INSTITUTE OF REGIONAL AND URBAN STUDIES

610 UNIVERSITY AVENUE • PALO ALTO • CALIFORNIA • 94301

TELEPHONE: (650) 326-5770
FAX: (650) 321-5451
www.ccsce.com

DATE: August 15, 2003

TO: Budget Project Friends

FROM: Stephen Levy

SUBJECT: Recent Census Migration Findings

1. This is the third in an ongoing series of memos on California budget-related issues. This series is supported by a grant from The James Irvine Foundation. Previous memos are posted at www.ccsce.com.

2. The goal of this series of memos is to focus attention on three major questions:

   a) What is the appropriate way to balance California's state budget? Should there be additional tax and fee increases, additional public service cuts or is there a third way? Does the answer differ in the long term versus the short term? What is the role of reform?

   b) What makes a state economy competitive/attractive? How do budget choices relate to the state economy?

   c) How do the economy and budget relate to reducing poverty and improving economic prosperity for low and middle-income Californians?

3. Each of these questions has proved difficult in terms of reaching any consensus. These questions will be directly addressed in later memos.

   These beginning memos address key building blocks for the later discussion of policy choices. The first memo examined California's three major tax bases — personal income, taxable sales and assessed value. The second memo described changing trends in K-12 and higher education enrollment — areas where more than half of the state budget is spent.

This memo examines the Census findings released this week that net domestic migration was negative between 1995 and 2000, i.e., more residents **left California** for other states than **came to** California from other states.

By addressing this topic, the memo will also begin the ongoing discussion of assessing the California economy. The migration findings, and economy and budget analyses are linked. The stories accompanying the migration release had a strong flavor of "they're leaving because something is wrong with the California economy". An accurate assessment of the state's economy and likely future trends is essential to developing and discussing budget alternatives. That is why it is important to see whether the migration findings tell us anything about the current state of the California economy.

4. Census Bureau Findings Released August 6, 2003

On August 6, 2003, the United States Census Bureau released data about the pattern of migration between states and metropolitan areas for the period 1995-2000. The finding for California was that 1,448,964 people moved **to California** from other states and 2,204,500 people moved **from California** to other states for a net outflow of 755,536.

As shown on the table below, the net outflow was accounted for by domestic out-migration from the Los Angeles Basin and San Francisco Bay Area regions.

Domestic Migration 1995 - 2000	
California	
Moved from other states	1,448,964
Moved to other states	2,204,500
Net domestic migration	-755,536
Los Angeles Basin	-549,951
San Francisco Bay Area	-206,670

The full set of Census Bureau releases can be accessed at www.census.gov/newonsite under August 2003.

There were several front-page stories about the Census findings and these stories made the following points: 1) migration trends usually reflect job and unemployment trends — people go where job prospects are good, 2) housing costs less in other states and 3) people move to improve their quality of life, for example, to where congestion is less.

The general tenor of these stories was that something was going on in California between 1995 and 2000 that led to this exodus.

It is an interesting story and a tantalizing headline but the facts don't fit the story. Let's see what actually happened.

