

ECONOMIC OUTLOOK

Jobs are being added and the unemployment rate is falling gradually for the nation and California. However, the economy continues to grow at a slow pace. The outlook assumes that global growth remains slow despite a few near-term risks.

THE NATION – STEADY GROWTH

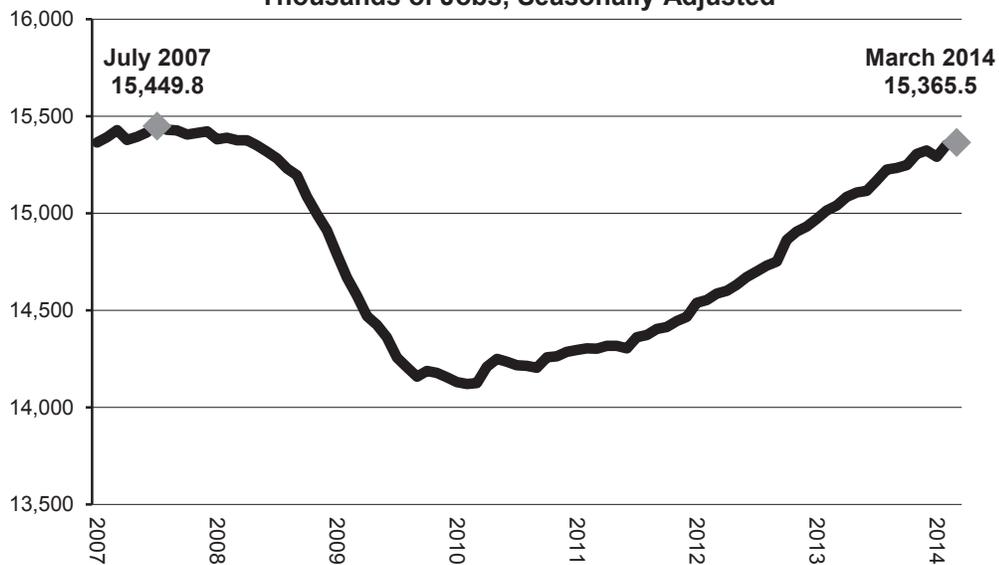
Consumer confidence is leading to improving growth, with unemployment falling, jobs being added, and personal income growth in 2013 closing out the year slightly stronger than expected. Overall, real gross domestic product (GDP) growth in 2014 is expected to be 2.4 percent, and is expected to increase further to 3 percent in 2015.

Real GDP growth is being supported by increasing consumption as people return to work. The national unemployment rate fell to 6.3 percent in April 2014—the lowest level since September 2008. Jobs are being added, although there continue to be low rates of participation in the labor force and high numbers of people in part-time work.

CALIFORNIA – CONTINUING SLOW RECOVERY

California's unemployment rate remained at 8.1 percent for the first three months of 2014, and is expected to fall gradually over the forecast period, reaching 7.2 percent by the end of 2014 and 6.7 percent by the end of 2015. Job growth has been relatively robust with higher growth in lower-wage occupations. A technical revision to the job series, making it more consistent with national statistics, provides a more complete picture of the job recovery. California has now recovered nearly all of the jobs lost during the recession, as shown in Figure ECO-01.

Figure ECO-01
California Nonfarm Payroll Employment
Thousands of Jobs, Seasonally Adjusted



Source: CA Employment Development Department
 Labor Market Information Division

The supply of homes for sale remains low, and home prices continue to increase. Housing permits are growing slowly. During the recovery, permits have been mostly for multi-family structures, which are generally apartments and condominiums sold at a lower cost than single-family homes.

The California drought will likely affect the agricultural sector, with the impact on the wider California economy offset by growth in other sectors. Those areas where agriculture is a larger share of the local economy are likely to see more pronounced effects.

RISKS TO THE FORECAST

There are few near-term risks to the outlook. However, if tensions between Russia and Ukraine disrupt markets, energy prices could rise faster than forecast. Another risk is that the very slow pace of the recovery and growing income inequality could slow consumption growth. This could mute overall growth and make it harder for people to save and invest. As noted in the Governor’s Budget forecast, economic expansions do not last indefinitely. In the post-war period, the average expansion length is almost

five years. Although there are few signs of inflation or tight supply conditions that would trigger a contraction, the U.S. is already five years into its current expansion.

