# THE BEACON OUTLOOK
# CALIFORNIA

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## CALIFORNIA'S ECONOMY SHOWING RESILIENCE, BUT CHALLENGES LOOM

As the year comes to a close, it's time to take stock of California's current standing with Beacon Economics' last state outlook for 2024. California continues to maintain its foothold as one of the nation's economic powerhouses. With high real incomes, high economic output, and globally significant industries—not to mention enviable weather—the state remains the world's fifth-largest economy, contributing 14% to the nation's GDP.

Real median household income in California continues to exceed the national average, with the latest figures showing nearly $90,000—around 11% higher than the national median, which stands just slightly above $80,000.[1] The state's economic growth however appears to be aligning with broader national rates. Real GDP in California grew at 2.8% between the first and second quarters of 2024, whereas real GDP in the nation grew at an annualized rate of 3%. Regionally, California is outperforming the rest of the Far West (Alaska, Hawaii, Nevada, Oregon, and Washington), whose real GDP grew at an annualized rate of 2.2%.[2] Yet, as the Economist magazine recently (and aptly) pointed out, time and again, California continues to be the favored punching bag for the right.[3]

But, for all the flak the state gets for being "too progressive," last month's elections told a different story. Voters rejected worrisome propositions like expanding rent control and raising the minimum wage to $18 per hour—measures Beacon Economics wrote about in the last California outlook—while approving permanent Medi-Cal funding through Proposition 35. The rejection of Propositions 32 and 33 marks a pivotal moment for California, as it hints at a possible rightward shift in the state's political climate. And this trend doesn't appear to be limited to the Golden State—Massachusetts voters also rejected a minimum wage measure last month. The losses in both California and Massachusetts mark the first time since 1996 that minimum wage ballot measures have been rejected by voters,[4] revealing a broader shift in public sentiment on these issues. California may be the nation's trendsetter, but it seems even here, the tides of political and economic change are rolling in.

1 U.S. Census Bureau, Real Median Household Income in California and in the United States.
2 U.S. Bureau of Economic Analysis
3 https://www.economist.com/united-states/2024/03/31/california-is-gripped-by-interlocking-economic-problems-with-no-easy-solution
4 https://ballotpedia.org/Results_for_minimum_wage_and_labor-related_ballot_measures%2C_2024?utm_source=chatgpt.com

# BUDGET AND BUBBLE

Earlier this year, California was projected to have a pretty staggering budget deficit for 2024-2025 ($38 billion according to Governor Gavin Newsom and $73 billion according to the Legislative Analyst's Office) and by summer had a roughly $47 billion budget deficit.[5] By the end of the fiscal year, the state's budget had been balanced—albeit through a patchwork of measures, including spending cuts, internal borrowing, fund shifts, withdrawals from reserves, funding delays, and deferrals.

Fast forward to the 2025-2026 fiscal year, and California's budget story has taken a slightly different turn. Unlike the usual budget drama, the state is months ahead of the fiscal year's end with a budget for next year deemed balanced by the Legislative Analyst's Office—though calling a $2 billion deficit "balanced" might be a stretch.[6] But this wasn't really due to careful planning; the balance came as a surprise to almost everyone. Since April, corporate tax revenues have surpassed expectations by nearly $2 billion, thanks to a small group of tech giants like Nvidia.[7] Saved by the… tech bubble? Perhaps. Any celebration may be premature though. Starting in 2026-2027, annual deficits are projected to balloon to between $20 billion and $30 billion, highlighting the risks of California's heavy reliance on tech wealth and high-income taxpayers. While the current budget may appear stable, the state's fiscal future remains uncertain—especially if the tech sector takes a hit.

Nvidia is just one of the key players in California's tech ecosystem, which played a part in the stock market rally following Donald Trump's election as the 47th president. Among the "Magnificent Seven" tech giants that fueled this surge, four—Apple, Alphabet, Nvidia, and Meta—are headquartered in California. This dominance is a double-edged sword. On one hand, it drives California's economy with high-paying jobs and substantial revenue streams from income taxes, stock-options withholdings, and corporate taxes. For instance, revenue from stock-options withholdings at major tech firms has surged from just 0.2% of total income tax withholding in 2009[8] to an estimated 10% in 2024.[9] On the other hand, this dependency on tech wealth leaves the state vulnerable to shocks within the sector.

