California Institute

Economic Fact Book

February 1997

Economic Advisory Council
The California Institute
for Federal Policy Research

California Institute

Economic Fact Book

Published by the
California Institute's
Economic Advisory Council (EAC)
Chairman: James R. Hosek
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on California's economy,
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About the California Institute and the Economic Advisory Council (EAC)

The California Institute, a nonprofit corporation, is the result of an extraordinary bipartisan effort by the state's elected representatives, with the support of the business, labor, and academic communities. The Institute exists to identify issues critical to the economic health of California, to coordinate the development of research data pertaining to these issues, and to provide information to the California congressional delegation in a bipartisan manner. The California Institute's Executive Director is Mr. Tim Ransdell.

The Economic Advisory Council of the California Institute, sponsored by the Irvine Foundation, is an effort to link the state's leading economists and policy experts with California's congressional delegation and the state's diverse constituency. The EAC includes 21 members (see next page). The EAC Chairman is Dr. James R. Hosek. The Vice-Chairman is Mr. Stephen Levy.

This *Economic Fact Book* contains information on California's economy and other important public policy issues. The *Fact Book* will be published twice each year. Periodic updates on the California economy also will be published on the Institute's web page (www.calinst.org).

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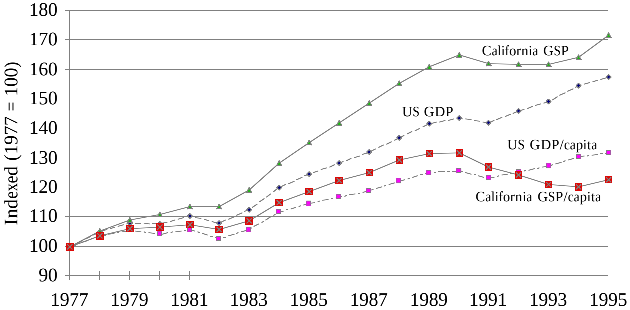
California's Real Output Has Grown Substantially Since 1977

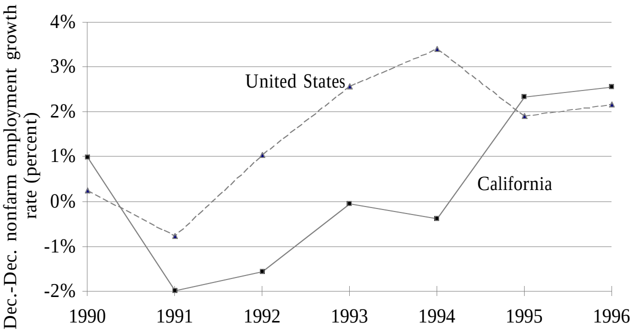


Source: U.S. Bureau of Economic Analysis, California Dept. of Finance, U.S. Bureau of the Census
1995 GSP is estimated.

- California's real Gross State Product (GSP, adjusted for inflation) expanded about 70 percent from 1977 to 1995. This was significantly more rapid than the change in U.S. real Gross Domestic Product (GDP), which grew 58 percent.

- California's per capita GSP growth tells a different story. During the same period, it increased 30 percent before falling to end the period 21 percent higher than at the beginning. U.S. per capita GDP finished better, ending the period up 30 percent.

Job Growth in California Now Surpasses the U.S. Average



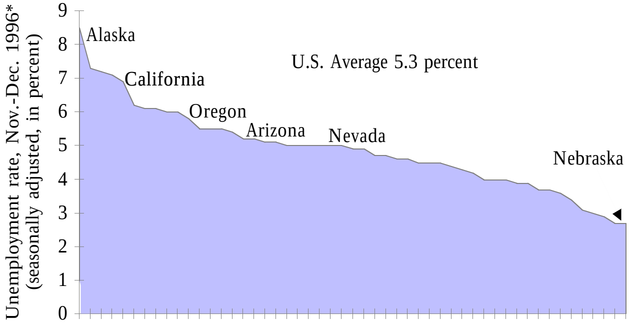
Source: Bureau of Labor Statistics

- California recovered slowly from the early 1990s recession, adding jobs at a slower pace than the nation as a whole.

