

California Economic Recovery: A Reality Check

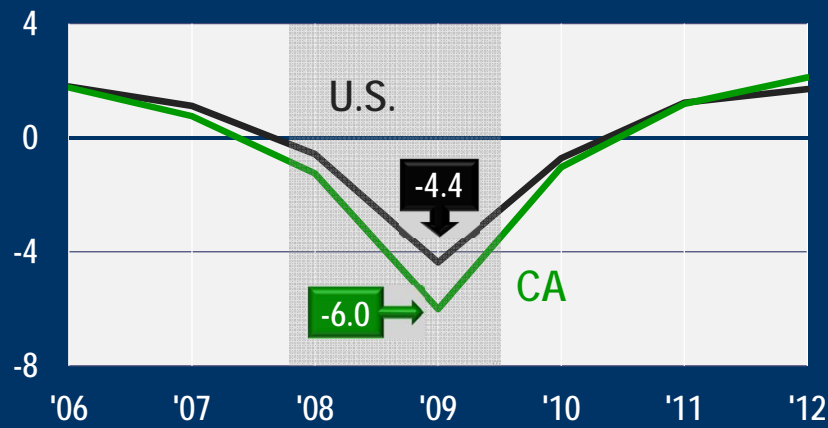
*Presented at:
Georgia State University
Economic Forecast Conference
August 28, 2013*



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Payroll Job Growth

Annual % Change

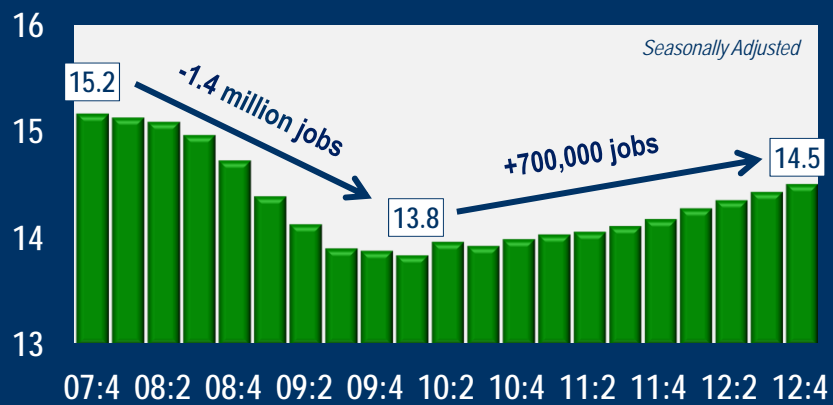


California Change in Payroll Employment Dec. 2011 to Dec. 2012

















Sectors	Change	% Change
Construction	33,500	5.9
Leisure & Hospitality	68,000	4.4
Professional & Business Services	88,500	4.0
Educational & Health Services	45,900	2.4
Trade, Transportation & Utilities	53,100	1.9
Financial Activities	14,700	1.9
Information	8,200	1.9
Other Services	5,200	1.0
Manufacturing	-400	-0.1
Government	-10,700	-0.5
Total Nonfarm	305,500	2.1