Beyond the stock market rally, Trump's election could have major ripple effects on California's economy in the near future—assuming the policies he's floating actually come to pass. From international moves such as tightening immigration and imposing tariffs, to domestic shifts like eliminating EV tax credits, the impacts could be far-reaching. Let's dive in.

5 https://calbudgetcenter.org/resources/the-2024-25-california-state-budget-explained/
6 Source: https://lao.ca.gov/Publications/Report/4939
7 Source: https://calmatters.org/economy/technology/2024/10/ca-corporate-tax-revenue-surge/
8 Source: https://calmatters.org/economy/2024/01/ca-tech-tax-withholding/
9 Source: https://lao.ca.gov/LAOEconTax/article/Detail/815

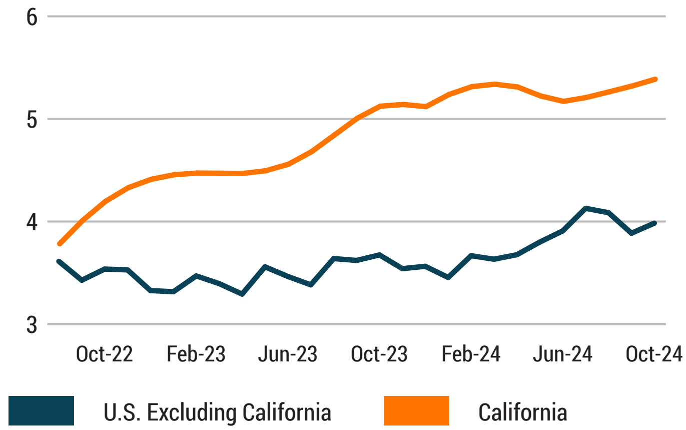

BEACON ECONOMICS

# LABOR AND IMMIGRATION

While the U.S. unemployment rate held steady at 4.1% in October, California's job market is showing clear signs of strain, as highlighted in Beacon Economics' latest employment report. The state's unemployment rate ticked up from 5.3% in September to 5.4% in October 2024—0.3% higher than October 2023 and a full percentage point above pre-pandemic levels. In contrast, the national unemployment rate is just 0.5% above pre-pandemic levels, and without California, the U.S. rate drops to 3.98%. Moreover, the increase in California isn't driven by more people entering the labor force; since February 2020, the state's labor force has actually shrunk by 1%.

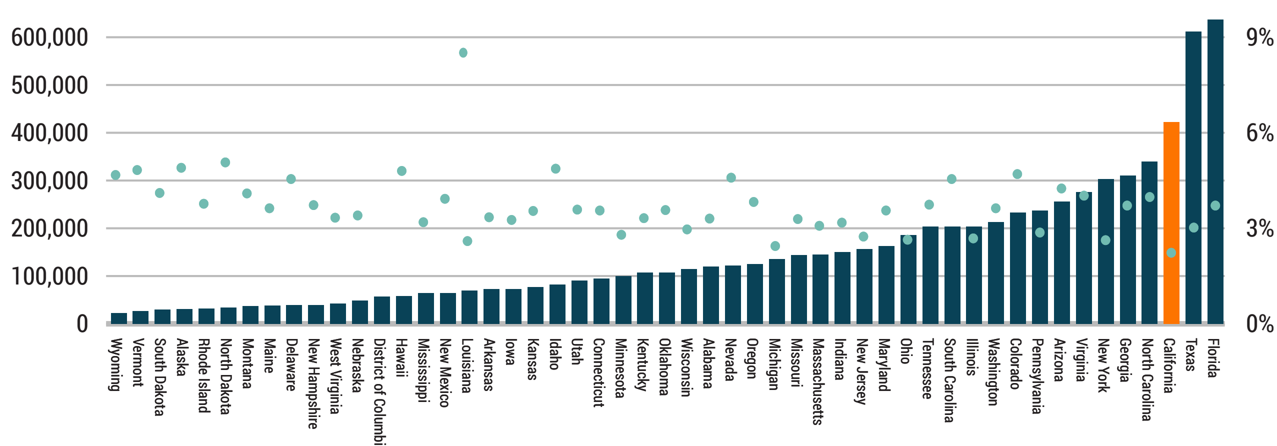
In September, California had nearly two unemployed individuals for every job opening, a ratio of 1.9—this has doubled over the past two years.[10] This figure was 1.6 in July, as noted in Beacon Economics' last outlook, and above the state's ten-year average of 1.4. For context, the U.S. ratio remains significantly lower at 0.9, indicating that California's challenges may stem as much from a shortage of job openings as from a constrained labor force.

