

Public Finance. While a temporary bump in the surplus is likely from the forced realization of capital gains due to the recent stock market declines, the longer term picture is now changed due to the likelihood that capital gains revenues will be constrained for the next year or two. Additional restraints on revenues will come from several factors:

- Reduced sales tax as consumers prioritize generally non-taxable essentials over discretionary purchases.
- Reduced income tax as unemployment rises and earnings decline.
- Reduced business taxes as costs of initiating and complying with social distancing rise, revenues decline, and global supply disruptions continue. These effects will be seen in both the Corporate Income Tax and Personal Income Tax. Based on the most recent Franchise Tax Board data for 2017, Corporate Income Tax produced \$8.8 billion, while non-corporation forms taxed at personal rates had a tax liability of \$12.5 billion (18% of total personal income tax) coming from business activities and \$15.0 billion (21%) if taxable dividends are included.
- Renewed stresses on the Unemployment Insurance Fund. The most recent [projections](#) from Employment Development Department showed the Fund finally returning to a positive balance in 2018 and continuing to grow to \$3.3 billion at the end of 2020. Even before the recent emergency, however, the projections also anticipated future pressures on the fund primarily coming from the increase in minimum wage, even though employers continue to contribute at the next-to-highest statutory rate plus a 15% surcharge.
- Pension funds will be affected by the stock market downturn. The most recent [CalPERS](#) investment report indicates 50.2% of their investments were in public equities and 7.1% in private equity. The [CalSTRS](#) numbers were 50.5% and 9.2%. Through Monday, the stock market as measured by the SP500 was down 19% from the date of those valuations, and down 30% from the market high reached on February 19.
- Potential delays in property tax payments as many small businesses now face cash flow shortages just prior to the April 10 deadline.

The finances of the state are now in far better shape to weather a downturn than they were in 2008. Although the numbers are now likely to change, the January Budget projected total General Fund reserves (all sources and funds) of \$20.5 billion. The Special Funds show an ending reserve of an additional \$15.7 billion.

Unemployment Unchanged at 3.9%; Employment Up 27,500

EDD reported total employment (seasonally adjusted; January preliminary) was up 27,500 from the revised December numbers, while the number of unemployed dipped 1,400. Unemployment rate remained at the series low of 3.9%. The unadjusted rate was down 0.5 point from the year earlier to 3.8%.

California edged up to the 12th highest unemployment rate among the states.

Total US employment saw a seasonally adjusted dip of 89,000, with the number of unemployed up by 139,000. The unemployment rate edged up to 3.6%.

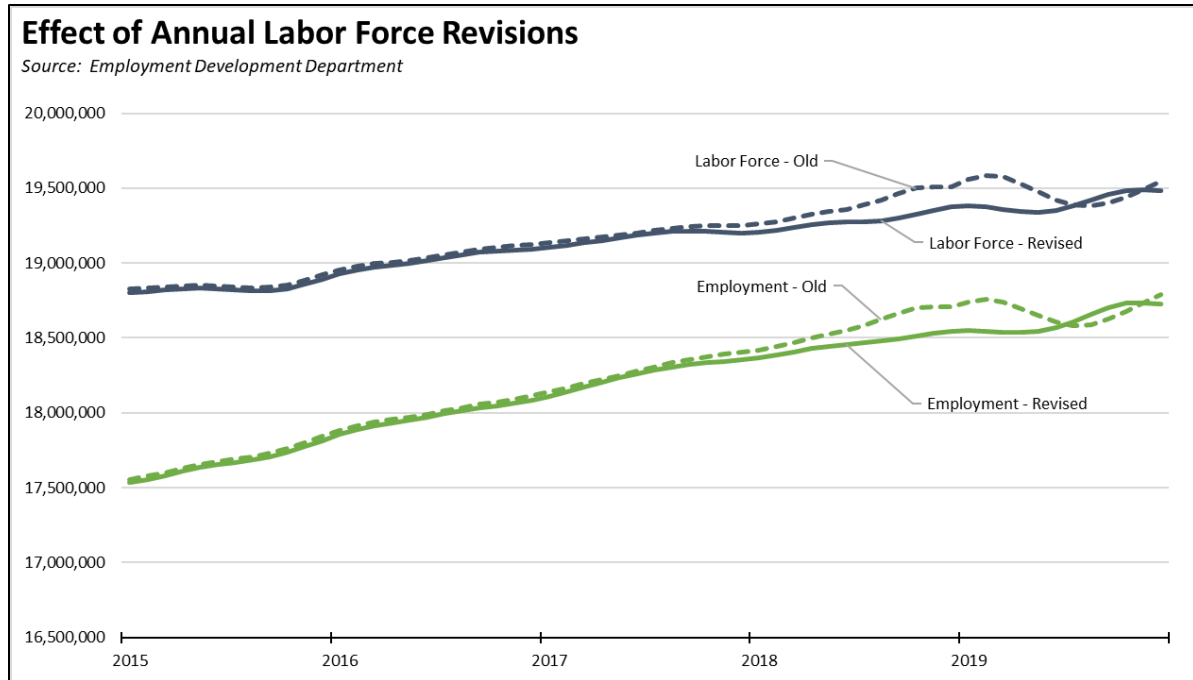
Seasonally Adjusted	California		US	
	Jan 2020	Change from Dec 2019	Jan 2020	Change from Dec 2019
Unemployment Rate	3.9%	0.0	3.6%	0.1
Labor Force	19,509,900	0.1%	164,606,000	0.0%
Participation Rate	62.6%	0.1	63.4%	0.2
Employment	18,756,600	0.1%	158,714,000	-0.1%
Unemployment	753,300	-0.2%	5,892,000	2.4%

