CALIFORNIA ECONOMIC SNAPSHOT

A Construction Catch 22

It is often said that generals always fight the last war—and that is no different when it comes to the well-worn political catch phrase "jobs, jobs, jobs." Given the long slow labor market recovery that has occurred since the 'Great Recession', such rhetoric continues to be attached, rightly or wrongly, to the roll out of almost any new government policy. But statistics, from wages to unemployment to participation rates to job opening rates, all tell a different story: The nation has reached what economists like to refer to as full employment. It might take some time, but it shouldn't be long before there is a general realization that the problem has rapidly become a lack of "workers, workers, workers."

California, as it so often does, is leading the nation down this new path. The state unemployment rate is below 5%. In the San Francisco Bay Area, it is below 4%. The last time these numbers were this low was in the midst of the tech-bubble-fueled economy of the late 1990s. But there is no bubble this time. Indeed, a lack of workers has led to a sharp slowing of employment growth in the state, and it is particularly pronounced along the coast. The fastest growing large economies in the state are now the inland areas of Sacramento and the Inland Empire. This was eminently predictable. Labor force growth in the state has averaged less than one percent over the last decade.

The reason for California's leading national role in this worker shortage is driven by a lack of housing construction. NIMBY'ism (Not In My Backyard) and high construction costs have constrained new home supply. The state is building only slightly more than 100,000 new units per year. Analysis done by Beacon Economics suggests the number needs to be in the 200,000 to 250,000 range in order to allow the labor force to grow to the degree needed to maintain job growth at a healthy 2% plus per year.

But there are signs that things may be breaking open. Home prices are reaching a point that make it profitable to build even with high land and permitting costs. Moreover, the political backlash from high housing costs and the slowing growth in employment is helping some cities to overcome NIMBY'ism. But there is a new problem on the horizon—who is going to build these new homes?

Christopher Thornberg, PhD

Construction employment hit peak levels in California in 2006. In the recovery since the recession, we have not come close to reaching those levels again. After years of very little building, many former workers have retired, found other jobs, or in the case of some immigrants, simply gone back home. Today, the industry is finding it difficult to find the skilled workers needed to man construction sites. Of course, as with any building boom, willing workers might be brought in from other places. But this begs the question—where are they going to live? While construction work tends to be a good paying job for many blue collar workers, prices today are still beyond a comfortable reach for most.

Nowhere is this catch-22 more painfully illustrated than in Sonoma County—a place that lost 4,000 homes in the recent catastrophic fires and saw thousands more damaged. A tight housing market has become a desperate one as local workers who lost their homes fight to find a place to live while they rebuild. But who will build those homes? By Beacon Economics' estimates the rebuilding will need 6,000 construction workers to work for 3 years in the area. This means a 50% increase in jobs for this sector—with no place for these workers to live.

The solution is to find ways of putting economical temporary housing into place rapidly—something the state has not proven very good at effecting. But the first step in this larger problem is to stop talking about jobs, jobs, jobs and start talking about roofs, roofs, roofs.

For More Information:
Christopher Thornberg, PhD is Founding Partner of Beacon Economics and Director of the UC Riverside School of Business Center for Economic Forecasting & Development.
Learn more at www.BeaconEcon.com or www.UCREconomicForecast.org.

The California Economic Snapshot has been redesigned for enhanced value based on feedback through a recent reader survey. Each quarterly snapshot will now include a lead article on an economic development topic.

HIGHLIGHTS

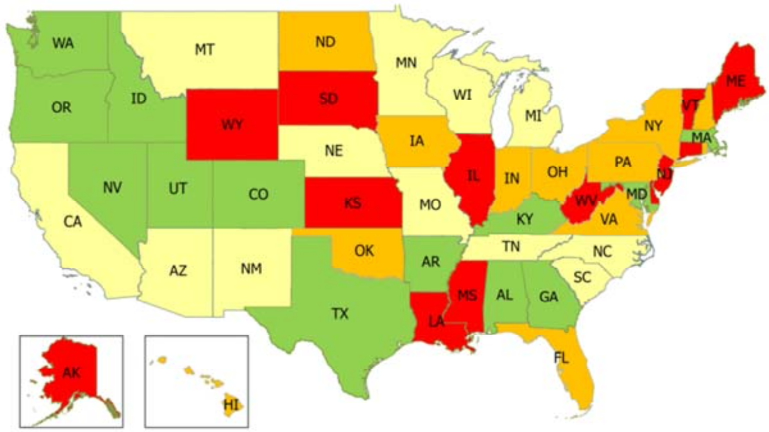
Overall job growth rates across California have slowed from the previous quarter, while remaining above the national average.