### FIGURE 1: UNEMPLOYMENT RATES IN ALL OTHER STATES AND CALIFORNIA: 2022 TO 2024




Source: U.S. Bureau of Labor Statistics, Unemployment Rate, retrieved from FRED, Federal Reserve Bank of St. Louis Analysis by Beacon Economics.

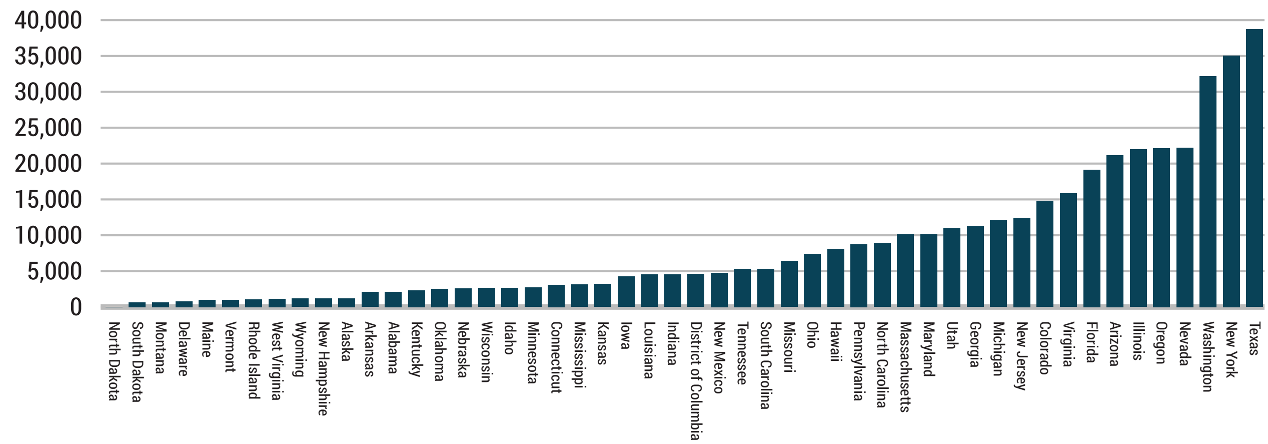
### FIGURE 2: DOMESTIC MIGRATION INTO STATES




Source: U.S. Census Bureau State-to-State Migration Flows: 2023 American Community Survey 1-Year Estimates. Analysis by Beacon Economics.

