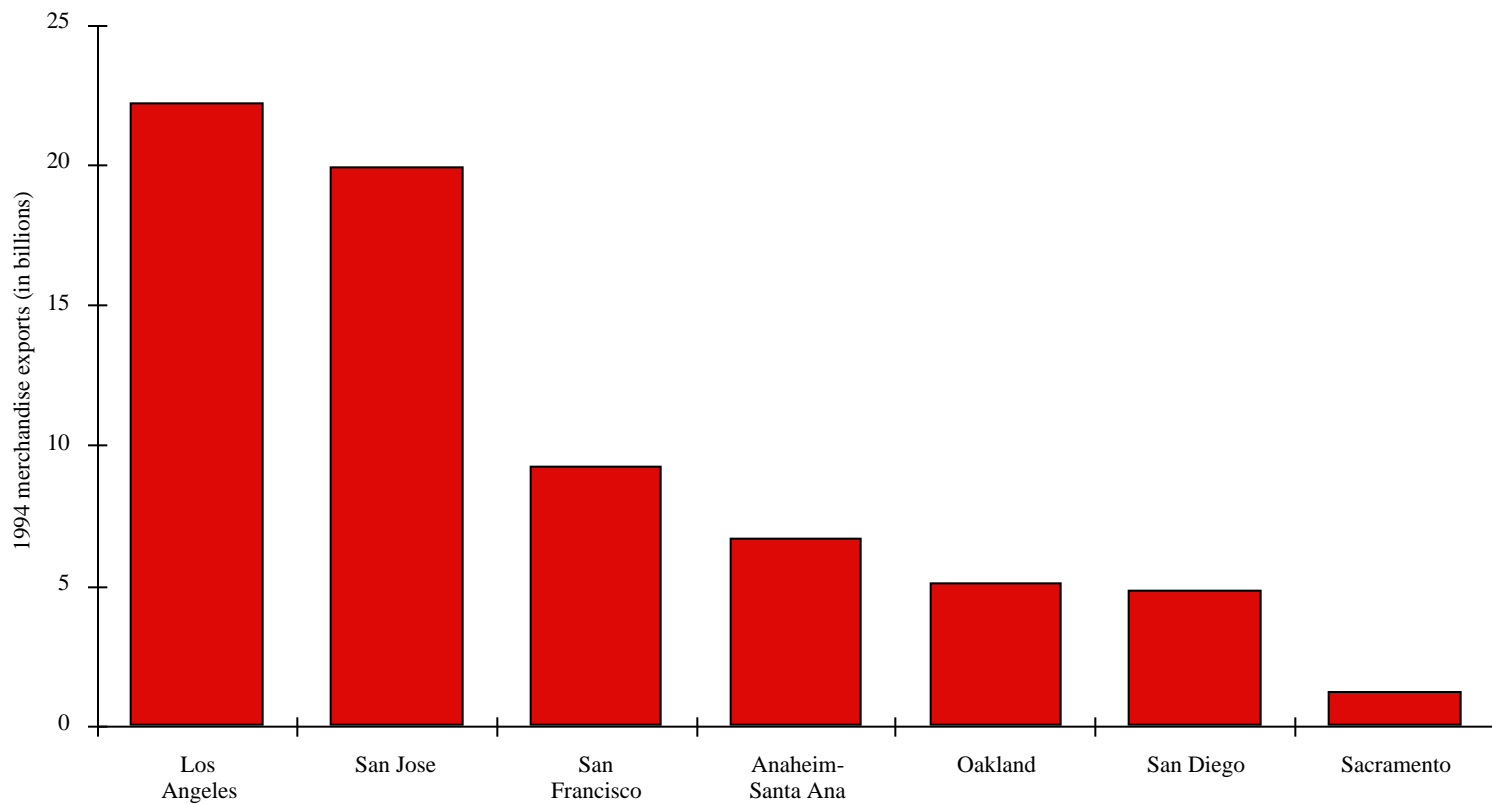
Sources: U.S. Department of Commerce

California Trade Volume Tops Nations; Trade Volume Gains Are Uneven Across Ports



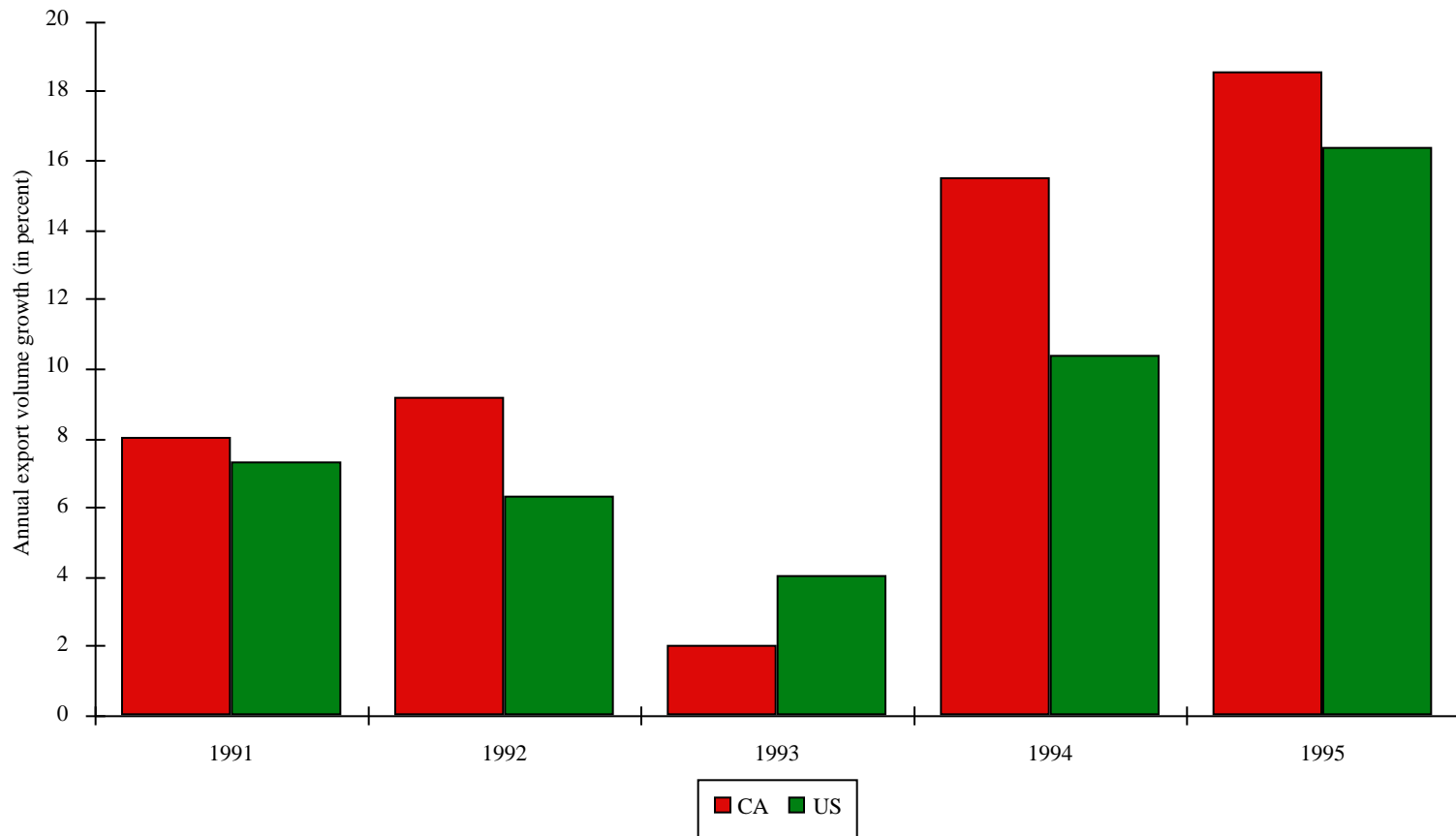