California's leading index indicator has fallen to 0.6 percent, indicating that economic conditions in the state will remain steady

The California Economic Snapshot is produced quarterly by **Economic & Planning Systems, Inc.** (EPS) through a research partnership with the California Academy for Economic Development (CAED), a foundation managed by the California Association for Local Economic Development (CALED). EPS is a full-service economics consulting firm with expertise in economic development and revitalization, real estate economics, fiscal and economic impact analysis, public finance, land use and transportation, and housing policy. To learn more about EPS, visit www.epsys.com.

Q3 2017 Economic Snapshot

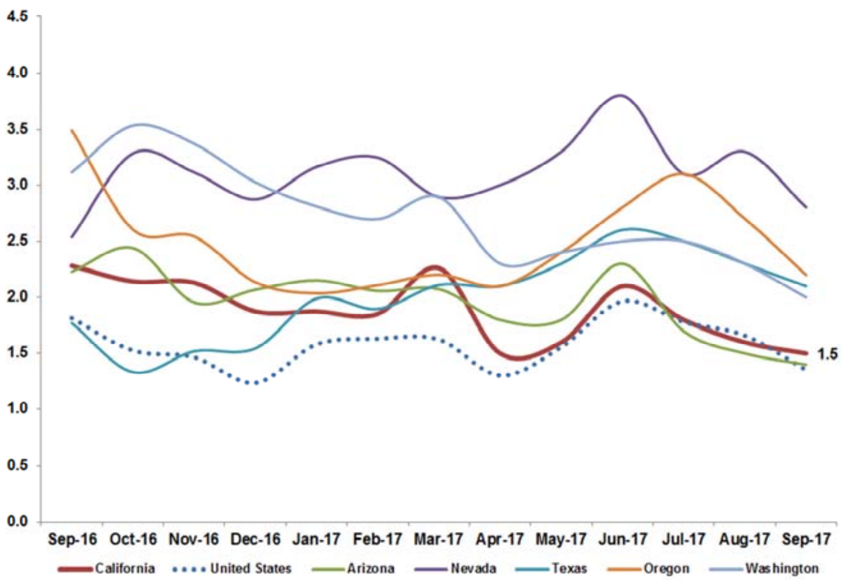
Annual Nonfarm Job Growth Rate By State



Upper		Upper-Middle		Lower-Middle		Lower	
Nevada	2.8%	**California**	**1.5%**	District of Columbia	1.2%	Vermont	0.8%
Utah	2.7%	Nebraska	1.5%	Pennsylvania	1.2%	New Jersey	0.7%
Oregon	2.2%	Montana	1.5%	Florida	1.1%	Louisiana	0.7%
Texas	2.1%	North Carolina	1.5%	Indiana	1.1%	South Dakota	0.6%
Idaho	2.1%	Missouri	1.5%	New York	1.1%	Maine	0.6%
Maryland	2.1%	Minnesota	1.4%	North Dakota	1.1%	Delaware	0.5%
Washington	2.0%	Arizona	1.4%	Hawaii	1.1%	Mississippi	0.4%
Georgia	1.7%	Tennessee	1.4%	Virginia	1.1%	Alaska	0.3%
Colorado	1.7%	Michigan	1.4%	Rhode Island	1.1%	West Virginia	0.3%
Arkansas	1.7%	South Carolina	1.4%	Ohio	1.1%	Illinois	0.2%
Massachusetts	1.7%	New Mexico	1.3%	Oklahoma	1.0%	Connecticut	0.2%
Kentucky	1.6%	Wisconsin	1.3%	New Hampshire	0.9%	Kansas	-0.4%
Alabama	1.6%			Iowa	0.8%	Wyoming	-0.7%

Source: CA Employment Development Department, Sep 2017; U.S. Bureau of Labor Statistics; EPS