10 U.S. Bureau of Labor Statistics (BLS) Job Openings and Labor Turnover Survey (JOLTS)

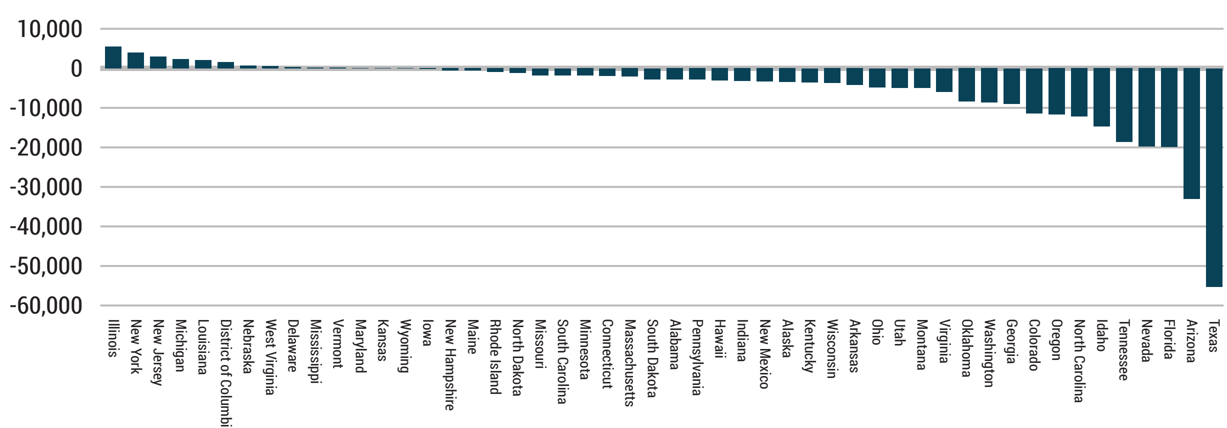
## FIGURE 3: PRIOR RESIDENCE OF DOMESTIC CALIFORNIA MIGRANTS




Source: U.S. Census Bureau State-to-State Migration Flows: 2023 American Community Survey 1-Year Estimates. Analysis by Beacon Economics.

Total nonfarm employment in the state fell to approximately 18.1 million on a seasonally adjusted basis in October, a decline of 5,500 positions. These losses were largely concentrated in the public sector, while the private sector added 2,000 jobs. California has faced three months of job declines this year, with the first drop in service-sector employment occurring last month. Meanwhile, California's household and payroll surveys continue to diverge: Payroll employment has risen 1.8% over the past two years, while household employment has remained nearly flat. A downward correction in payroll numbers may be on the horizon in March, when the annual revision rolls around. Given where the job market is right now, it's a good thing that Proposition 32, which sought to raise the state's minimum wage, didn't pass in November. While the debate over fair wages is important, implementing such a measure at this time could have placed additional pressure on the state's labor market.