- From July 1990 to April 1993, California lost nearly 520,000 jobs. California regained its pre-recession job level in November 1995. (Los Angeles still has not regained all of the jobs it lost in the recession.) The number of nonfarm jobs in December 1996 was about 400,000 greater than before the recession.

- The nonfarm job growth rate in California in 1995-1996 was about 2.6 percent, its best performance since the late 1980s. Much of this growth is attributed to the expansion of foreign trade.

The Unemployment Rate Remains High

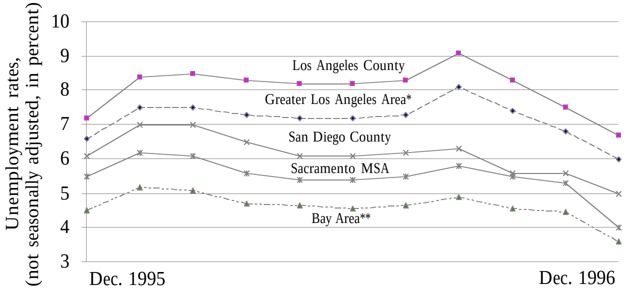


Source: Bureau of Labor Statistics
*All figures November except California.

- California's seasonally-adjusted civilian unemployment rate in December 1996 was 6.8 percent, higher than all but four other states. The national unemployment rate was 5.3 percent.

- The unemployment rate in most neighboring states was about 1.5 points less than in California. Unemployment was near the national average in Nevada and Arizona, and above the average in Oregon.

Unemployment Remains the Highest in Los Angeles



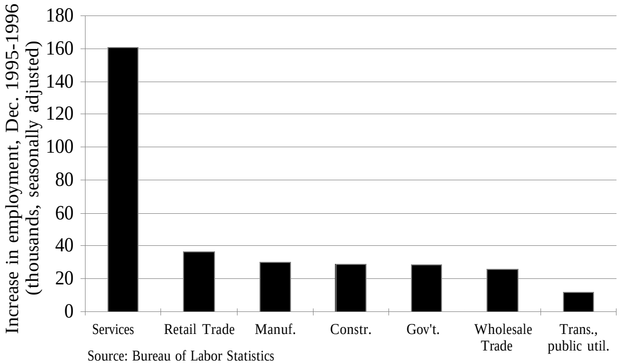
Source: Employment Development Department
*Includes Los Angeles, Orange, San Bernardino, Riverside, and Ventura counties.
**Includes San Francisco, Marin, San Mateo, Napa, Solano, Sonoma, Alameda, Contra Costa, and Santa Clara counties.

- The unemployment rate in the Los Angeles five-county area was 6.0 percent in December 1996. The Los Angeles County unemployment rate was 6.8 percent.

- The demographic make-up of Los Angeles, with a higher share of lower-wage immigrants and a younger workforce, suggests that its unemployment will remain higher than in other areas, even when economic growth is strong.

- Unemployment rates remained very high in some rural areas of the state, with rates measuring 20 percent or more.

Most California Job Growth is in the Services Sector

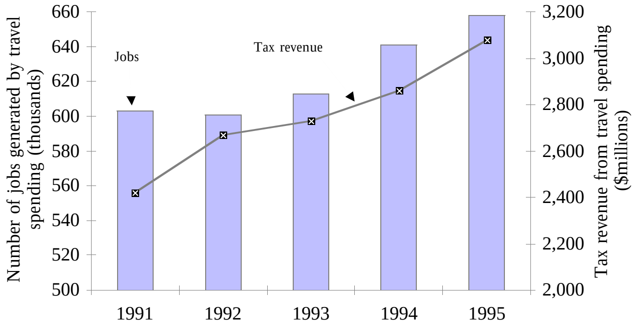


Source: Bureau of Labor Statistics

- More than 320,000 new jobs were added to California's economy between December 1995 and December 1996. 50 percent of these occurred in the services sector, which now accounts for 31 percent of all jobs. This growth rate is identical to the expansion rate for service jobs nationwide. Nearly 34,000 jobs were added in local education in the last 12 months.

- Service sector industries with the largest growth in the last year include business (71,000 jobs), health (19,000), and social services (14,000). Many business service jobs includes high-wage occupations, such as computer programming. Motion picture production also is included in service employment.