State Annual Nonfarm Job Growth Rate



Source: CA Employment Development Department; U.S. Bureau of Labor Statistics; EPS

Highlights

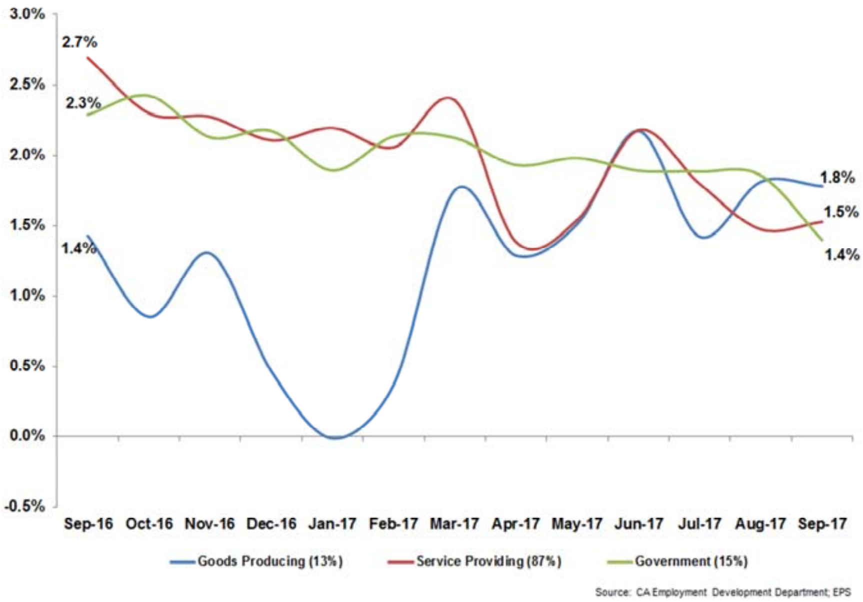
- Consistent with last quarter, California remained in the upper-middle tier, showing an increase of Nonfarm payroll jobs by 1.5 percent in the 12 months ending September 2017, ranking 14th among all states.
- New Mexico and Arizona fell to the upper-middle tier, dispersing the high concentration of upper-tier states on the West Coast from the previous quarter.
- Nevada remained the state with the highest job growth rate, consistent with last quarter, despite falling to 2.8 percent from 4.1 percent last quarter.
- Overall, the states saw realized weakened job growth rates from last quarter, with 49 states realizing a decrease in job growth rates.

Highlights

- California's annual job growth rate slowly declined during the quarter, ending just above Arizona and the national average.
- Job growth rates for the United States overall rose slightly above California and Arizona during the previous quarter but fell back below the individual states.
- With the exception of Nevada, all states saw a similar downward trend in job growth rates beginning in July.
- Nevada saw a slight peak in job growth rates in August but realized a sharp decline in December, consistent with other states.

Q3 2017 Economic Snapshot

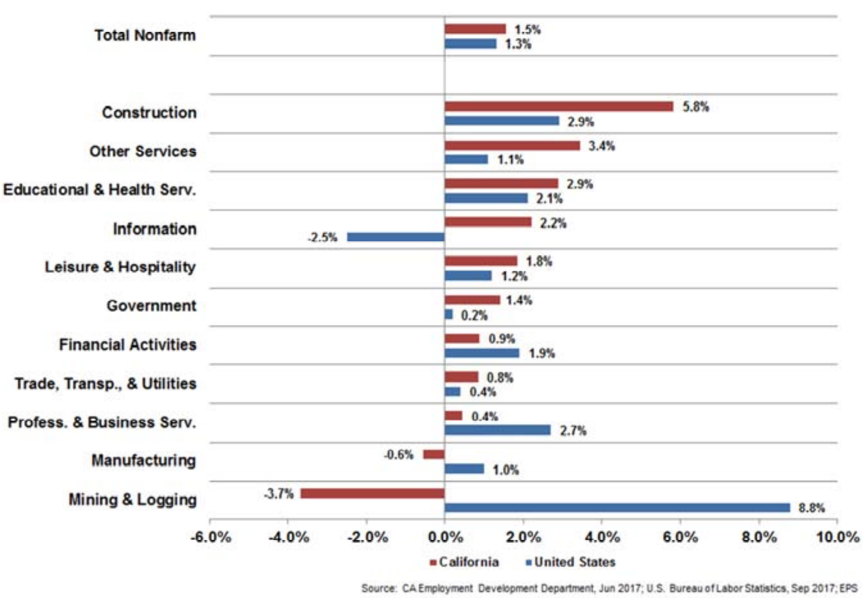
California Annual Industry Segment Job Growth Rate



