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Recent Macroeconomic Indicators

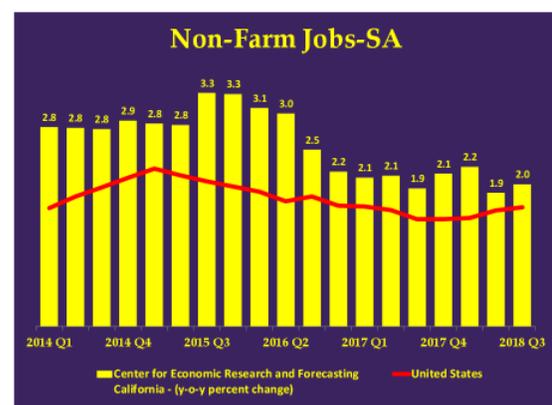
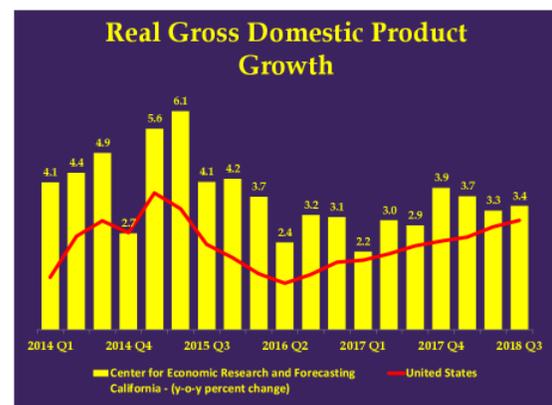
California has surprised us with economic strength. Revised data released November of 2018 provide a different picture of GDP growth for the state versus the nation. The revisions are driven by methodological enhancements and with source data updates, as time passes. The annual benchmark revisions were released for the nation at the end of July. The state level data lags behind the national by a few months. These data also experienced revisions to the underlying industrial classification system and to the method for measuring prices.

The updated data portray a stronger state level economy than the previous release which was in July, especially for 2017 quarter 4 and for the first half of 2018. The stronger growth was driven by upward revisions in manufacturing, technology, and the professional and business services sectors.

California's growth premium has not converged to zero like we thought was imminently possible when we computed our previous three forecasts.

However, in looking at both the GDP data as well as the jobs data, we see that since

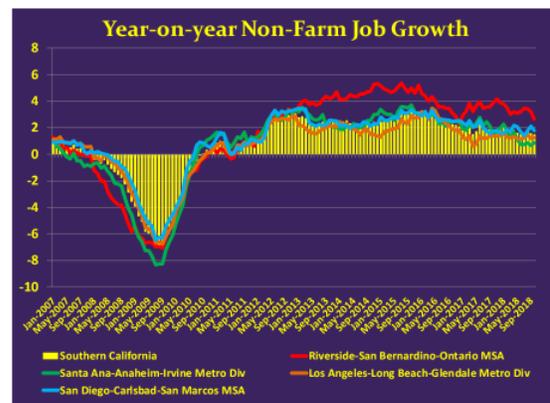
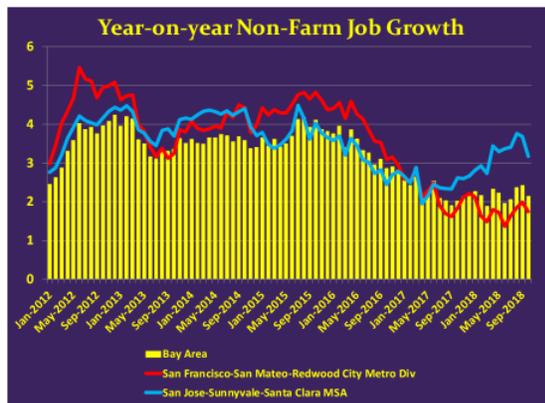
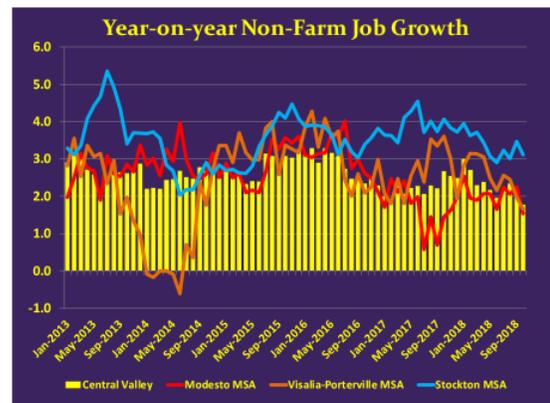
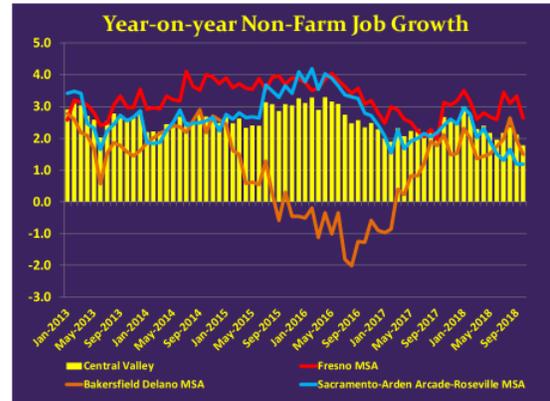
2015, California's growth premium has clearly shrunk. We still believe that California's relatively intense tax and regulatory environment, and anti-business attitude, will eventually erode its growth premium over the United States. The timing that such a premium would fully erode is beyond the capability of forecasting methodology.



Regional Comparisons

The performance of California's regions has changed in the last year in that fewer regions are clearly growing faster than the state average. Thus far in 2018, the regions consistently and significantly outperforming the state are the San Jose MSA, the Stockton MSA, Fresno County, and the Inland Empire. This excludes a region that used to significantly outperform the state, which was the San Francisco MSA.

In a regional sense, key risks to the state's growth premium over the United States is these high growth regions. If they falter, and another region does not step up their growth, then the premium will fade.



The Forecast

Our forecast continues the recent trend where the state's growth is converging to the nation's, but for now, the state's economy is clearly growing more rapidly.