5. Explaining the Census Bureau Findings

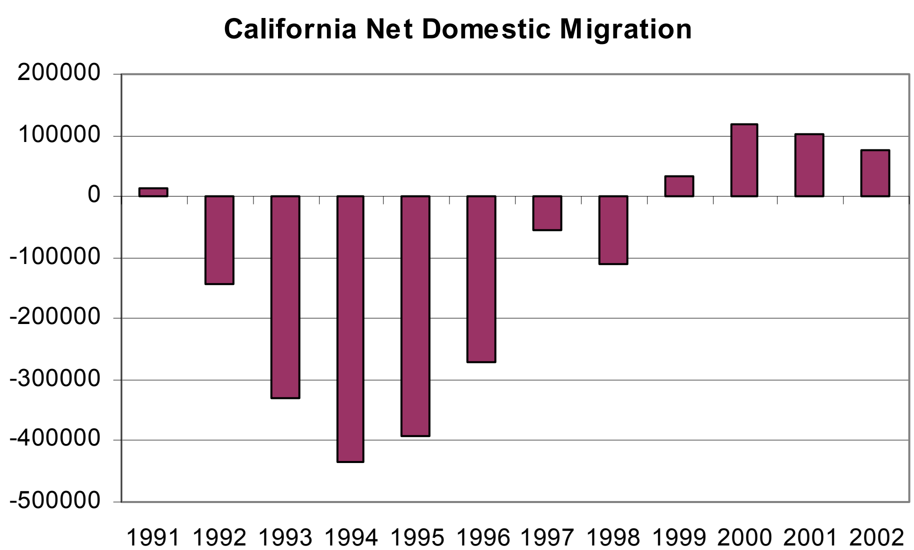
Many people **did** leave California when the economy was worse than in other areas, but this is an **old** story, not a new story. It is about what happened during and immediately after the long early 90s recession.

The graph below shows the annual estimates of domestic migration compiled by the California Department of Finance. Three findings are clear from the graph:

1) Domestic out-migration exceeded 1.4 million between July 1, 1992 and July 1, 1996

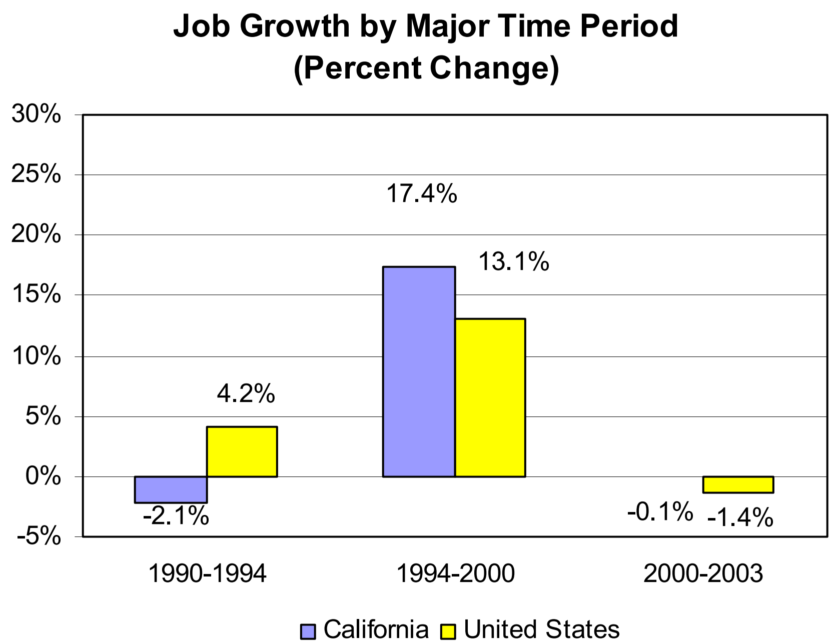
2) Domestic migration was close to zero between July 1, 1997 and July 1, 2000.

3) Domestic migration has been **positive** in each of the past four years.



Domestic migration trends do follow job trends. The out-migration flows described in the Census findings were a direct result of California's **below-average** job growth in the 1990-1994 period. The turnaround in migration trends beginning in 1997 and lasting through the middle of 2002 was the direct result of California's **above-average** job growth in the 1994-2000 period.