Highlights

- Job growth in California's Service-Providing sectors, comprising 87 percent of Nonfarm jobs, has steadied after a moderate decline at the beginning of the quarter.
- Growth in Goods-Producing sectors has increased in job growth rates, after falling at the beginning of the quarter, ending just above Service-Providing and Government sectors.
- Although job growth in Government sectors remained steady at the beginning of the quarter, Government job growth rates plummeted beginning in August.

California & United States Annual Major Sector Job Growth Rate

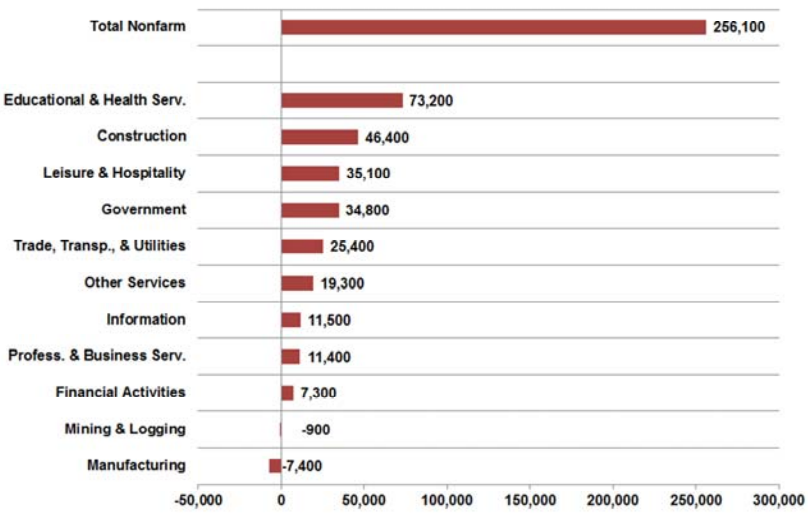


Highlights

- California's annual job growth rate outpaced the nation in 7 of the 11 major sectors and in total Nonfarm job growth, with positive job growth in all but 2 sectors.
- The most robust state job growth rates occurred in Construction, Other Services, and Education and Health Services, consistent with the previous 2 quarters.
- Job growth rates in the information industry rose from 0 percent in California to 2.2 percent, making it the 4th fastest-growing industry in the state.

Q3 2017 Economic Snapshot

California Absolute Annual Job Gains and Losses

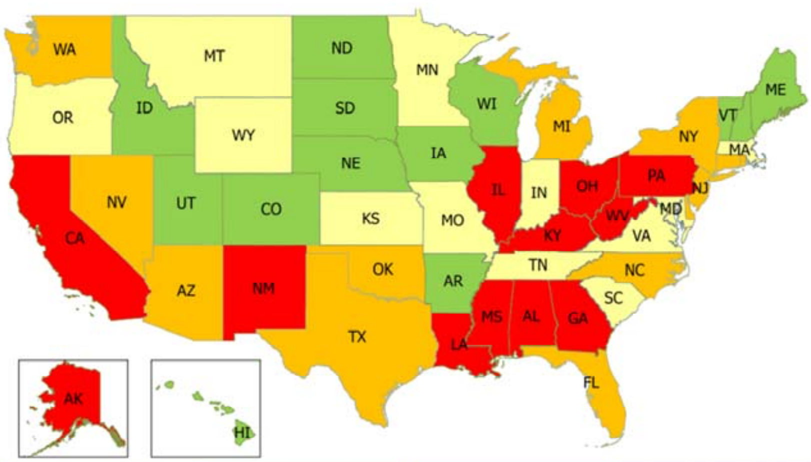


Source: CA Employment Development Department, Sep 2017; EPS

Highlights

- Just more than 256,000 Nonfarm jobs were added in California in the 12 months before September 2017, accounting for just more than 11 percent of the nation's job growth.
- California's absolute job gains were strongest in Educational and Health Services, led by growth in employment in colleges, universities, and professional schools.
- The Manufacturing sector continued to see the heaviest job losses in California, primarily resulting from a majority of job losses in Manufacturing of Nondurable Goods, specifically food manufacturing.

