Winter 2022

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HIGHLIGHTS

HOME PRICES INTENSIFY WORKFORCE SHORTAGE

In the third quarter of 2021, California’s median home price surged to $651,383, up 16% on a year-over-year basis. This compares to the national median home price of $404,700. Over the past five years, median home prices in the state have grown 56%, compared to 33% nationally. This disparity is exacerbating the state’s ability to retain and attract the workforce it needs, particularly lower skilled workers.

HIGH JOB OPENINGS SUGGEST MISMATCH

According to data from the U.S. Bureau of Labor Statistics, there were a whopping 1.2 million job openings in California in September, suggesting that employers are having a difficult time filling open positions. However, there are also 1.3 million unemployed workers (officially unemployed) in the state – more than there are job openings. This suggests a mismatch between the type of jobs available and the type of jobs workers seek.

HOUSING INVENTORY FAMINE

California’s labor force, defined as the population of workers who either hold a job or are actively looking for work, is still 414,700 lower than its pre-pandemic peak. While rising wages should draw workers back into the labor force, structural challenges, such as slow housing supply growth and recent constraints on international migration, pose challenges to labor force expansion in the state.
KEY INDICATORS

California’s Elevated Unemployment Rate

The state’s unemployment rate stands in striking contrast to the much lower national rate of 4.6%. California’s job recovery has not kept pace with the nation overall or with many other states.

Scarcely Housing Inventory

There is less than two months of inventory available in California’s housing market, far lower than pre-pandemic. A healthy market generally has approximately six months’ worth of available inventory.

NorCal Rent Declines Persist

As of the 3rd quarter, rents have fully recovered in Los Angeles and San Diego, but in San Francisco (-10%) and San Jose (-5%), rents remain far below their pre-pandemic peaks.

CALIFORNIA REAL GDP

Source: U.S. Bureau of Economic Analysis; Analysis by Beacon Economics
CALIFORNIA VACCINATION RATE

Source: Los Angeles Times, Centers for Disease Control and Prevention; Analysis by Beacon Economics

CALIFORNIA AVERAGE ANNUAL WAGE

Source: U.S. Bureau of Labor Statistics; Analysis by Beacon Economics
## CALIFORNIA FORECAST

### CALIFORNIA FORECAST - KEY INDICATORS

<table>
<thead>
<tr>
<th>Current</th>
<th>Forecast</th>
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<tbody>
<tr>
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<td>Q3-21</td>
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<td>Real GDP (Millions 2012$, SAAR)</td>
<td>2,868,205</td>
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<td>Nonfarm Payrolls (000s, SA)</td>
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<td>Unemployment Rate (%, SA)</td>
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<tr>
<td>Home Prices ($, SA)</td>
<td>662,499.9</td>
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<tr>
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<th>Q1-23F</th>
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INDUSTRY MIX DRIVING RENTAL MARKET PERFORMANCE

With respect to housing, throughout the pandemic, much of the focus has been on the single-family home market and its surging prices. But many Californians rent, and the apartment rental market has also been affected. At the start of the pandemic, apartment rents fell in major cities across the state. Compared to pre-pandemic peaks, apartment rent fell by 6% in Los Angeles, 2% in San Diego, 15% in San Francisco, and 10% in San Jose. As of the third quarter of 2021, rent prices in Los Angeles and San Diego have fully recovered, even exceeding their pre-pandemic peaks. On the other hand, rents in San Francisco and San Jose remain far below their pre-pandemic peaks, by 10% and 5%, respectively.

The difference in the performance of these markets is likely being driven by the mix of industries in each location. In Los Angeles, for example, the key trade sectors, such as the logistics and entertainment industries, predominantly require workers to be at their place of employment. Conversely, in San Francisco and San Jose, home to large technology and other professional service industries, a major contingent of workers have been able to work remotely. This has allowed workers to disperse in the short-term, placing downward pressure on rents in these locations. As workers in these areas return to their places of employment on a more permanent basis, expect rents to also increase.
JOB RECOVERY DISPARITY: U.S. VS. CALIFORNIA

California’s relatively elevated unemployment rate is one of the most striking features of the state’s recovery from the pandemic. Prior to the crisis, California’s unemployment rate was 4.1%. In October 2021, the unemployment rate stood at 7.3%, compared to 4.6% unemployment in the United States overall. The difference between the two is chiefly due to the jobs recovery that has occurred since the depths of the pandemic fallout. There are still 5% (900,000) fewer jobs in California than there were prior to the pandemic, compared to only 2.8% fewer jobs nationally. In some other states, the number of jobs has preceded pre-pandemic levels.

CALIFORNIA UNEMPLOYMENT RATE

![Unemployment Rate Chart]

Source: U.S. Bureau of Labor Statistics; Analysis by Beacon Economics

Early in the pandemic, some commentators speculated that California’s safeguards against the virus, such as constraints on business activity, which were stricter than in other states, accounted for the relatively severe job losses. However, capacity limits and distancing requirements have now been removed for months. Instead, it is the state’s labor supply shortage that has emerged as the biggest constraint on employment expansion.
In the third quarter of 2021, California’s median home price was up 16% compared to one year earlier. Historically low mortgage rates, healthy consumers, and limited housing inventories have led to a surge in demand and prices. As of October 2021, there was a mere 1.8 months of housing inventory available in the state. Inventory refers to the number of months it would take for all current homes on the market to sell. A housing market is considered healthy when it has six months of inventory. In the year prior to the pandemic, California had more than 3.5 months of housing inventory.

The pandemic, while not the fundamental cause, has exposed and accelerated California’s long term and pre-existing housing supply constraints. This problem can only be solved by a weaker consumer (less demand), something that of course should never be a target of policy, or more supply.