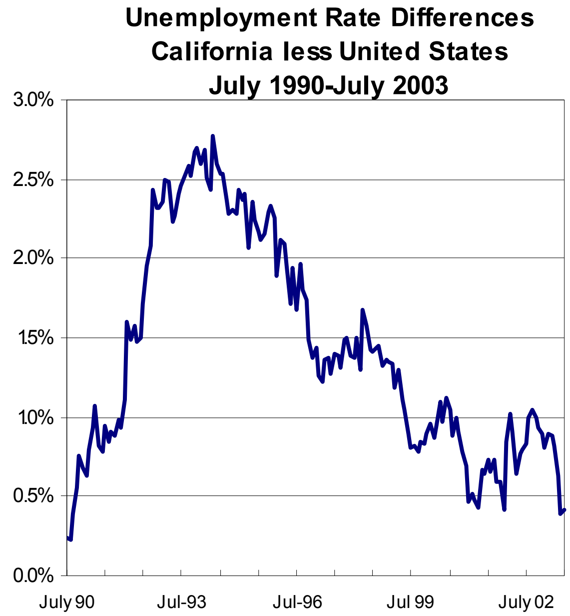
The graph on the next page, reprinted from **California Economic Growth-2003 Edition,** shows the difference in comparative job growth rates between the state and nation for each time period.



California lost jobs in the early 90s (-2.1%) while the nation added jobs (+4.2%). The nation recovered from the early 90s recession while job losses continued in the state. As a result, out-migration surged in the mid 90s.

California outpaced the nation in job growth (+17.4% versus +13.1%) between 1994 and 2000. As a result, out-migration was replaced by net domestic in-migration beginning in 1999.

The unemployment rate **difference** between the state and nation is the best single indicator of future trends in domestic migration. In the early 90s, California's unemployment rate was more than 2% higher than the national rate. In late 1993 and early 1994, the gap was as high as 2.7%. In part, these persisting unemployment rate differentials triggered the large out-migration of the mid 1990s.



Between 1994 and 2000, the unemployment gap dropped steadily and the pattern of out-migration was reversed.

6. Current Outlook for the California Economy

Some of the news stories surrounding the Census Bureau's recent release of the migration data implied that the state economy is doing poorly relative to other parts of the country and that out-migration was still continuing. These stories combined with similar statements associated with the recall election campaigns suggest the benefit of an up-to-date "status" report on the current outlook for the state economy.

There are two broad ways to look at the California outlook — 1) in absolute terms and 2) in relative or comparative terms. One way of looking focuses on changes in job levels and unemployment rates and the second way focuses on these trends in relation to trends in other states or in earlier time periods.

Trends in Job Growth and Unemployment

Job levels in California are approximately 50,000 below the level of three years ago. Job levels rose by 250,000 in the final months of the venture capital boom in late 2000 and have fallen by nearly 300,000 since then.

Unemployment rates statewide have risen from a low of 4.7% in December 2000 to 6.6% in July 2003. Income growth has fallen and real per capita income is below 2000 levels.

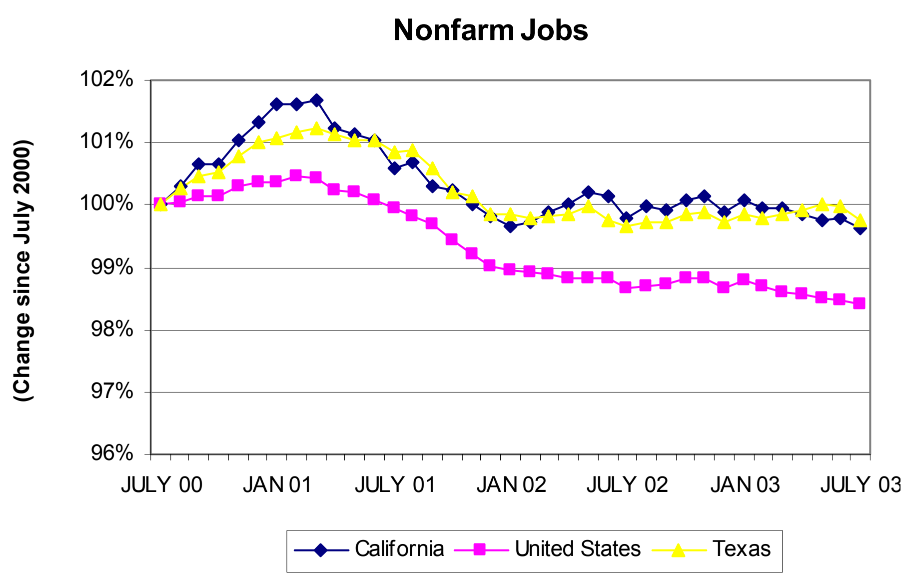
Relative Trends in Job Growth and Unemployment