Source: U.S. Department of Commerce

Export Growth Helps Many Regions



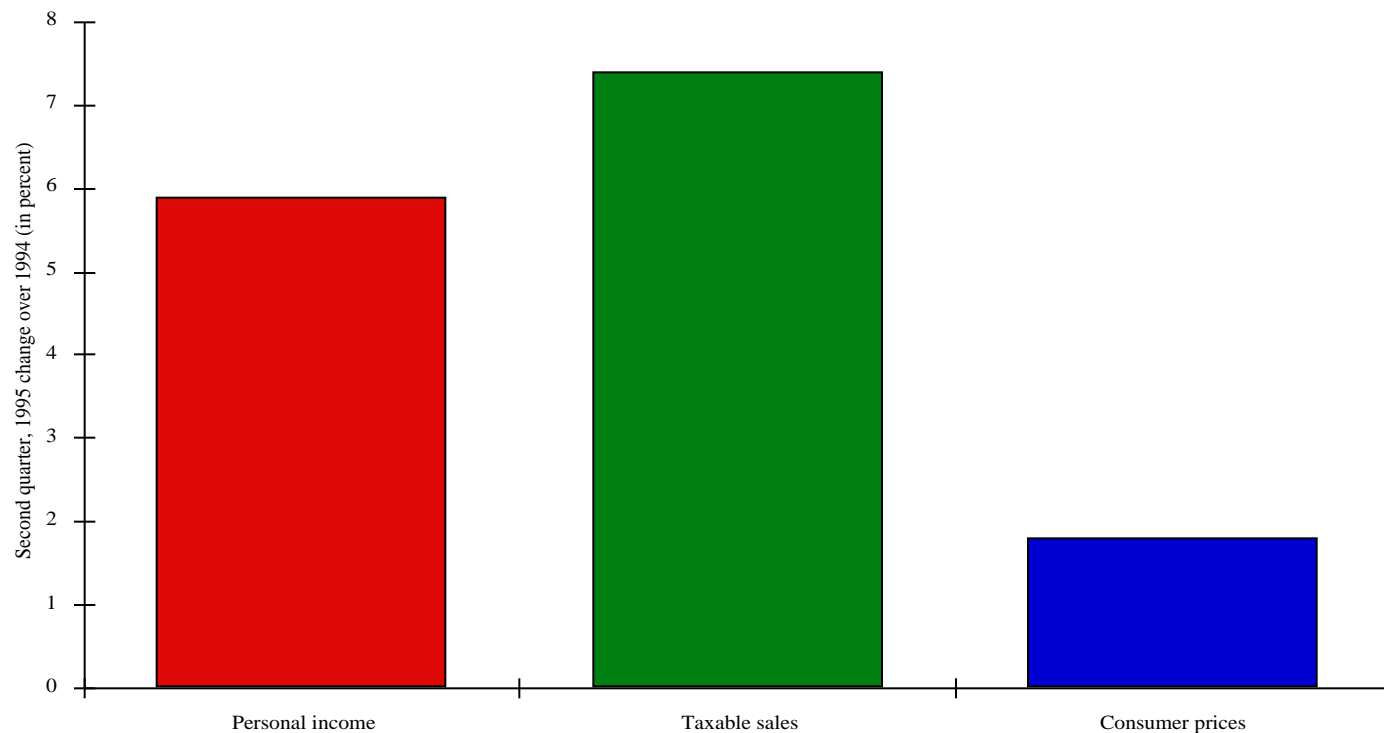
Source: International Trade Administration (US.. Dept. of Commerce)