See Figure ECO-02 for highlights of the national and California forecasts.

Figure ECO-02
Selected Economic Indicators

United States	2009	2010	2011	2012	2013	2014	2015
						Projected	Projected
Nominal gross domestic product, \$ billions	\$ 14,418	\$ 14,958	\$ 15,534	\$ 16,245	\$ 16,800	\$ 17,511	\$ 18,352
Real gross domestic product, percent change	-2.8%	2.5%	1.8%	2.8%	1.9%	2.4%	3.0%
<i>Contributions to real GDP growth</i>							
Personal consumption expenditures	-1.1%	1.3%	1.7%	1.5%	1.4%	1.7%	2.0%
Gross private domestic investment	-3.5%	1.7%	0.7%	1.4%	0.8%	0.8%	1.4%
Net exports	1.1%	-0.5%	0.1%	0.1%	0.1%	0.0%	-0.5%
Government purchases of goods and services	0.6%	0.0%	-0.7%	-0.2%	-0.4%	-0.1%	0.1%
Personal income, \$ billions	\$ 12,082	\$ 12,435	\$ 13,191	\$ 13,744	\$ 14,135	\$ 14,650	\$ 15,403
Corporate profits, percent change	8.4%	25.0%	7.9%	7.0%	4.6%	8.9%	4.4%
Housing permits, thousands	583	605	624	830	976	--	--
Housing starts, thousands	554	586	612	783	929	1,045	1,389
Median sales price of existing homes	\$ 172,100	\$ 173,100	\$ 166,200	\$ 177,200	\$ 197,400	--	--
Federal funds rate, percent	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.4%
Consumer price index, percent change	-0.4%	1.6%	3.2%	2.1%	1.5%	1.7%	2.1%
Unemployment rate, percent	9.3%	9.6%	8.9%	8.1%	7.4%	6.5%	6.1%
Civilian labor force, millions	154.2	153.9	153.6	155.0	155.4	155.9	158.5
Nonfarm employment, millions	131.2	130.3	131.8	134.1	136.4	138.5	141.1
California							
Personal income, \$ billions	\$ 1,536	\$ 1,579	\$ 1,683	\$ 1,768	\$ 1,817	\$ 1,901	\$ 1,997
Made-in-California exports, percent change	-17.1%	19.3%	11.1%	1.7%	3.9%	--	--
Housing permits, thousands	36	44	47	58	84	106	123
Housing unit change, thousands	70	36	36	45	59	--	--
Median sales price of existing homes	\$ 274,960	\$ 305,010	\$ 286,040	\$ 319,310	\$ 407,180	--	--
Consumer price index, percent change	-0.3%	1.3%	2.6%	2.2%	1.5%	1.9%	2.1%
Unemployment rate, percent	11.4%	12.3%	11.8%	10.4%	8.9%	7.6%	6.9%
Civilian labor force, millions	18.2	18.3	18.4	18.5	18.6	18.7	18.9
Nonfarm employment, millions	14.4	14.2	14.4	14.7	15.1	15.5	15.9
<i>Percent of total nonfarm employment</i>							
Mining and logging	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Construction	4.3%	3.9%	3.9%	4.0%	4.2%	4.3%	4.3%
Manufacturing	8.9%	8.7%	8.7%	8.5%	8.3%	8.1%	8.1%
High technology	2.4%	2.4%	2.4%	2.3%	2.2%	2.2%	2.2%
Trade, transportation, and utilities	18.4%	18.5%	18.7%	18.6%	18.5%	18.4%	18.3%
Information	3.1%	3.0%	3.0%	3.0%	2.9%	2.9%	2.8%
Financial activities	5.4%	5.3%	5.3%	5.3%	5.2%	5.1%	5.1%
Professional and business services	14.3%	14.6%	14.8%	15.2%	15.4%	15.6%	15.8%
High technology	2.2%	2.2%	2.3%	2.4%	2.4%	2.5%	2.6%
Educational and health services	14.2%	14.5%	14.5%	14.8%	15.2%	15.3%	15.4%
Leisure and hospitality	10.5%	10.6%	10.7%	10.9%	11.0%	11.2%	11.4%
Other services	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Government	17.2%	17.2%	16.7%	16.2%	15.7%	15.4%	15.2%

Forecast based on data available as of April 2014.

Percent changes calculated from unrounded data.

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