Tourism is One of California's Growing Industries

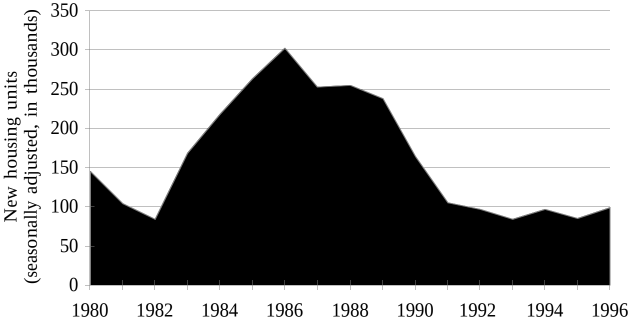


Source: Dean Run an Associates
1995 data are preliminar .

- Based on analysis from Dean Runyan Associates, tax revenues generated by travel spending in California increased 27 percent between 1991 and 1995. Two-thirds of these revenues accrue to the state, with the remainder going to local governments. The number of jobs generated by travel spending rose 9 percent, more than double the national rate.

- Nearly one-third of this spending occurs in Los Angeles and Orange counties, 26 percent in the nine-county Bay Area, 9 percent in San Diego, and the remainder throughout the state. On a jobs per capita basis, tourism appears very important in several Sierra counties.

Housing Construction Is Increasing, but Lags 1980s Levels



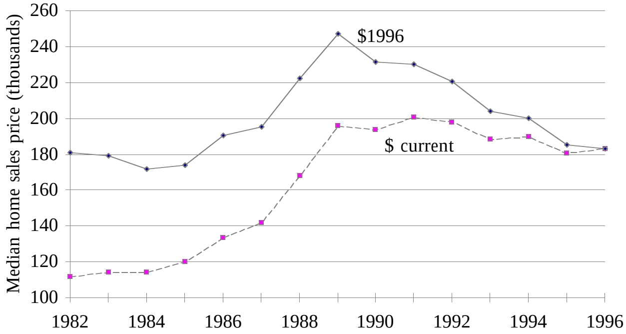
Source: Construction Industry Research Board
1996 is estimated.

- Construction activity in California in 1996 remained below levels in the 1980s. The current level is about one-third that in 1986, when the number of annual new housing units reached 300,000.

- Construction activity increased recently, with a particularly strong performance in the Bay Area.

- The slow pace of construction statewide results from the effects of the recession, reduced housing prices, and the formation of non-traditional households, particularly those that share housing.

California's Housing Prices Remain Below 1980s Levels

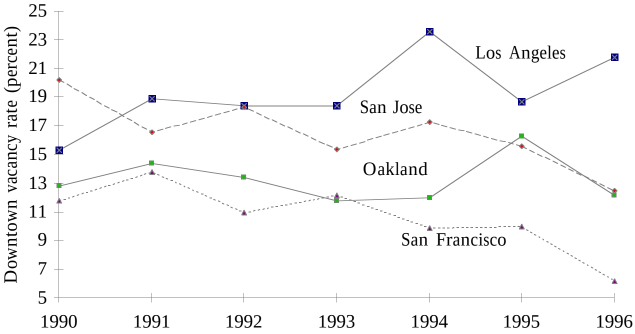


Source: California Association of Realtors

- Housing prices in California have not yet recovered from the recession. The median price for a single-family home in late 1996 was about $180,000, nearly 26 percent less than the peak in 1989, adjusted for inflation.

- Some markets began to see price increases this year. These include the Bay Area and San Diego. The Los Angeles market remains weak, with median prices down 2 percent from mid-1995.