Not Seasonally Adjusted	California		US	
	Jan 2020	Change from Jan 2019	Jan 2020	Change from Jan 2019
Unemployment Rate	4.3%	-0.5	4.0%	-0.4
Labor Force	19,478,700	0.7%	163,497,000	0.9%
Participation Rate	62.5%	0.2	63.0%	0.2
Employment	18,638,600	1.2%	156,994,000	1.3%
Unemployment	840,200	-9.6%	6,504,000	-8.9%

Figure Sources: California Employment Development Department; US Bureau of Labor Statistics

The California numbers come from the next stage in the annual revisions to the labor force and wage and salary job estimates, with the most recent revisions applied to the labor force numbers from 2015 through 2019. This process will continue through the data released later this month revising the numbers for the counties, which then will also be used along with the updated American Community Survey factors to revise our estimates for the legislative districts. The data will be updated in our web site as it becomes available, but this difference should be considered in comparing geographic areas until the revisions are completed.

As indicated below, the revisions are relatively minor compared to those of prior years. In general, the revisions decreased the labor force and employment numbers for 2018, but slightly raised the estimates for the second half of 2019.



Labor Force Participation Rate Level Up to 62.6%

In the revised numbers, California’s seasonally adjusted labor force participation rate edged up to 62.6%. Nationally, the participation rate rose slightly faster to 63.4%. The revised labor force numbers generally show the state’s rate generally lower through the first half of 2019, but higher in the second half of that year.

For the 12 months ending January 2020, the revised seasonally adjusted data shows the California labor force with stronger improvement over the year, at a gain of 127,000 workers (0.7% growth) compared to the rest of the US gain of 1.3 million (+0.9%). With the state continuing to lag the rest of the nation in labor force reentry, these numbers indicate the state still had the opportunities—although not necessarily the required skills—to continue jobs growth prior to the recent public health emergency.

Employment Growth Ranking

The total number of persons employed (seasonally adjusted) over the 12 months ending in January grew more strongly in a revised 205,600, as employment numbers in the first half of 2019 saw some of the largest downward changes. As a result, California rose to 3rd highest among the states in terms of absolute employment growth over this period, with Texas leading with an additional 259,700 persons employed over this period, and Florida in second place with a gain of 240,000.

Adjusted to account for differences in the size of each state economy, California over the year grew by 1.1%, below the average for the rest of the US with a gain of 1.4%. Ranked among the states, California’s growth rate rose to 24th highest, while Arizona led with 3.5% growth.

	Employment Change	Percentage Change
California	205,600	1.1%
State Rank	3	24
US other than CA	1,881,379	1.4%

Figure Source: US Bureau of Labor Statistics

Nonfarm Jobs Up 21,400 for Month; California Remains at #2 for 12-month Gain

Nonfarm jobs (seasonally adjusted) were up 21,400 as December's seasonally adjusted gains were revised to 26,300 from the previously reported 24,000.