Payroll Employment California

In millions



The Most Influential Economic Variables Affecting Job Outlook

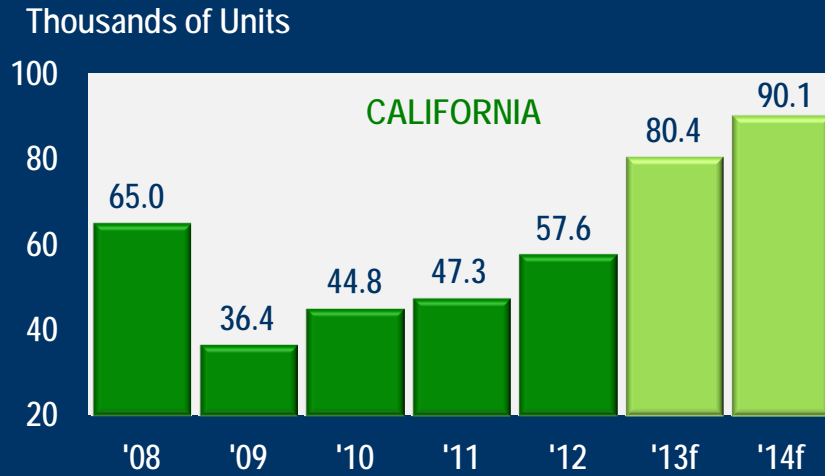
	Projected Impact					
	2009	2010	2011	2012	2013	2014
Real GDP	 -2.8%	 +2.5%	 +1.9%	 +2.8%	 +2.0%	 +2.7%
Real Exports	 -9.1%	 +11.5%	 +7.1%	 +3.5%	 +1.2%	 +2.3%
Construction Spending	 -26.6%	 -33.7%	 -4.9%	 +10.7%		

Office Vacancy Rates 2007 Recession

Area	Pre-recession Low	Recession High	Current
Orange County	6.6%	15.4%	11.4%
Inland Empire	6.9%	16.5%	12.5%
Los Angeles	7.1%	12.6%	12.4%
San Diego	8.4%	15.1%	11.7%
San Francisco	8.8%	13.1%	9.6%
Oakland	9.1%	13.1%	10.8%
San Jose	10.4%	15.5%	10.2%
Sacramento	12.2%	17.1%	15.2%

Source: Voit Real Estate Services/CORFAC International Inc.

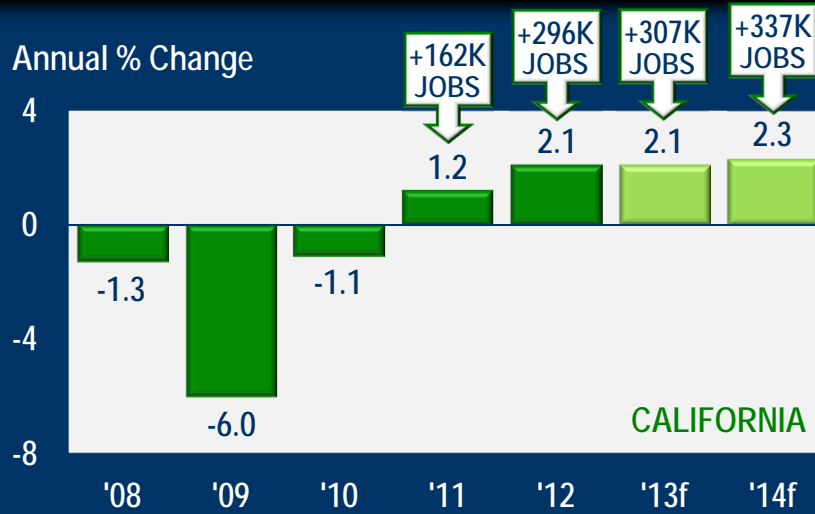
Single and Multiple Housing Permits



The Most Influential Economic Variables Affecting Job Outlook

	Projected Impact					
	2009	2010	2011	2012	2013	2014
Real GDP	↓ -2.8%	↑ +2.5%	↑ +1.9%	↑ +2.8%	↑ +2.0%	↑ +2.7%
Real Exports	↓ -9.1%	↑ +11.5%	↑ +7.1%	↑ +3.5%	↑ +1.2%	↑ +2.3%
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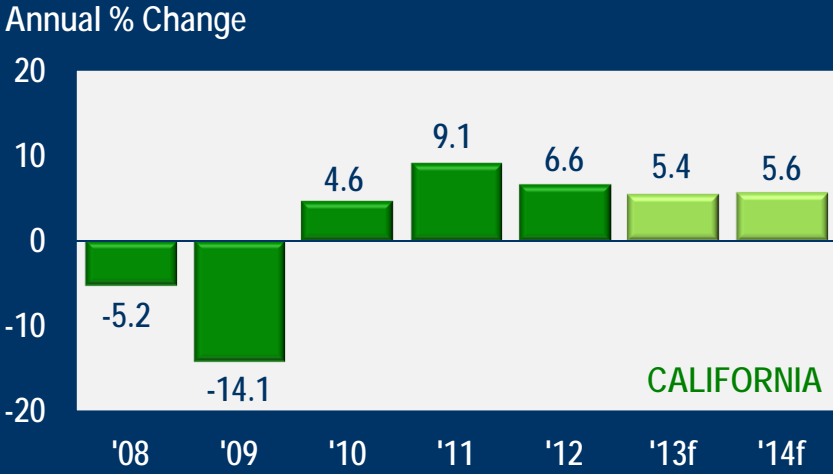
Job Growth