State Annual Average Unemployment Rate



Upper		Upper-Middle		Lower-Middle		Lower	
North Dakota	2.6%	Massachusetts	3.7%	New Jersey	4.5%	**California**	**5.0%**
Colorado	2.7%	Indiana	3.7%	Florida	4.5%	Georgia	5.0%
Hawaii	2.8%	Minnesota	3.8%	Rhode Island	4.5%	Kentucky	5.1%
New Hampshire	2.8%	Virginia	3.9%	Oklahoma	4.6%	Pennsylvania	5.1%
South Dakota	3.0%	Montana	3.9%	Delaware	4.6%	Ohio	5.1%
Nebraska	3.0%	Kansas	3.9%	Texas	4.6%	Illinois	5.2%
Vermont	3.1%	Missouri	4.1%	Michigan	4.6%	West Virginia	5.2%
Utah	3.3%	Maryland	4.1%	New York	4.7%	Alabama	5.3%
Iowa	3.3%	Oregon	4.2%	Connecticut	4.7%	Mississippi	5.3%
Idaho	3.3%	South Carolina	4.2%	North Carolina	4.7%	Louisiana	5.7%
Maine	3.5%	Tennessee	4.3%	Washington	4.8%	District of Columbia	6.1%
Wisconsin	3.6%	Wyoming	4.4%	Nevada	5.0%	New Mexico	6.6%
Arkansas	3.7%			Arizona	5.0%	Alaska	6.7%

Source: CA Employment Development Department, Sep 2017; U.S. Bureau of Labor Statistics; EPS

Highlights

- California's annual average unemployment rate slightly improved from last quarter to 5.0 percent, remaining in the lower tier.
- High unemployment rates have concentrated in the eastern half of the United States as Ohio and Kentucky fall to the lower tier.
- Nearly 25 percent of unemployed Californians have been out of work for more than 27 weeks, a figure that is still higher than the national average of 14 percent.
- California's "real" unemployment, accounting for underemployed and marginally attached workers, was 10 percent, also higher than the national average of 9 percent.

Q3 2017 Economic Snapshot

Annual Nonfarm Job Growth Rate for Metropolitan and Non-Metropolitan Areas

Upper		Upper-Middle	
Alpine County	7.8%	**Los Angeles MSA**	**2.4%**
Mariposa County	4.5%	Amador County	2.3%
Napa MSA	4.4%	Tehama County	2.1%
San Francisco MSA	**3.5%**	Tuolumne County	2.1%
Mono County	3.3%	Hanford MSA	2.0%
Redding MSA	3.3%	Siskiyou County	2.0%
Oxnard MSA	3.1%	Trinity County	1.9%
Glenn County	3.0%	Salinas MSA	1.8%
Madera MSA	2.9%	El Centro MSA	1.8%
Calaveras County	2.8%	Visalia MSA	1.8%
Lake County	2.6%	Chico MSA	1.7%
Riverside MSA	**2.5%**	Modoc County	1.7%