In contrast to the economy of a decade ago, California is **not doing worse than the nation in the current downturn.**

The graph on page 4 shows that California job levels are down 0.1% between 2000 and the first seven months of 2003. During the same time period, job levels in the nation fell by 1.4%. The California jobs data released for July show that during the past twelve months job levels fell by 0.2% in the state and 0.3% in the nation.

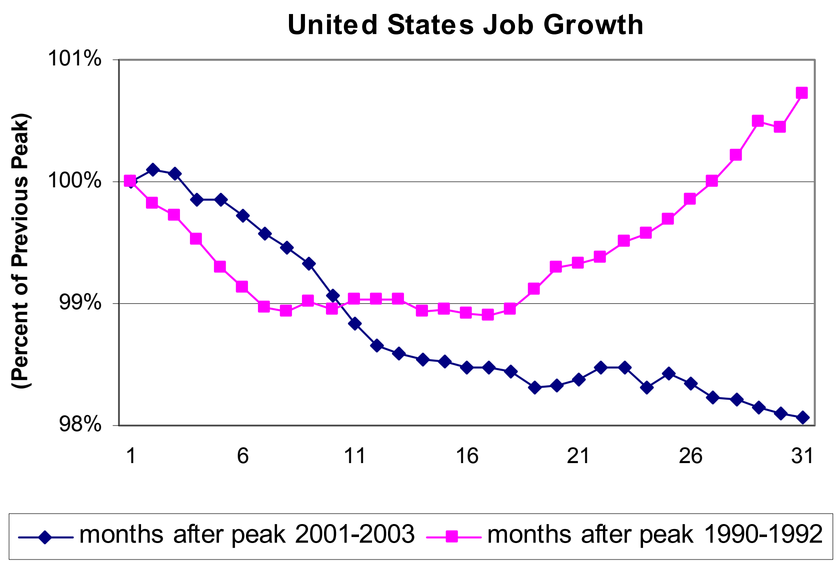
The graph on page 5 shows that the unemployment rate gap between the state and nation has **fallen** since the middle of 2000. In fact, the California's unemployment rate in July 2003 was 0.4% higher than the national average, which is the **smallest gap** since early in 1990. California's unemployment rate has risen 1.9% since the lows while the national unemployment rate has risen by 2.3%.

The graph below compares non-farm wage and salary job growth in California, Texas and the nation between July 2000 and July 2003.



California, Texas and the nation all added jobs in the last months of 2000. Since then, California and Texas have each given back all of their job gains. But the nation has given back all job gains **plus** has lost an additional 2 million jobs — for a total of 2.6 million jobs lost in the nation since the peak in early 2001.

The lack of any national recovery in job levels is hurting most states, including California. This is the slowest national economic recovery in more than fifty years and is far weaker than the recovery from the last recession in the early 90s as shown below.



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Future Discussion—Key Questions

California has a great set of industries and serious economic challenges. I don't think there is much dispute about either claim.

State and local governments provide "public foundations" that affect how attractive California regions are for future private investment. There are three major areas of "public foundations":

--The amount and quality of our public investments in areas like education, transportation, water supply and ports.

--The quality of life in our communities. Are they places where people are drawn to live and work?

--The business cost and regulatory environment, e.g., workers' compensation.

There are distinct differences of opinion on the importance, priority and specific steps to address each of these "public foundations".

Future memos will look at each challenge in more depth and explore how each relates to budget choices.