Rapid Export Growth Continues, Especially for California



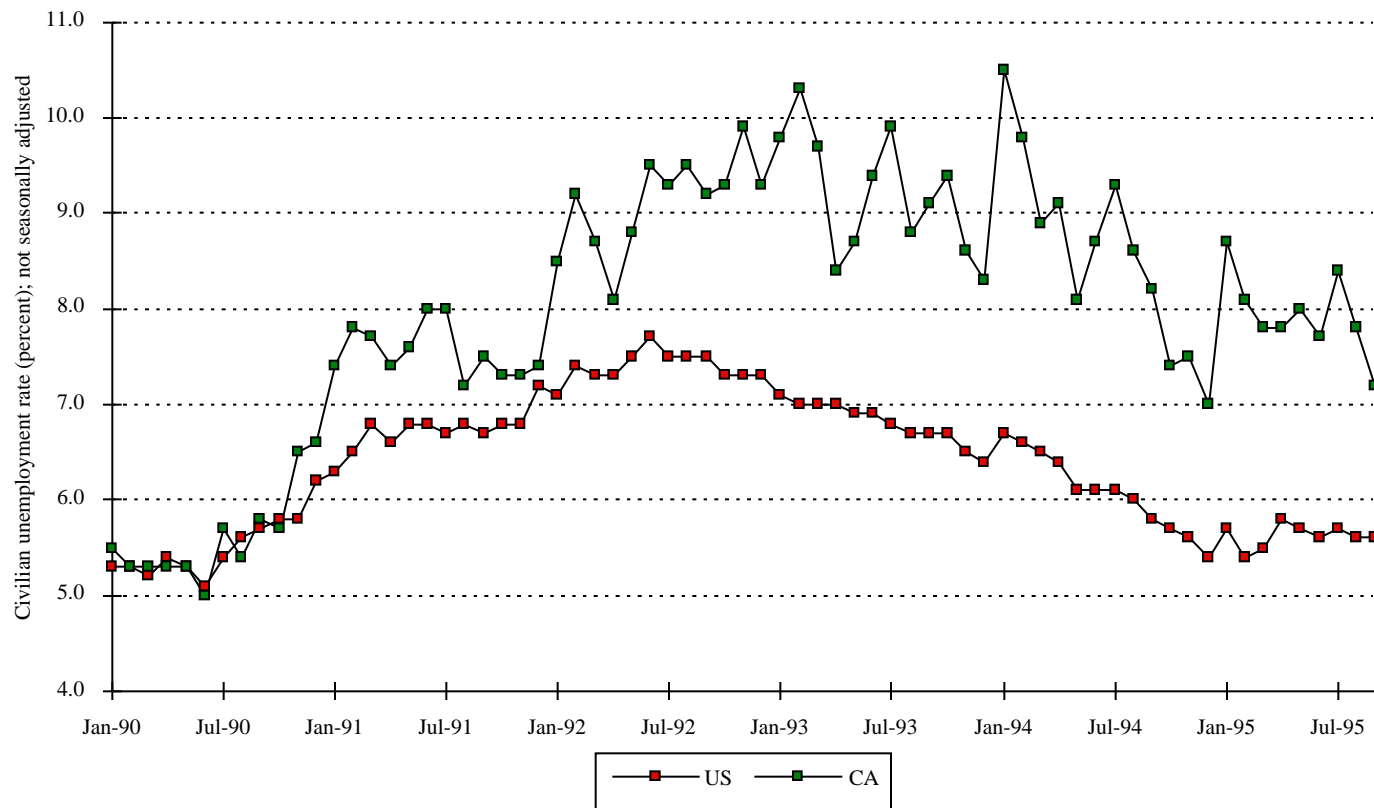
Source: U.S. Department of Commerce
Note: 1995 data are January-June.