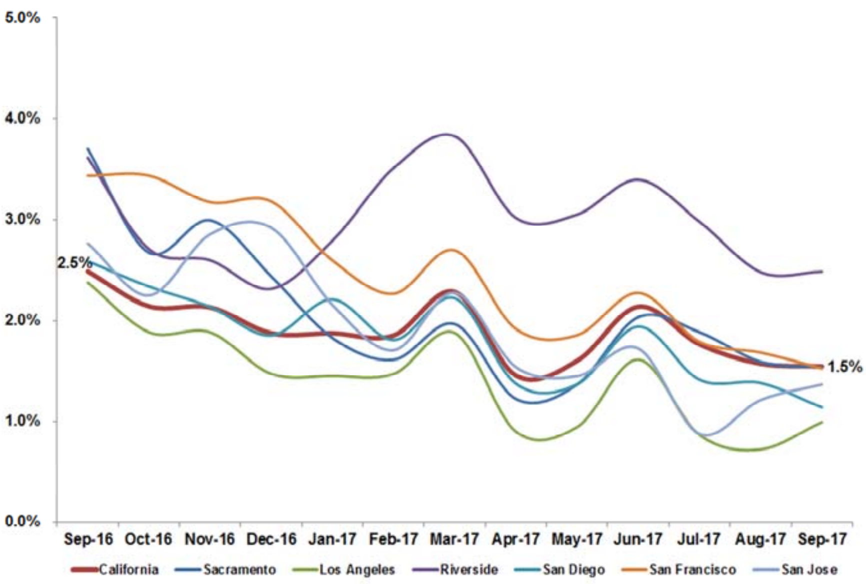
Lower-Middle		Lower	
Modesto MSA	1.6%	San Diego MSA	1.1%
Colusa County	1.6%	Lassen County	1.1%
Mendocino County	1.6%	Santa Rosa MSA	0.8%
Sacramento MSA	**1.5%**	Humboldt County	0.8%
Sierra County	1.5%	Merced MSA	0.7%
Bakersfield MSA	1.5%	Yuba City MSA	0.7%
Santa Maria MSA	1.4%	Santa Cruz MSA	0.6%
San Jose MSA	**1.4%**	Stockton MSA	0.4%
Fresno MSA	1.4%	Nevada County	0.1%
San Luis Obispo MSA	1.3%	Del Norte County	-1.9%
Vallejo MSA	1.3%	Plumas County	-1.9%
Inyo County	1.3%		

Source: CA Employment Development Department, Sep 2017; EPS

Highlights

- The Chico MSA saw a significant decline in job growth rates from the previous quarter, dropping from the upper tier to the upper-middle tier, with a decline of 2 percent.
- Despite a decrease of nearly 1 percent in job growth rates, the Riverside MSA rose to the upper tier.
- The San Francisco MSA has remained in the upper tier and, alone, has accounted for 7 percent of the state's absolute job growth and 20 percent when combined with the Los Angeles MSA, significantly lower shares than the previous 4 quarters.

California Large MSA Annual Nonfarm Job Growth Rate



Source: CA Employment Development Department; EPS

Highlights

- Following a slight peak for all the metros at the end of the 2nd quarter, all 6 metros saw an initial decline in the 3rd quarter, but most have begun recovering from the decline by the end of the quarter.
- Riverside has continued the trend from the previous quarter and led the other metros and statewide average in job growth rate.
- California's annual job growth rate ended in the middle of the 6 largest metros at 1.5 percent.
- San Diego did not recover from the slight decline at the beginning of the quarter and continues to show a downward trend at the end of the quarter.

Q3 2017 Economic Snapshot

Annual Average Unemployment Rate for Metropolitan and Non-Metropolitan Areas

Upper		Upper-Middle	
Nevada County	3.6%	Chico MSA	6.0%
San Jose MSA	**3.8%**	Lake County	6.1%
San Francisco MSA	**3.9%**	Mendocino County	6.2%
Santa Rosa MSA	4.3%	Mariposa County	6.2%
Oxnard MSA	4.7%	**Riverside MSA**	**6.2%**
Inyo County	4.7%	Redding MSA	6.2%
Napa MSA	4.8%	Alpine County	6.3%
Sacramento MSA	**5.3%**	**Los Angeles MSA**	**6.4%**
San Luis Obispo MSA	5.4%	Lassen County	6.4%
Vallejo MSA	5.7%	Santa Maria MSA	6.5%
Tuolumne County	5.7%	Santa Cruz MSA	6.5%
		Trinity County	6.5%