Commercial Building Vacancies Are Falling In Most Areas



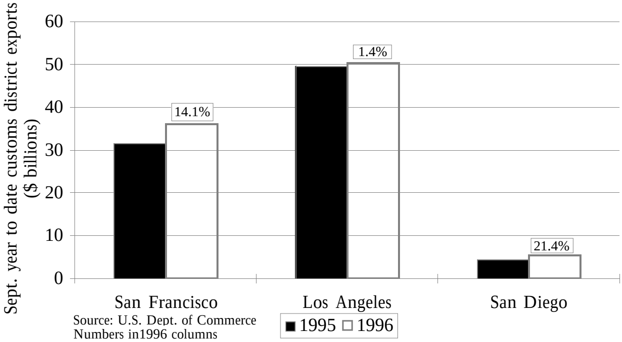
Source: Coldwell Banker Commercial

- Downtown commercial vacancies fell over the past year in major areas except Los Angeles. However, vacancies fell in many Los Angeles sub-markets, such as Glendale, Santa Monica, and Burbank. San Francisco's mid-year vacancy rate of 6.2 percent was the second lowest in the country.

- Commercial vacancies also fell in suburban and metropolitan areas, particularly in the Bay Area. San Jose's suburban vacancy rate fell from 13.1 to 6.3 percent between mid-1995 and mid-1996.

- During the last year, the average vacancy rate nationwide declined 0.5 percent.

California's Foreign Trade Growth Continues



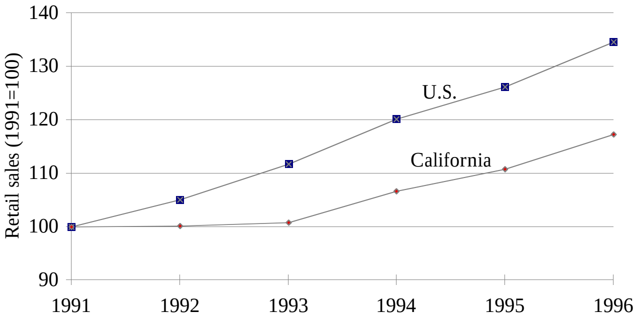
Source: U.S. Dept. of Commerce
Numbers in1996 columns indicate increases from 1995.

- Foreign export volume through the third quarter of 1996 rose 7.1 percent over 1995 levels. The strongest growth occurred in the San Francisco and San Diego Customs Districts, although export volume remained the greatest in the Los Angeles Customs District.

- California's export growth moderated in the third quarter, possibly due to the strenghtening US dollar and slower growth in some Asian trading partners.

- Third quarter year-to-date imports were similar to changes nationwide, which climbed 7 percent above 1995.

Retail Sales in California Are Expanding



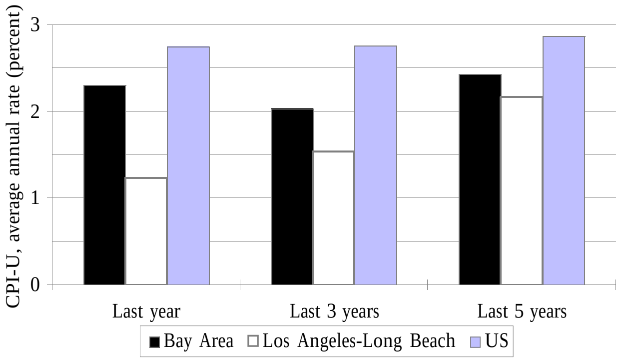
Source: U.S. Department of Commerce
1996 data are projections.

- Retail sales in 1996 grew more slowly in California than the rest of the nation. On a September year-to-date basis, retail sales in California expanded 5.7 percent above 1995 levels. Retail sales nationally grew 6.3 percent above 1995 levels.

- Retail sales in Greater Los Angeles and the Bay Area grew at virtually the same pace in 1996.

- Retail sales for the state were flat from 1991-1993, and remain below U.S. sales because of California's deeper, longer recession and economic restructuring.

Inflation Remains Low in the U.S.—and Lower in California

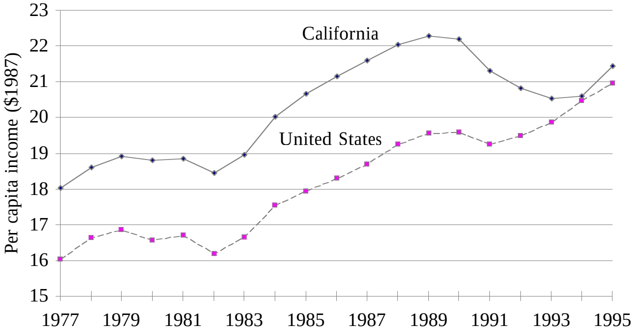


Source: Bureau of Labor Statistics

- Inflation for the last year (measured for all urban consumers) in California measured one-half to one-third the national rate. Inflation over the longer term also has been lower in California.