Significant Gains in Personal Income and Spending in 1995



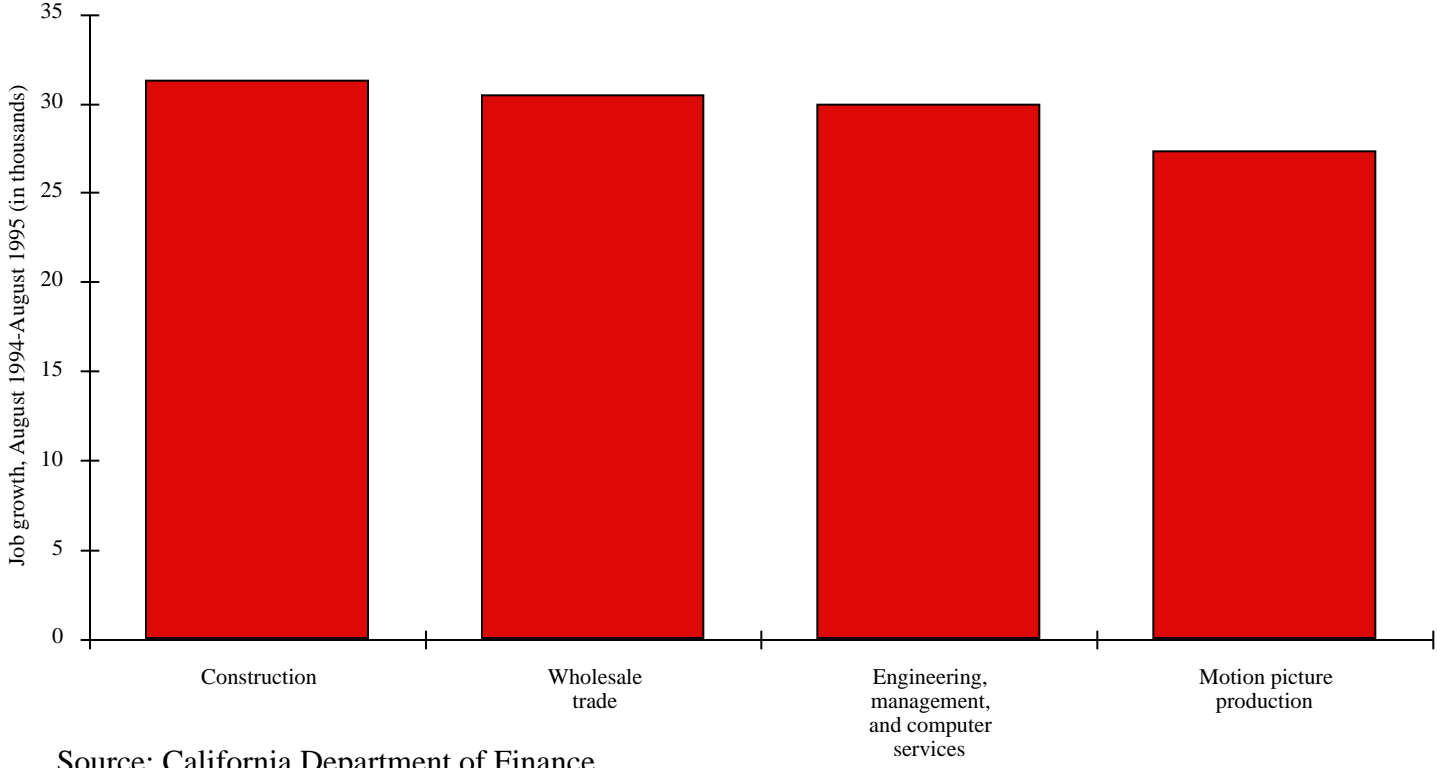
Sources: California Department of Finance, Board of Equalization, BLS