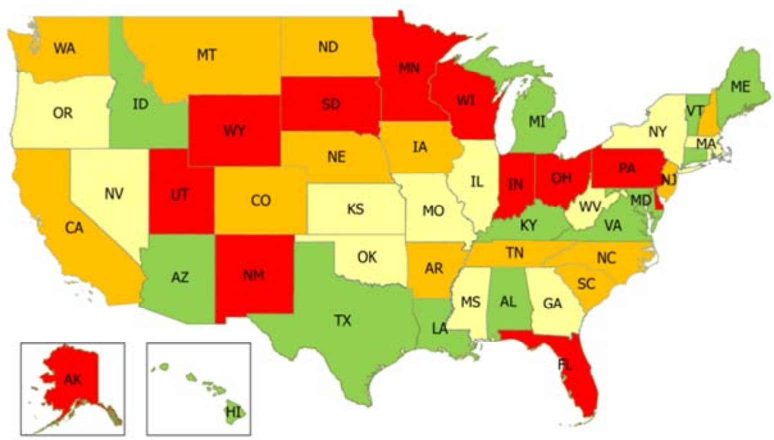
Lower-Middle		Lower	
Tehama County	6.5%	Yuba City MSA	8.7%
Del Norte County	6.8%	Fresno MSA	9.0%
Sierra County	6.9%	Plumas County	9.2%
San Diego MSA	7.3%	Humboldt County	9.5%
Salinas MSA	7.3%	Hanford MSA	9.5%
Stockton MSA	7.5%	Calaveras County	9.7%
Mono County	7.6%	Bakersfield MSA	9.7%
Modoc County	7.6%	Merced MSA	9.9%
Siskiyou County	7.8%	Amador County	9.9%
Glenn County	7.9%	Visalia MSA	10.7%
Modesto MSA	7.9%	Colusa County	15.3%
Madera MSA	8.5%	El Centro MSA	22.7%

Source: CA Employment Development Department, Sep 2017; EPS

Highlights

- Eleven markets had rates below 6 percent, placing roughly one quarter of all California markets near full employment levels.
- The 4 Bay Area markets continue to experience the lowest unemployment rates in the state, which has been consistent with the previous 4 quarters.
- Humboldt County fell from the upper tier, where it has placed for the past 3 quarters, to the lower tier with an increase of 5 percent in the county unemployment rate.

State Leading Index 2015



Upper		Upper-Middle		Lower-Middle		Lower	
Kentucky	5.2%	Nevada	2.3%	Iowa	1.4%	Delaware	0.5%
Louisiana	5.2%	Massachusetts	2.2%	North Dakota	1.3%	South Dakota	0.5%
Alabama	5.0%	Rhode Island	2.0%	Colorado	1.3%	Wisconsin	0.5%
Arizona	4.9%	New York	2.0%	New Jersey	1.2%	Wyoming	0.4%
Michigan	4.2%	Oregon	2.0%	Washington	1.2%	Florida	0.4%
Connecticut	3.8%	Georgia	1.8%	South Carolina	1.1%	Pennsylvania	0.4%
Texas	3.3%	Mississippi	1.8%	Arkansas	1.1%	Ohio	0.2%
Hawaii	3.2%	Missouri	1.7%	New Hampshire	1.0%	Indiana	0.2%
Virginia	2.8%	Oklahoma	1.7%	Nebraska	0.9%	Alaska	-0.3%
Vermont	2.7%	Illinois	1.5%	Montana	0.9%	Utah	-0.3%
Maryland	2.6%	Kansas	1.5%	North Carolina	0.6%	New Mexico	-0.8%
Maine	2.4%	West Virginia	1.4%	Tennessee	0.6%	Minnesota	-4.0%
Idaho	2.4%			**California**	**0.6%**		

Source: Federal Reserve Bank of St. Louis, Sep 2017; EPS.

Highlights

- The State Leading Index indicator predicts the 6-month growth rate of the Coincident Index for each state that combines several indicators summarizing current conditions in the economy.
- California's leading index ranked 38th overall in September 2017, significantly lower than with the previous quarter. Economic conditions most likely will remain steady in the next quarter.

Economic Trends to Follow

- Import price data suggest the Federal Reserve is on course for a rate hike at the end of the year despite uncertainty resulting from recent hurricane activity.
- Consumer confidence fell slightly in September following major hurricane activity, but retail sales continue to rise over last year.

For questions regarding the report findings, please contact Sean Fisher, EPS Associate, at (916) 649-8010 or sfisher@epssac.com. For media and other inquiries, please contact Michelle Stephens, CALED Economic Development Manager, at (916) 448-8252 or michelle@caled.org.