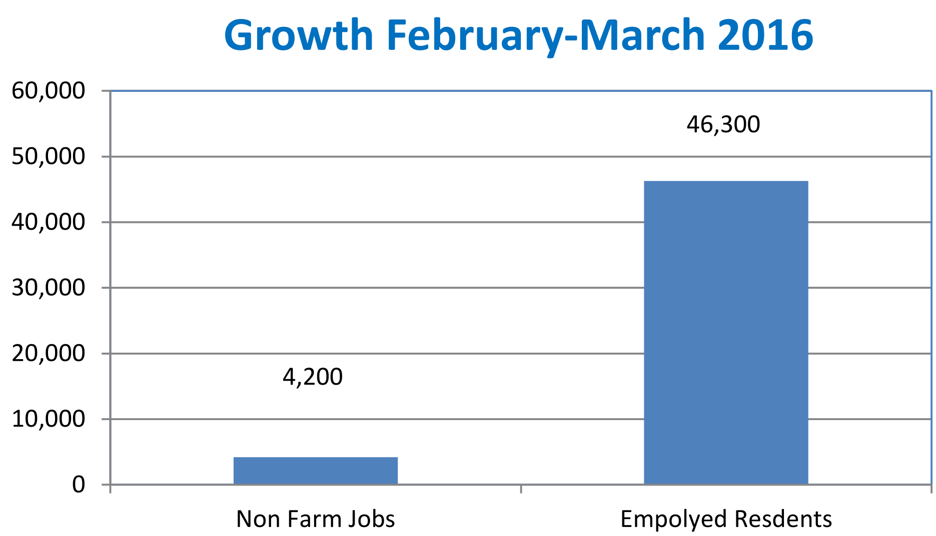
April 2016

The March Jobs Report—Mixed Labor Market Indicators

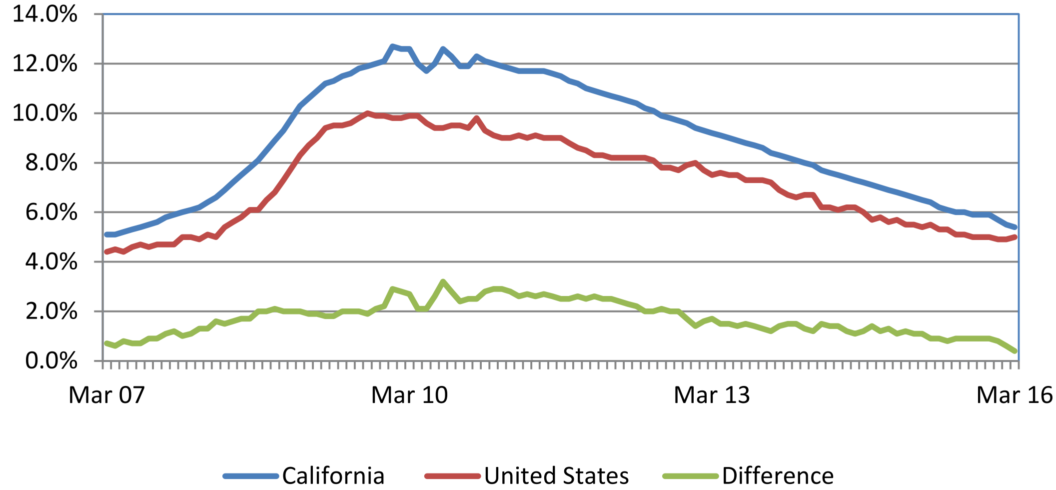
March 2016 produced only 4,200 added non-farm wage and salary jobs down form a gain of 46,600 jobs in February. But the unemployment survey showed a gain of 46,300 employed workers and a decline in the unemployment rate to 5.4%, the lowest since July 2007. And for the first time since the recession, California is no longer on the list of states with a significantly different unemployment rate form the nation.



The March job growth estimates are very likely to be revised upwards and do not paint an accurate picture of March activity given surges in airport, port, and tourism activity, continued reported expansion of technology firms and the 215,000 jobs added nationally. It is also true that the gain in employed residents probably overstates the underlying trend.

The unemployment trend has been more stable and reflects steady improvement as some workers have rejoined the workforce, unemployment continues to decline and the gap between the state and national rate (0.4%) is the lowest during the past nine years. During the past 12 months the state labor force increased by 127,700 while the unemployment rate declined from 6.6% to 5.4%.