## FIGURE 4: NET DOMESTIC MIGRATION INTO CALIFORNIA

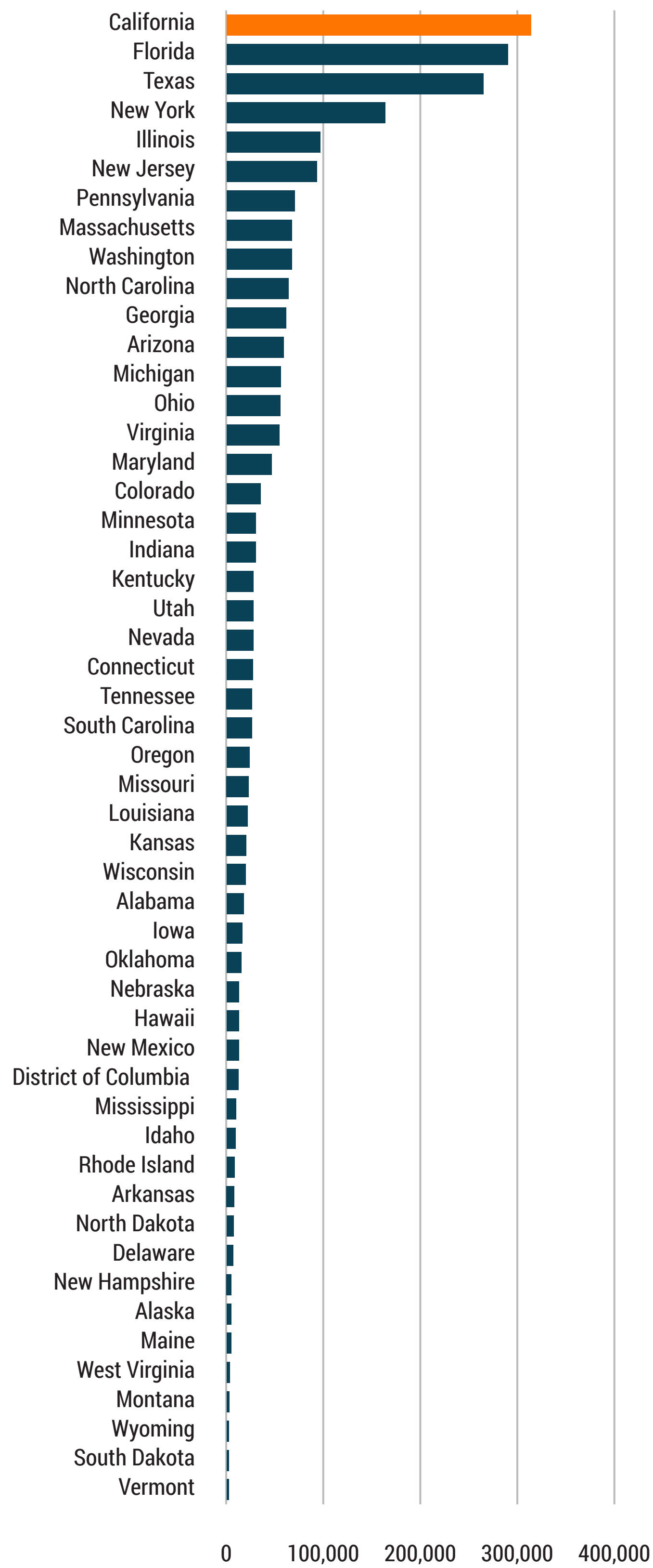



Source: U.S. Census Bureau State-to-State Migration Flows: 2023 American Community Survey 1-Year Estimates. Analysis by Beacon Economics.

California's migration patterns play an important part in the labor market. The state ranks last nationally in domestic migration percentages—just 1% of Californians in 2023 had moved here from a different state, compared to the 2-4% range seen in most states and Washington, D.C.'s standout 8%.[11] However, California remains a heavyweight in absolute numbers, welcoming 422k people from other states in 2023, trailing only Texas and Florida. This gain was offset by the 690k people who left the state for other places. International migration helped close the gap, with over 313k individuals moving to California from abroad.

This is a clear reminder that foreign migration isn't just a statistic—it's important for keeping California's economy moving forward. International migrants strengthen the state's workforce and drive economic growth through their contributions and spending. In this context, President Elect Trump's proposals to tighten immigration policies risk worsening the state's existing challenges and placing additional pressure on an economy reliant on migration. Supporting robust legal pathways to international migration remains essential for California's economic health and the communities it serves.

## FIGURE 5: FOREIGN MIGRATION INTO U.S. STATES




Source: U.S. Bureau of Labor Statistics, Unemployment Rate, retrieved from FRED, Federal Reserve Bank of St. Louis Analysis by Beacon Economics.

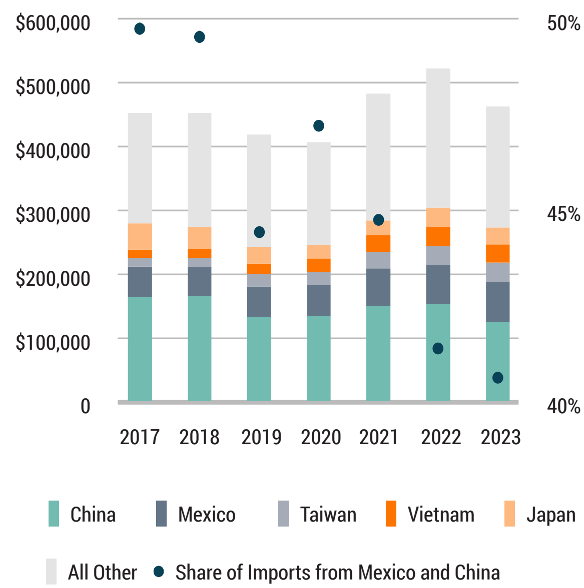
11 U.S. Census Bureau State-to-State Migration Flows: 2023 American Community Survey 1-Year Estimates.

# TRADE AND TARIFFS

As you've likely heard, the President-Elect is also pushing for new tariffs on imported goods, particularly targeting Mexico and China. Initially, he floated the idea of a 60% tariff on Chinese products and 20% on all other imports.[12] However, the proposal has since shifted to a blanket 25% tariff on all goods coming from Mexico and China.[13] So, how might these tariffs play out for Californian consumers and producers?