Factors Affecting Consumer Spending

- Job and income growth
 - Higher home prices
 - Strong equity market
- } Positive wealth effect
- Higher payroll taxes
 - Higher sales and income taxes

Taxable Sales



Housing Prices: Is the Recovery for Real?



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Factors Affecting Home Prices

	Very Unfavorable	Unfavorable	Neutral	Favorable	Very Favorable
DEMAND:					
Jobs/ Unemployment				✓	
Housing Affordability					
SUPPLY:					
Permits					
Unsold inventory					
EXPECTATIONS					

Orange County Apartment Rents



Source: RealFacts

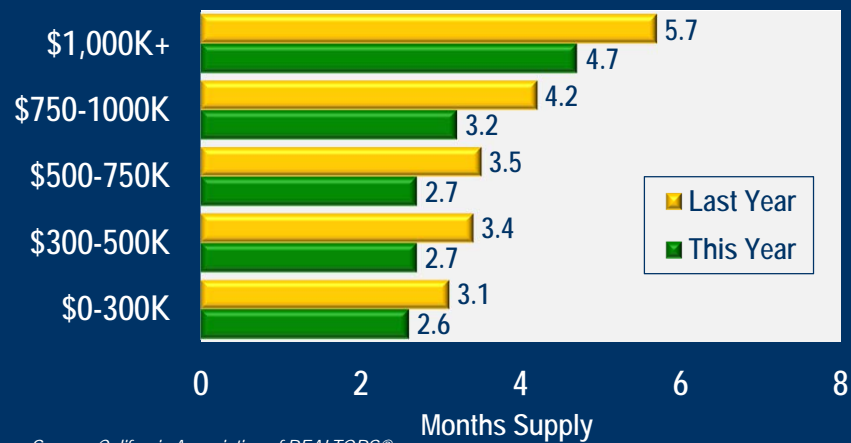
Factors Affecting Home Prices

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DEMAND:					
Jobs/ Unemployment				✓	
Housing Affordability					✓
SUPPLY:					
Permits		✓			
Unsold inventory					
EXPECTATIONS					

Unsold Inventory By Price Range

CA Existing Homes June '12 vs. June '13

Thousands of \$



Source: California Association of REALTORS®

Notices of Default

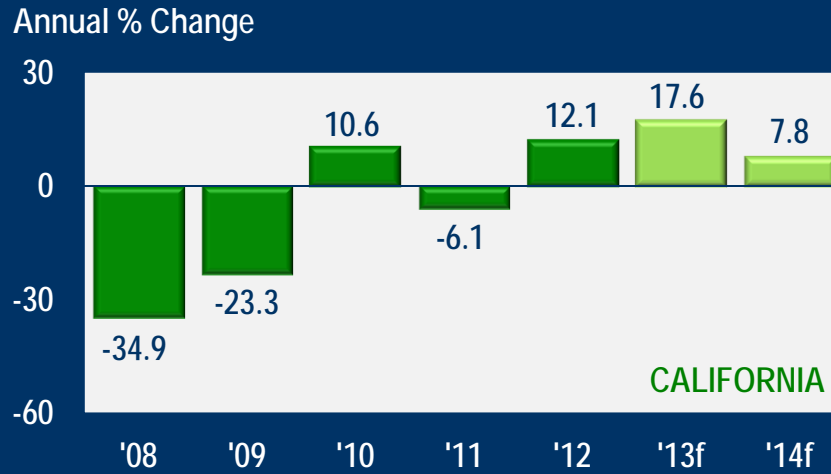
County	2012 Q1	2013 Q1	% Change
Los Angeles	17,733	4,593	-74.1
Riverside	6,009	2,069	-65.6
San Bernardino	5,179	1,864	-64.0
San Diego	4,808	1,919	-60.1
Orange	3,870	1,329	-65.7