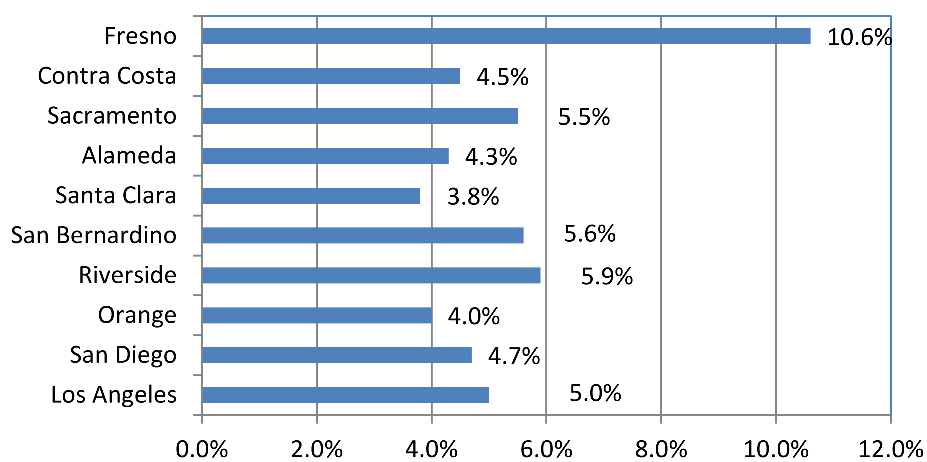
Unemployment Rate Trends



While not everyone has been helped by the recovery, the job gains, reduction in unemployment combined with increases in the minimum wage at the state and many local levels have improved the economic situation for many Californians.

And while we all hope for continued broad economic gains, it remains true that the recovery is broadening by geography and sector and also that California's performance compares well to the national average. Even with the slow job growth in March state jobs have increased by 2.6% over the past 12 months compared to 2.0% for the nation. And unemployment rates, while still higher than we would like, are generally falling across the state as the recovery spreads.

March 2016 Unemployment Rates for Ten Largest Counties



Some metro areas beyond the Bay Area are also doing as well or even better than the state average for job growth. Orange County has added 44,300 jobs during the past 12 months for a 2.9% increase. The Inland Empire (Riverside and San Bernardino) added 43,500 jobs for a gain of 3.3%. San Diego County saw a gain of 36,100 jobs (+2.1%) and Fresno County added 10,000 jobs for a gain of 3.1%, all of these estimates from EDD are based on their seasonally adjusted job estimates.

Economic growth recently has not been as strong or broad as in previous recoveries and growth periods. Yet California has done well compared to the nation and many states as well as most countries. In the debate over whether "business climate" or industry structure is the best predictor of state growth, 2015 and 2016 are clearly in the industry structure matters camp.

Texas, Oklahoma and North Dakota, all states ranked high in national business climate surveys, are experiencing poor job growth as one key sector—oil and gas—is in decline. Texas is doing the best with a year over year job gain of 1.6% compared to the nation's 2.0% increase. North Dakota has seen a job decline of 4.5% and Oklahoma lost 0.4% of the state's jobs over the past 12 months. This is not a knock on these states but, rather, a show of how important industry trends are to state job growth.

Looking to the Future

Job growth will begin to slow as baby boomers retire in greater numbers. The first wave turned 70 this year and while older workers are working longer than before most still retire by age 70.

While state and local fiscal situations are improving as sales taxes, property taxes and the sometimes volatile income taxes are growing, we like other states and countries face unfunded retirement obligations. With revenues up we still face tough choices among investing versus current spending, choices as to where best to spend and how to fund retirement obligations.

In terms of workforce, poverty and the increasing number of low wage jobs, research done by CCSCE and others is crystal clear. A three-pronged approach is required:

--Education and training informed by continuous employer input

--Strong economic growth without which progress is virtually impossible

--And policies to support the millions of workers who will spend long periods of time in low wage jobs no matter how successful the first two priorities are

The recovery has increased longstanding challenges with regard to housing and transportation investments and policies. The state faces a housing shortage and rent and home price increases that far outpace income growth. There are signs of increased plans to build new housing but they are still below the level needed to match current population growth much less to reduce the existing shortages.

Infrastructure needs in transportation, water and other areas remain far above current funding levels. Additional housing and infrastructure construction are the most immediate and effective ways to increase middle wage jobs.

The Governor has addressed infrastructure, retirement obligations and preparing for the next recession as well as other issues in his State of the State address and budget and the legislature will now weigh in on these issues and potential solutions.

The future of California depends on our children, their education and opportunities. The state budget has made progress in funding education with an emphasis on at risk students and the state is exploring ways to reduce the cost of higher education. But these children's success will determine our future and we need to keep them uppermost in our minds.

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