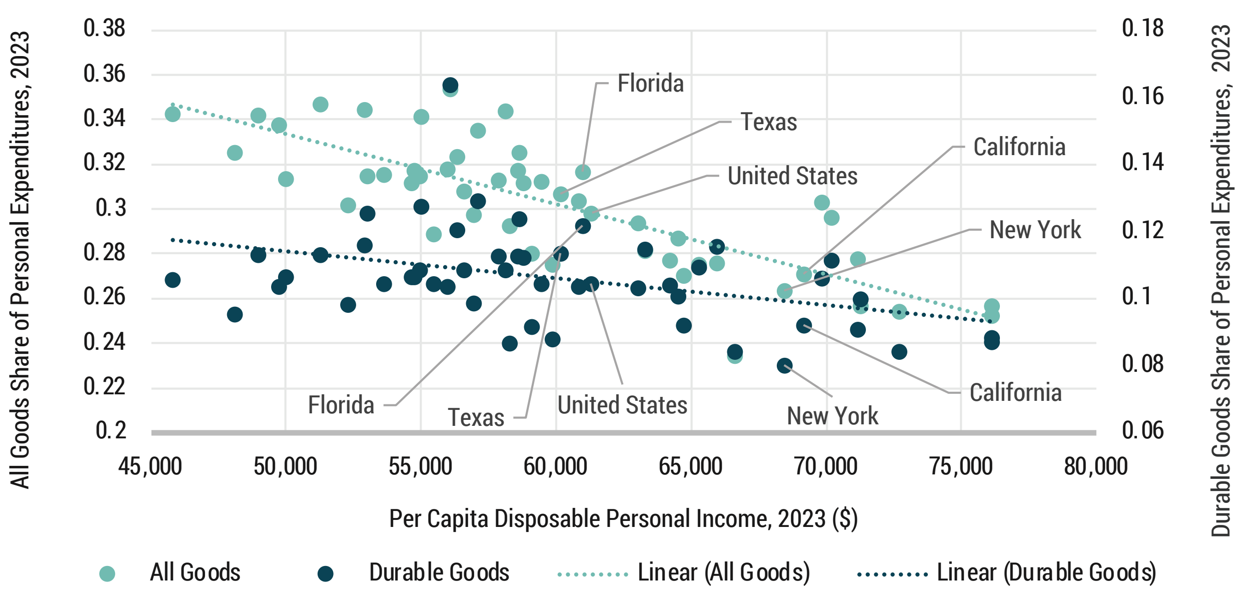
There's an inverse relationship between disposable personal income—what's left in your pocket after taxes and transfers—and personal consumption expenditures on goods. In other words, the more money people earn, the smaller the share they typically spend on goods. Given California's relatively higher income levels, a tariff on goods might not hit

**FIGURE 6: CA'S IMPORT PARTNERS: 2017 TO 2023**




Source: Office of Trade & Economic Analysis, International Trade Administration of U.S. Department of Commerce. Analysis by Beacon Economics.

**FIGURE 7: DISPOSABLE PERSONAL INCOME AND CONSUMPTION OF GOODS, BY STATE**




Source: U.S. Bureau of Economic Analysis. Analysis by Beacon Economics.