For the 12 months ending January, total jobs growth was 251,800, keeping the state's rank in 2nd place behind Texas which gained 279,900 jobs in this period, with Florida in third at 177,400.

Adjusting for population size, California notched up to 12th highest among the states, with a 12-month jobs growth rate of 1.5% compared to the rest of the US at 1.4%. Utah led the states with a growth rate of 2.9%.

	Job Change	Percentage Change
California	251,800	1.5%
State Rank	2	12
US other than CA	2,108,000	1.4%

Figure Sources: California Employment Development Department; US Bureau of Labor Statistics

Jobs Change by Industry

In the unadjusted numbers that allow a more detailed look at industry shifts, hiring saw increases in all but 4 industries over the year.

Gains in payroll jobs were led by Professional, Scientific & Technical Services (\$122.5k average annual wages), Health Care (\$68.1k average annual wages), Government (\$70.1k), and.

Declines were led by Retail Trade (\$36.7k), Manufacturing (\$95.6k), and Management of Companies & Enterprises (\$134.9k).

All wage data is from the most current 4-quarter average from the Quarterly Census of Employment & Wages.

Not Seasonally Adjusted Payroll Jobs (1,000)	Jan 2020	12-month change	Nonfarm Growth Rank
Total Farm	357.8	10.2	
Mining & Logging	22.1	0.3	17
Construction	859.0	16.2	8
Manufacturing	1,306.8	-3.7	20
Wholesale Trade	689.5	-2.5	18
Retail Trade	1,644.1	-28.4	21
Utilities	57.0	0.9	16
Transportation & Warehousing	666.3	35.2	4
Information	576.8	23.3	7
Finance & Insurance	542.1	6.5	14
Real Estate & Rental & Leasing	302.0	7.6	13
Professional, Scientific & Technical Services	1,342.1	39.8	1
Management of Companies & Enterprises	251.9	-2.8	19
Administrative & Support & Waste Services	1,121.2	14.5	9
Educational Services	383.7	14.5	9
Health Care	1,597.2	39.4	2
Social Assistance	856.9	34.0	5
Arts, Entertainment & Recreation	323.0	13.0	12
Accommodation	235.9	6.2	15
Food Services	1,450.3	26.5	6
Other Services	574.9	13.4	11
Government	2,630.8	36.2	3
Total Nonfarm	17,433.6	290.1	
Total Wage & Salary	17,791.4	300.3	

Figure Source: California Employment Development Department

Structural Shifts in State's Economy

Comparing current job numbers to the pre-recession levels in 2007 illustrates the structural shift in the state's economy, with the primary jobs growth occurring in the higher and lower wage industries. The revised jobs numbers show a deeper loss position for Manufacturing, Finance & Insurance, and Retail Trade, while Health Care and the lower wage Food Services and Social Assistance continue to lead.

As a result of seasonal factors, Construction as a middle class wage, blue collar industries shifted to the loss column as well, 11.1% below the all-time peak reached in 2006. Residential Building Construction for about a third of the remaining gap, with the January 2019 job levels 33,300 below the all-time peak in 2006.

