THE BEACON OUTLOOK
CALIFORNIA

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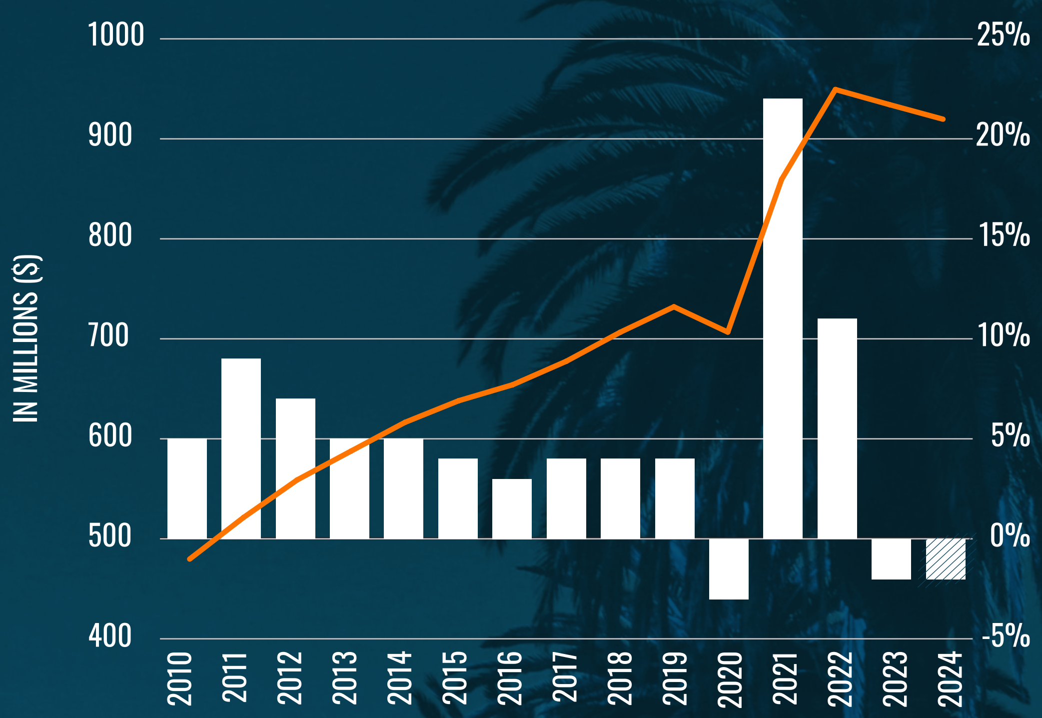
WHEN THE TECH TIDE RECEDES: CALIFORNIA'S DEEPER CHALLENGES

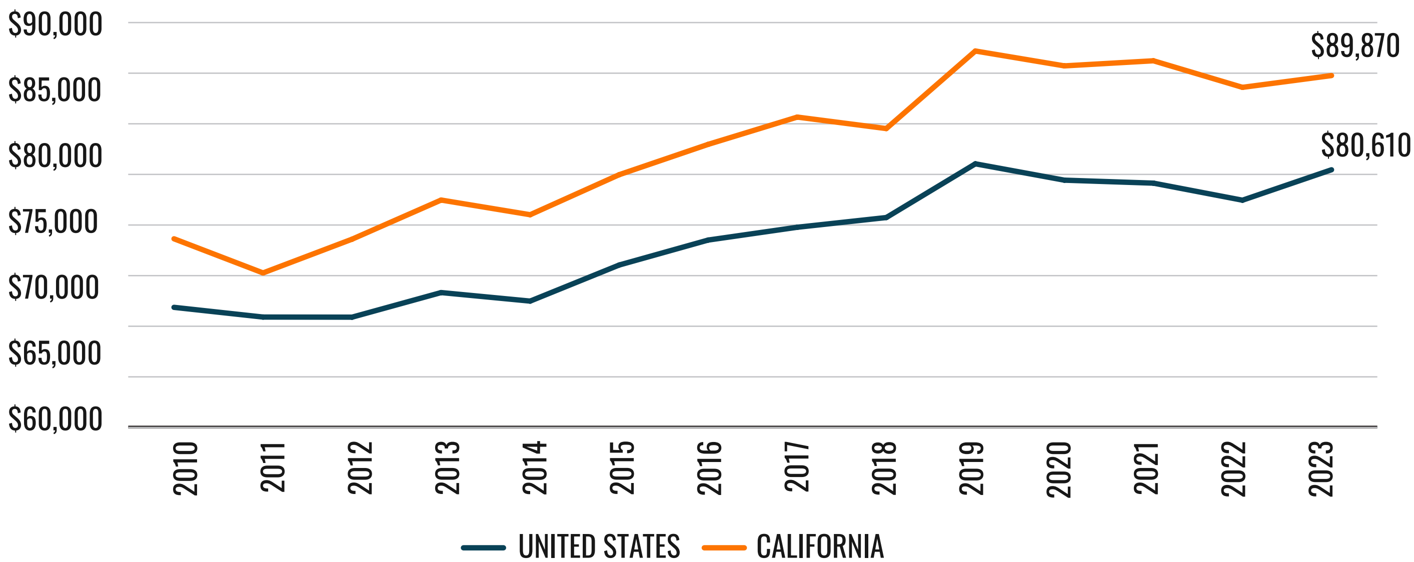
California's economy is slowing slightly but still performing strongly across key metrics. The state's GDP growth has stabilized, aligning with U.S. growth rates and returning to pre-pandemic norms. Taxable sales, while declining by 2% per year over the course of the last couple of years, remain significantly above pre-pandemic levels—26% higher in 2024 compared to 2019. Real median household income continues to rise, albeit at a slightly slower pace (1.3%) than the national average (3.8%), while continuing to outperform the U.S. overall in absolute terms—nearly $90,000 in California compared to around $81,000 nationally.