12 See: https://www.pbs.org/newshour/economy/trump-favors-huge-new-tariffs-how-do-they-work

13 See: https://www.brookings.edu/articles/assessing-trumps-proposed-25-tariff-on-imports-from-mexico-and-canada/

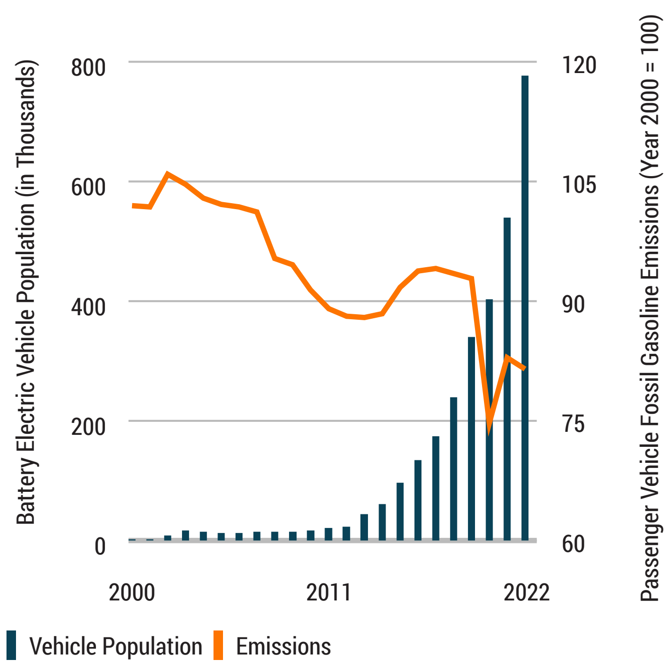
Californians as hard as it would residents of states with lower incomes.[14] On the flip side, California is a major importer of goods from Mexico and China, both in volume and dollar value. However, data from the U.S. Department of Commerce's Office of Trade and Economic Analysis shows that the share of California's imports coming from these two countries has actually been trending downward, from nearly 47% in 2017 to just over 40% today. And yes, part of that decline is likely a result of Trump's first round of tariffs on China. Ironically, those earlier tariffs may have helped California diversify its import sources, offering some insulation against these new proposed tariffs.

But let's not forget the fundamental mechanics of tariffs. First, it's importers here in the U.S. who foot the bill for tariffs, not foreign producers (foreign producers "pay" in the sense that their products become more expensive and so, less likely to be purchased). Second, domestic consumers face higher prices as importers pass on that added cost. And third, domestic producers who rely on these imports for their supply chains also get hit with higher costs. So, even though California's relatively higher income levels and shrinking dependency on Mexican and Chinese imports might soften the blow, the state likely won't escape unscathed. Prices are almost certain to tick upward—a concerning prospect when we're still recovering from the last wave of inflation.

## CLIMATE AND ENERGY

President-Elect Trump's policies could reshape California's energy landscape as well. His plan to eliminate federal EV tax credits poses a potential setback for the state's clean energy progress. However, Governor Newsom has assured Californians that the state will maintain its EV incentives—a critical move, considering the transformative impact electric vehicles have had on reducing greenhouse gas emissions. Data from the California Air Resources Board (CARB) highlights this shift: The number of battery electric vehicles (BEVs) has surged from just 2,000 in 2000 to nearly 650,000 in 2022, contributing to a drop in passenger vehicle fossil gasoline emissions from 125 million metric tons (MMT) of carbon dioxide equivalent (C02e) in 2000 to 101 MMT in 2022. While advancements in fuel efficiency have helped, the widespread adoption of BEVs has been a key driver of this reduction.

### FIGURE 8: BATTERY ELECTRIC VEHICLES AND PASSENGER CAR GAS EMISSIONS IN CA: 2000 TO 2022



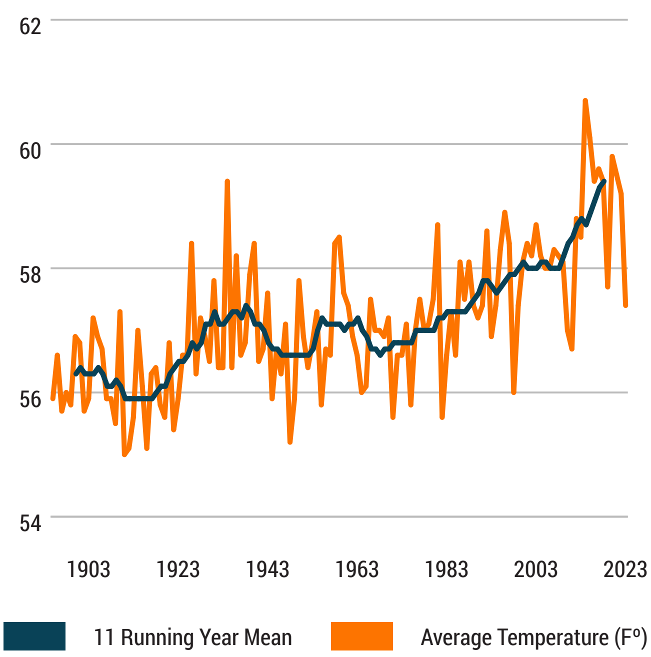

Source: California Air Resources Board (CARB) Analysis of Battery Electric Vehicle Data Retrieved from the State of California Department of Motor Vehicles and CARB "Current California GHG Emission Inventory Data 2000–2022." Analysis by Beacon Economics.