- The increase in consumer prices in Los Angeles in the past year was just over 1 percent. In San Francisco, it was just over 2 percent.

U.S. and California Per Capita Income Are Nearly Identical

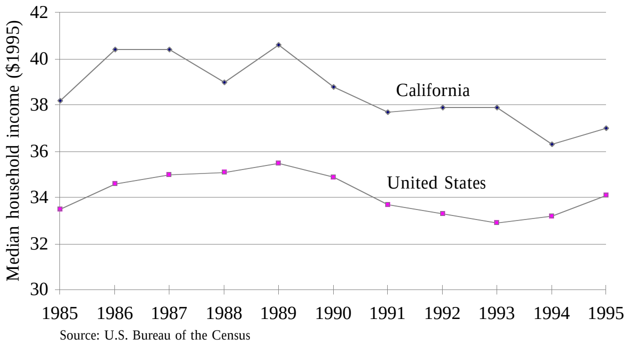


Sources: California Department of Finance, Bureau of Economic Analysis

- After leading the nation for two decades, California per capita income fell sharply, starting in 1990. By 1994, California and U.S. per capita income registered $20,600 and $20,500 (in $1987), respectively.

- In 1995, California's per capita income rose sharply to $500 above the U.S. average. This increase resulted from both higher nominal per capita income growth and lower inflation in the state.

Gap Between U.S., California Median Income Has Narrowed

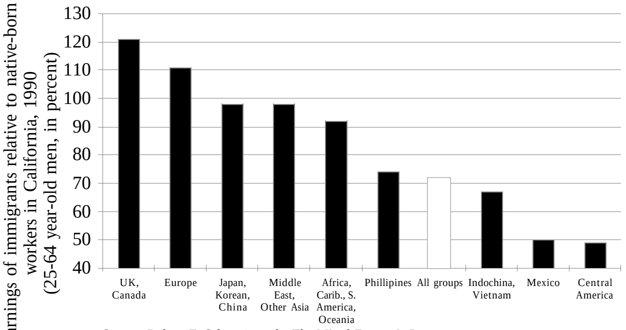


- California's median household income reached a high in 1989 at $40,600 (in $1995) . Between 1985 and its peak, California's median household income was 10-15 percent higher than its national counterpart.

- Between 1989 and 1995, California's median household income fell 9.6 percent, about double the decline for the U.S.

- Both California and U.S. median household income increased in the most recent year, rising 2 and 3 percent, respectively.

Immigrant Earnings Explain Some of the Income Decline



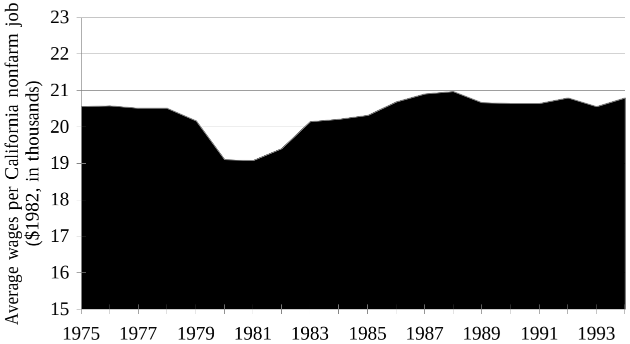
Source: Robert F. Schoeni, et al., *The Mixed Economic Progress of Immigrants* , MR-763-IF/FF, The RAND Corporation,

- Average earnings for California immigrant workers remain below earnings for native-born workers.

- The largest gap between immigrant and native-born earnings is for immigrants from Mexico, Central America, and Indochina. Earnings for immigrant workers from the U.K. and Canada exceed native-born earnings.

- The gap between Latin American immigrant and native-born earnings does not appear to diminish over time.