But Unemployment Rate Remains Higher Than Pre-Recession Levels, U.S. Rate

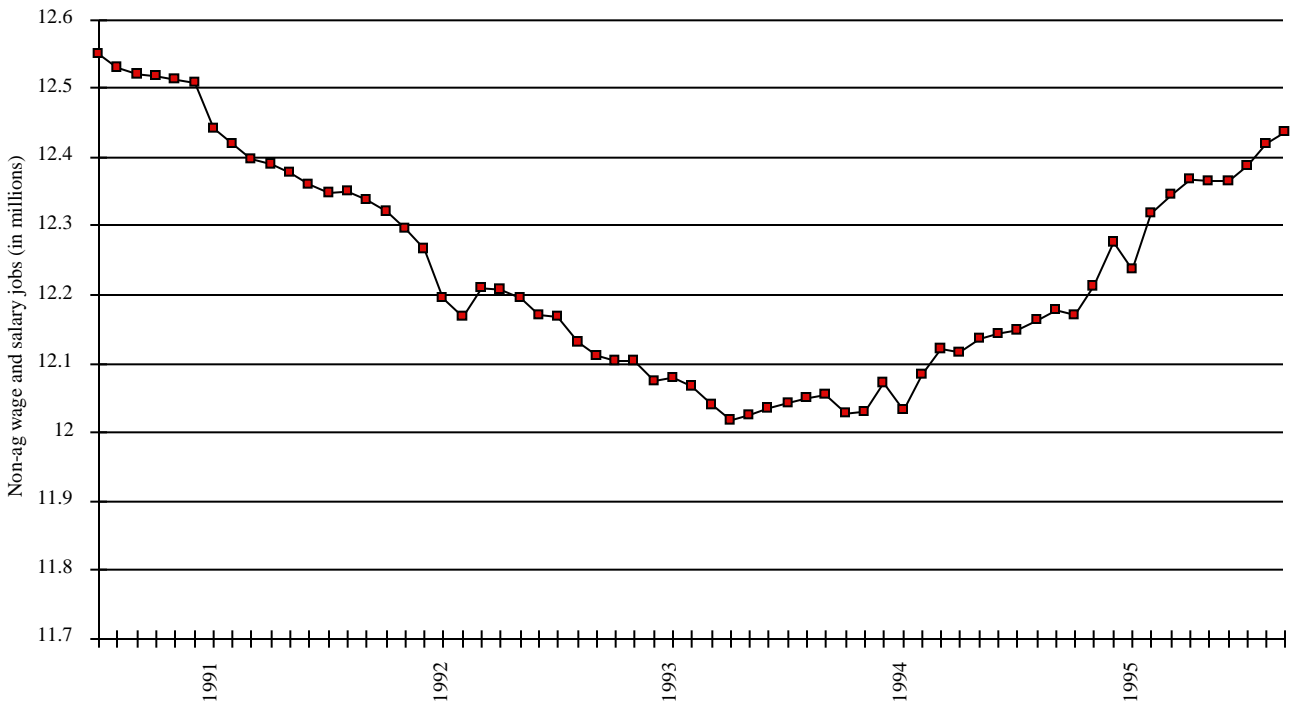


Sources: Employment Development Department, Department of Labor

High Wage Sectors Participate in Job Gains



California's Jobs Have Risen Steadily Since 1994



Over 400,000 jobs have been added since late 1993.

Source: California Department of Finance and Employment Development Department

Current Economic Trends

- **Job growth has resumed**
 - State's economic base is in transition
- **Income and spending growth is outpacing inflation**
- **Exports and total trade are surging**
- **Construction is still lagging**
 - Residential building is down
 - Non-residential activity is slowly rebounding

Questions Addressed

- **How far has California come in recovering from recession and defense downsizing?**
- **What is the outlook for 1996 and beyond?**
- **What aspects of federal policy will strengthen California's economic prospects?**

Report of the Economic Advisory Council of the California Institute

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