14 Californians spend a lower share of their expenditures on goods compared to the typical state, though the exception is clothing and footwear, where they spend relatively more. Source: Bureau of Economic Analysis, Personal Consumption Expenditures by State and Personal Disposable Income by State, 2023.

Yet, California's energy challenges remain daunting. Rising average temperatures over nearly two centuries emphasize the urgency of accelerating clean energy adoption.[15] The looming 2030 closure of Diablo Canyon, the state's last nuclear power plant, raises concerns about losing a reliable source of clean energy.[16]

Meanwhile, overgeneration of solar power has led to significant energy waste,[17] exposing the need for improved storage solutions and market mechanisms to balance supply and demand. The transition to renewables is essential but must be approached with care. Overproduction and inefficiencies make it clear that innovative policymaking, investment in energy storage technologies, and collaboration across industries are crucial to sustaining California's clean energy momentum.

**FIGURE 9: AVERAGE TEMPERATURE IN CA: 1895 TO 2023**




Source: California Office of Environmental Health Hazard Assessment. Analysis by Beacon Economics.

# CONCLUSION

Ultimately, California's outlook for the next quarter hinges on the performance of its tech giants and the domestic and international policies set forth by the incoming President. As January approaches and the new administration takes office, several key factors remain at play. The state's reliance on legal immigration to sustain and grow its workforce cannot be overstated, while proposed tariffs threaten to raise prices for consumers and cut into profits for domestic producers relying on imported inputs. EV tax credits may persist, but with the responsibility shifting from the federal government to the state, California faces yet another financial strain. In this context, the tax revenue generated by the state's tech industry becomes even more critical to maintaining fiscal stability. So, as we look ahead, California finds itself walking a tightrope—balancing innovation, policy, and economic resilience—all while hoping the tech sector doesn't sneeze and send the entire state into a fiscal cold.

15 https://oehha.ca.gov/climate-change/epic-2022/changes-climate/air-temperatures

16 See: https://www.latimes.com/environment/story/2023-12-14/california-energy-officials-vote-to-extend-diablo-canyon-operations

# CALIFORNIA FORECAST

## CALIFORNIA FORECAST - KEY INDICATORS

| | Current | | Forecast | | |
|---|---|---|---|---|---|
| | **Q2-24** | **Q3-24F** | Q4-24F | Q1-25F | Q2-25F |
| Nonfarm Payrolls (000s, SA) | **18,026.0** | **18,087.6** | 18,117.2 | 18,167.9 | 18,221.3 |
| Unemployment Rate (%, SA) | **5.2** | **5.3** | 5.3 | 5.3 | 5.3 |
| Real GDP (Millions 2012$, SAAR) | **3,354,963.0** | **3,413,081.5** | 3,429,993.0 | 3,455,778.0 | 3,482,073.0 |
| Home Prices ($, SA) | **725,981.8** | **724,092.2** | 717,649.8 | 717,472.1 | 720,296.2 |

| | Forecast | | | | |
|---|---|---|---|---|---|
| | Q3-25F | Q4-25F | Q1-26F | Q2-26F | Q3-26F |
| Nonfarm Payrolls (000s, SA) | 18,271.4 | 18,319.1 | 18,334.3 | 18,377.1 | 18,407.3 |
| Unemployment Rate (%, SA) | 5.1 | 5.1 | 5.1 | 5.0 | 4.9 |
| Real GDP (Millions 2012$, SAAR) | 3,506,552.0 | 3,531,970.0 | 3,556,621.0 | 3,583,823.0 | 3,609,327.0 |
| Home Prices ($, SA) | 722,413.7 | 725,935.5 | 729,713.6 | 735,638.9 | 742,596.4 |

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, CoreLogic; Forecast by Beacon Economics