Source: DataQuick

Factors Affecting Home Prices

	Very Unfavorable	Unfavorable	Neutral	Favorable	Very Favorable
DEMAND:					
Jobs/ Unemployment				✓	
Housing Affordability					✓
SUPPLY:					
Permits		✓			
Unsold inventory				✓	
EXPECTATIONS				✓	

Resale Single-Family Housing Prices



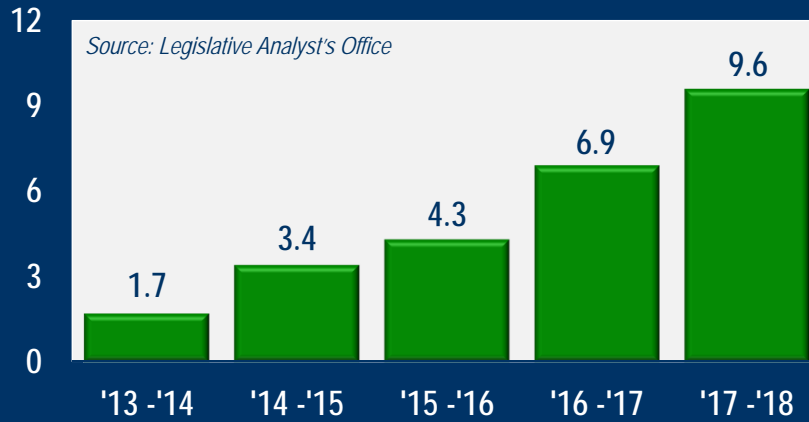
State Budget Outlook



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California General Fund Forecasted Operating Surpluses

Billions of \$



Public Pension Plans State & Local Government

❖	Unfunded Liability (rate of investment returns 7.75/7.5%)	\$130.0 billion
❖	Unfunded Liability (Moody's 5.5% investment returns)	\$328.0 billion

Sources: California Public Policy Center, California Legislative Analyst, California Pension Reform, Bloomberg

Income & Sales Tax

State	Highest Marginal Income Tax Rate	Minimum Sales Tax Rate
Texas	0	6.25
Washington	0	6.5
Nevada	0	6.85
Arizona	4.5	5.6
Colorado	4.6	2.9
Utah	5.0	5.7
Oregon	9.9	0
California	13.3	7.5

California Net Migration and Destination

State	2005	2006	2007	2008	2009	2010	2011	Net Outflow
Texas	-38.7	-32.5	-41.9	-31.9	-26.2	-32.4	-21.9	-225.5
Arizona	-66.1	-53.6	-32.1	-13.1	-12.9	-13.3	-14.0	-205.1
Oregon	-39.2	-25.9	-18.9	-12.6	-10.8	-13.3	-16.1	-136.8
Nevada	-27.8	-31.0	-23.8	-11.5	-7.4	-7.7	-4.0	-113.2
Washington	-18.0	-19.0	-19.0	-11.4	-9.3	-8.9	-1.9	-87.4
Colorado	-11.0	-18.9	-5.6	-9.9	-4.4	-10.4	-2.0	-62.3
Utah	-6.5	-15.3	-9.8	-8.6	-2.2	-1.5	-9.3	-53.2
Other states	-61.0	-27.2	-24.5	-18.0	-14.0	-41.6	-24.8	-211.2
Total Outflow	-268.4	-223.4	-175.5	-117.0	-87.2	-129.2	-93.9	-1,094.7

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