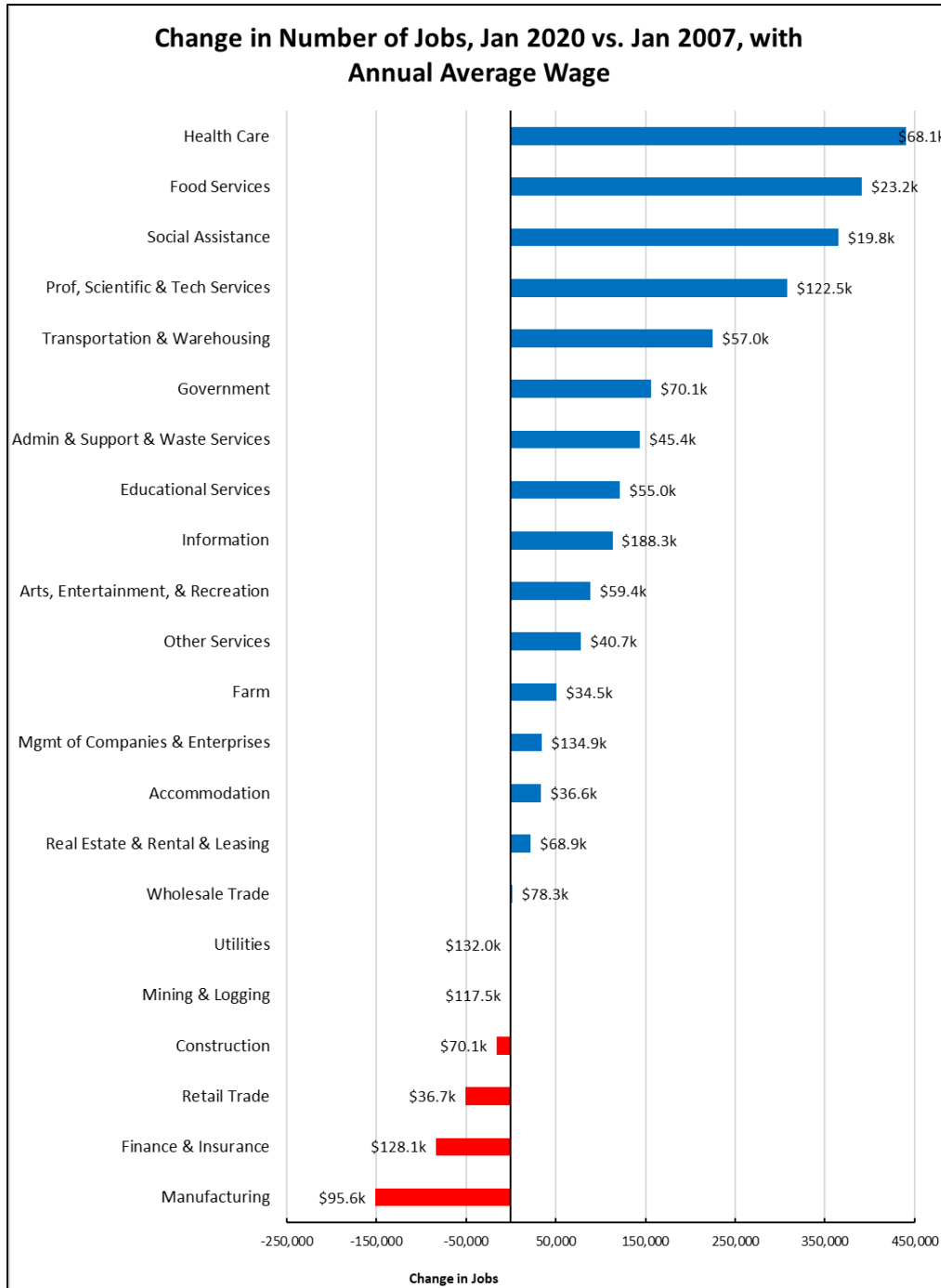


Figure Source: California Employment Development Department

Unemployment Rates by Region (not seasonally adjusted)

California	3.7
Bay Area	2.3
Orange County	2.4
Sacramento	3.2
San Diego/Imperial	3.5
Inland Empire	3.5
Central Sierra	3.6
Los Angeles	3.9
Upstate California	4.9
Central Coast	5.2
Central Valley	7.0

Figure Source: California Employment Development Department

MSAs with the Worst Unemployment Rates

Of the 20 Metropolitan Statistical Areas (MSAs) with the worst unemployment rates in December 2019, 10 are in California, including El Centro MSA (Imperial County) which continues with Great Depression-era levels of unemployment that are 9 times worse than in San Mateo, the county with the lowest unemployment rate.

MSA	Unemp.	Rank (out of 389)
El Centro MSA	19.4%	389
Visalia-Porterville MSA	9.3%	386
Merced MSA	7.9%	384
Hanford-Corcoran MSA	7.7%	383
Bakersfield MSA	7.2%	381
Salinas MSA	7.2%	381
Fresno MSA	6.9%	379
Madera MSA	6.8%	377
Yuba City MSA	6.7%	376
Stockton-Lodi MSA	5.7%	368

Figure Source: US Bureau of Labor Statistics, December 2018 data