Average Wages in California Have Not Grown Since 1988

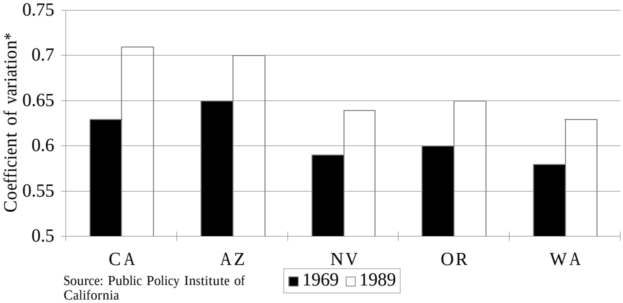


Source: California Department of Finance

- Average wages per nonfarm job in California have remained flat since the late-1980s. Average wages adjusted for inflation are near levels recorded in the mid-1970s.

- Average wage changes have varied across industries in the past year. Average weekly earnings for motor vehicles increased in nominal terms (9 percent) from mid-1995 to 1996, as did earnings for communications (7 percent). Average weekly earnings fell in several industries, including construction (-2 percent) and computer and office equipment (-6 percent).

Income Inequality is Growing in California

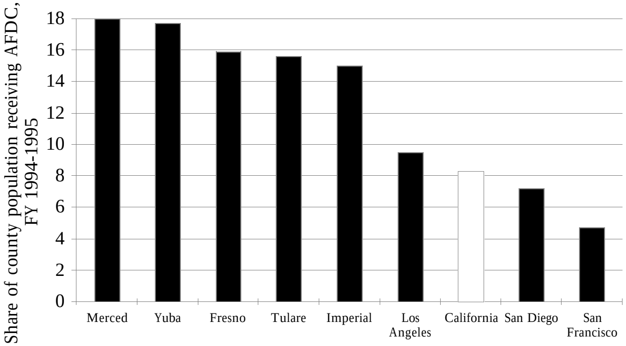


Source: Public Policy Institute of California
*Standard deviation of income divided by the mean of income. Higher values indicate greater inequalit .

- Recent research suggests that income inequality is worse in Calfornia than in most other states, including its neighbors. Income inequality in California and the nation has worsened over the last 20-25 years.

- The increase in inequality in California has occurred because of both growing income for high-wage earners and falling income for low- and middle-wage earners. High-wage income growth in California has been slower than the national average. Low- and middle-wage income declines have been sharper than in the nation.

About One in Twelve Californians Received AFDC in 1995

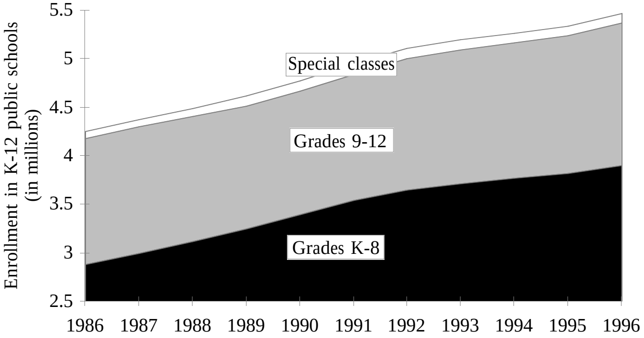


Source: California Dept. of Health Services

- About one in twelve Californians received Aid to Families with Dependent Children (AFDC) in FY 1994-1995. The highest rates occurred in the Central Valley. The lowest occurred in Marin, Mono, and San Mateo counties, where less than 3 percent received AFDC.

- The rate in Los Angeles registered between 9 and 10 percent. The rates in San Diego and San Francisco were less than the state average.

Enrollment in K-12 Has Increased Sharply Since the Mid-1980s



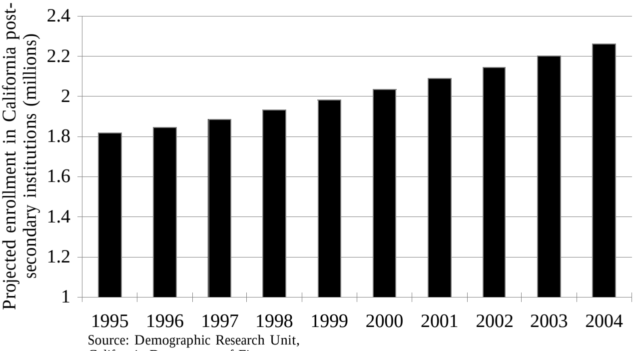
Source: California Department of Education

- Enrollment in K-12 public schools in California increased 29 percent from 1986-1996. The growth in enrollment for K-8 was about 36 percent. The growth for grades 9-12 was just over 13 percent.

