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March 21, 2016

California's output growth and job growth have each slowed a bit from their peaks. Still, their growth exceeds that of the United States. Going forward, we expect GDP growth to accelerate a bit, to over three percent quarterly annual growth rates. We expect job growth to soften a bit, and then slowly recover.

As has become normal for California, the state's job growth is almost certain to be unevenly distributed. San Francisco, San Jose, the Inland Empire, and Fresno are likely to see significantly stronger growth than the state average. The state's largest market, Los Angeles, will likely see significantly slower growth than California's fastest-growing regions.

It is striking that California's job growth has been relatively rapid while productivity has been declining. This is a reflection of the changing composition of California's jobs. California's job growth has been largely concentrated in low-productivity-low-wage sectors, while higher-wage-higher-productivity sectors have declined or lagged. This trend is almost sure to continue as California transforms from a trade and production based economy to a consumption based economy.

California's return to high home prices has brought an acceleration of migration from California to other states. Increased equity can provide the funding for larger homes in more affordable states. Rising home prices also provide the impetus for young people to move to other states, as they see the likelihood of ever affording a California home plummet.

We expect to see increasing numbers of people migrating out of California. The growth of low-wage jobs, the decline in high-wage jobs, and ever-increasing housing costs provide plenty of incentive.

It's worth noting that significant net out domestic migration is usually associated with lower housing prices. See Detroit for example. That outcome might be possible for California, but it's unlikely.

So far at least, California's net out domestic migration has mostly been relatively modest. We did see large out-migration numbers in the 1990s, when huge numbers of very well paying

Aerospace jobs left the state, and home prices did slide. We don't expect to see that type of catastrophic event again, though.

California's total population will continue to increase, in spite of modest out domestic migration. In fact, population growth will survive modest total out migration, domestic plus international. California's natural increase, births less deaths, will insure population growth in all but the direst scenarios. The growth rate will likely slow, but we don't expect California's population to decline. As long as this holds, California avoids the Detroit outcome.

Some parts of California will not avoid the Detroit outcome. California is in a transition from a tradable-goods-and-services economy to a non-tradable economy. That transition is driven by worldwide wealth increases, California's amenities, and California's high cost of doing business. Since California's most desirable amenities are along the coast, that's where growth will occur. Already, there are inland regions that continue to decline even as the state grows. It's difficult to see how these areas avoid persistent depopulation.

In the very long run, we expect to see a Coastal California equilibrium that includes high-but-stable home prices and service wages that allow a home affordability rate of at least 40 percent. That day, though, is a long time in the future, far beyond our forecast. In the meantime, California's cost of living will remain California's most persistent economic challenge.