August 2016

The July Jobs Report—State Job Growth Continues

The headline numbers area an increase of 36,400 jobs with the unemployment rate at 5.5% up from 5.4% in June, Since the summer months are volatile depending on when schools close and open, which affect the seasonal adjustment, lets dig a little deeper.

The overall state job growth is solid and consistent with annual growth near 400,000 jobs and outpacing the nation and most large states. At some point soon job growth will slow based on increasing levels of baby boomer retirements here and across the nation, but that has not happened yet.

The unemployment rate jump was the result of a large (60,000 in July, 206,000 for the year) increase in the labor force, which is good news as more people are able to rejoin the workforce. And for the first time in recent history the seasonally adjusted unemployment rate in Los Angeles County is 4.8% and well below the state average.

This result and other data show that the state's economic growth is spreading beyond the Bay Area to encompass most, but not all, of the state. Recent trends include:

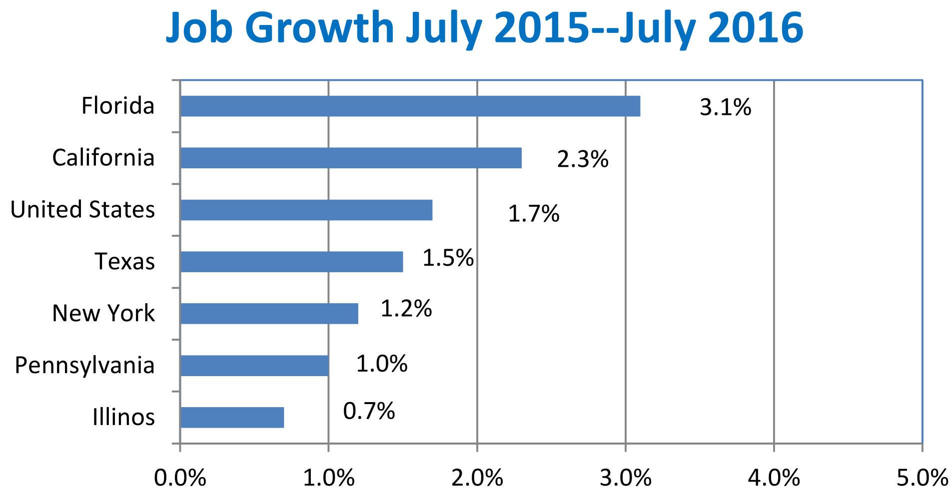
- Year over year gains in many Valley metro areas—Fresno (+3.3%), Modesto (+3.5%), Stockton (+4.1%), Madera (+6.8%) and Merced (+3.8%). Part of the Modesto and Stockton gains may be the result of Bay Area workers living and supporting jobs in these counties.

- Solid gains in other large Southern California metro areas (note, they would be larger except this month are compared against very large gains in July 2015 that affect year over year comparisons—Orange (+2.8%), San Diego (+2.0%), and Riverside-San Bernardino (+2.0%).

- Bay Area metros continued to post the largest gains in July and over the past 12 months among the large metro areas with Oakland up 9.600 jobs in July and 2.9% over the year, San Jose up 6,700 in July and 3.1% over the year with gains also in Santa Rosa and Napa.

After languishing for many months, Manufacturing added 7,100 jobs in July led by gains in technology manufacturing and metal products. Construction jobs gained also and there were large gains in Wholesale Trade and Professiona, Scientific and Technical Services.

California had the second highest growth rate of the six largest states.



While not everyone has been helped by the recovery and unemployment rates remain high in some areas of the state, the job gains, reduction in unemployment combined with increases in the minimum wage at the state and many local levels are improving the economic situation for many Californians.

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, Wyoming, 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 1.5% compared to the nation's 1.7% increase. North Dakota has seen a job decline of 2.2% Wyoming of 3.4% and Oklahoma lost 0.5% 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.

Does Being a Welcoming Community Matter to Job Growth

California has been a leader in welcoming immigrants and people without regard to religious or sexual preferences and has provided welcoming locations for millennials. I think this has been a positive for job growth as well as positive social implications.

The announcement last month by the NBA to pull the all-star game from North Carolina plus the cancellations by performers and businesses will be a test of whether restrictive attitudes will affect the state's attractiveness for national businesses, conventions and similar activities.

Looking to the Future

Job growth will begin to slow as baby boomers retire in greater numbers. The first wave turned 70 this year. While older workers are working longer than before, most still retire by age 70. 2016 will have the largest annual job growth rate expected ever again.

The focus of workforce activities should now shift to where the majority of job openings will be and that is to replace retiring workers. Nowhere is this more apparent than in manufacturing where job growth may be very low but the need for skilled workers high as boomers retire. Construction is another area with high levels of skilled worker retirements.

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.

Increasing housing supply and working on the affordability crisis are simultaneously economic competitiveness and social justice issues. The Governor and legislature are taking some steps to address this challenge but major responsibility remains with local jurisdictions and regions.

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 in his budget proposal, most of which was just approved. In addition he has made increasing housing supply a priority and has proposed allowing projects that meet low income housing and transit access criteria to be approved by right. The by right proposal; is currently being negotiated.

There are important connections that will influence our progress on addressing housing supply and affordability. Supply and affordability in the right locations simultaneously address economic, equity and environmental concerns about housing and can bring these constituencies together in common cause. There are also interesting connections between demographic groups including between millennials and seniors that can solve multiple challenges for example by building housing that allows seniors to downsize and move into walkable neighborhoods while freeing up single homes for millennials without requiring new construction.

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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