- During the same period, U.S. schools grew about 30 percent less than schools in California.

- The California Department of Finance projects enrollment of 5.9 million by 2000 and 6.4 million by 2005.

K-12 Enrollment Growth Will Lead to Eventual Increased Numbers in Higher Education

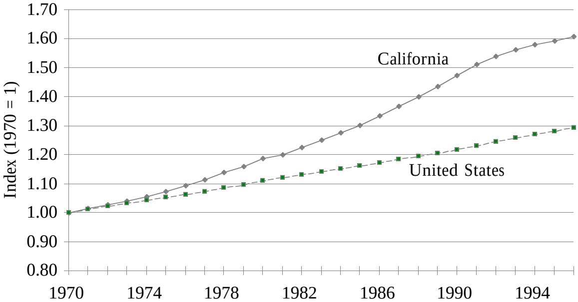


Source: Demographic Research Unit, California Department of Finance

- The number of students in California's post-secondary institutions decreased 10 percent between 1990 and 1996.

- Over the next few years, this trend will reverse. Between 1996 and 2004, the number of students in UC, CSU, and Community Colleges is expected to increase 23 percent.

Population Growth Explains Much of the Increase in Students



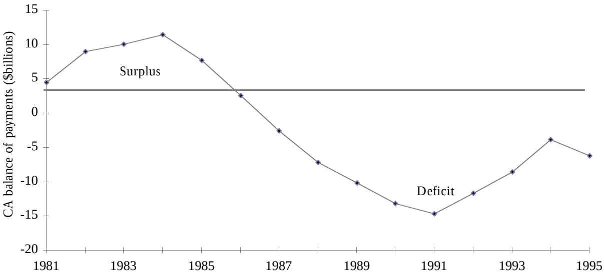
Source: Demographic Research Unit, California Department of Finance

- Since 1970, California's population has grown more than 60 percent, double the national rate.

- The number of people has increased the most in Riverside (202 percent) and San Bernardino (133 percent) counties. Population growth rates were also strong in Madera (162 percent), Stanislaus (114 percent), Merced (90 percent), and Kern (89 percent) counties.

- In absolute terms, population increased the most in Los Angeles (2.3 million), San Diego (1.3 million) and Orange counties (1.2 million).

California Sends More Tax Dollars to Washington than it Receives



Source: California Institute
Balance of payments reflects annual federal spending in California less California federal tax payments, including California's future cost of financing the federal deficit.

- In 1995, federal spending in California was $142.5 billion, while California's federal tax burden was $148.8 billion. The result is that California is a donor state, sending $6.2 billion more to Washington than it receives in federal outlays.

- California ran a balance of payments surplus in the early-1980s, but has run a substantial deficit since 1987. The balance of payments for 1981-1995 indicates a cumulative deficit of $64.9 billion, or about 40 percent of one year of federal spending in the state.

California's "Balance of Payments Deficit" Results from Several Factors

- The deterioriation of California's balance of payments position results from factors affecting taxes collected by Washington and federal spending in the state.

- Federal procurement in all states grew from $174.9 billion to $178.3 billion from 1994 to 1995. However, spending in California fell from $30.4 billion to $26.5 billion, much because of a decline in defense and space procurement.

- The state's share of federal formula and other grants also fell from 12.3 percent in 1994 to 11.8 percent in 1995. California's share of Medicaid spending increased slightly. However, California's share of AFDC, Highway Trust Fund, and Chapter 1 Education programs fell.

- California's share of the nation's tax burden fell slightly. This decline was largely due to the fact that California has taken longer to recover from the recession than have other states.

Suggestions and Comments Page

We invite your comments and suggestions about this California *Economic Fact Book*.

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