FIGURE 1: TAXABLE SALES GROWTH IN CALIFORNIA: 1995 TO 2024



SOURCE: CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION. ANALYSIS BY BEACON ECONOMICS.

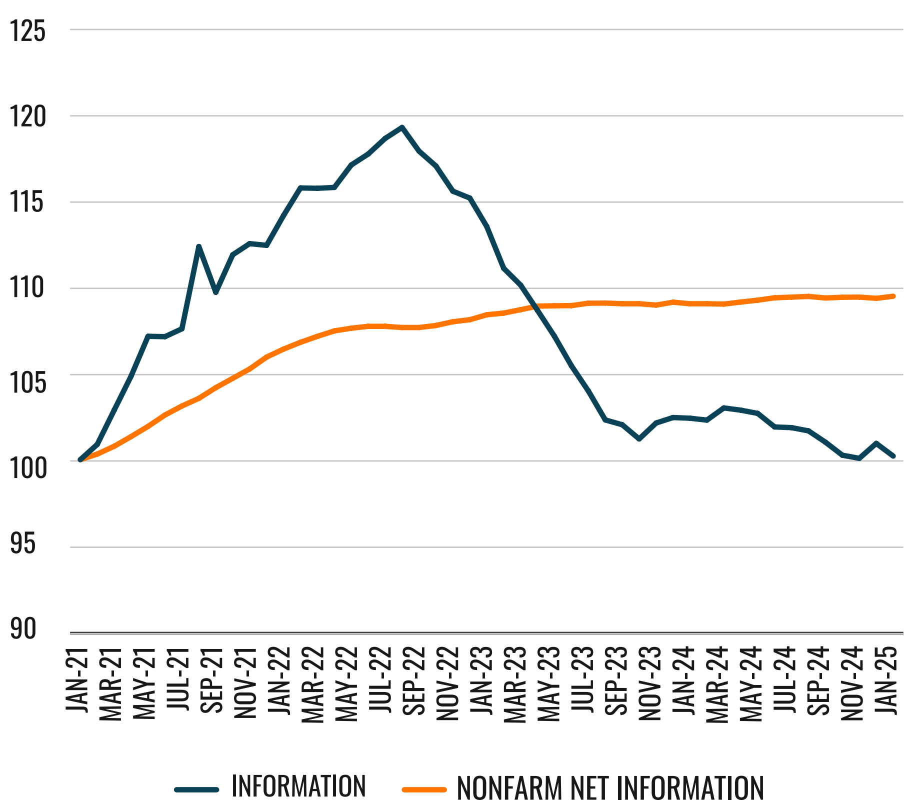
FIGURE 2. REAL MEDIAN HOUSEHOLD INCOME IN CALIFORNIA AND THE UNITED STATES: 2010 TO 2023



SOURCE: CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION. ANALYSIS BY BEACON ECONOMICS.

Still, signs of softening are evident. The Information sector, which includes both tech and film, has been contracting. According to data from the California Employment Development Department (EDD), while nonfarm employment net the Information sector has gradually returned to January 2020 levels, Information jobs—after surging through 2021 and early 2022—have since declined and are now roughly 9% below where they stood in January 2020. These losses have mostly come from small to mid-sized firms in the sector, which have lost 45,000 workers (a 12% drop in employment) and 5% of their establishments over the past four years. Large firms (those with over 1000 employees) on the other hand, have fared well, with a 9% employment increase and a 64% jump in wages over the same period.

FIGURE 3. INDEXED EMPLOYMENT IN CALIFORNIA: 2020 TO 2025



SOURCE: CALIFORNIA EDD. ANALYSIS BY BEACON ECONOMICS.

TABLE 1. ESTABLISHMENT AND EMPLOYMENT GROWTH: INFORMATION SECTOR IN CALIFORNIA

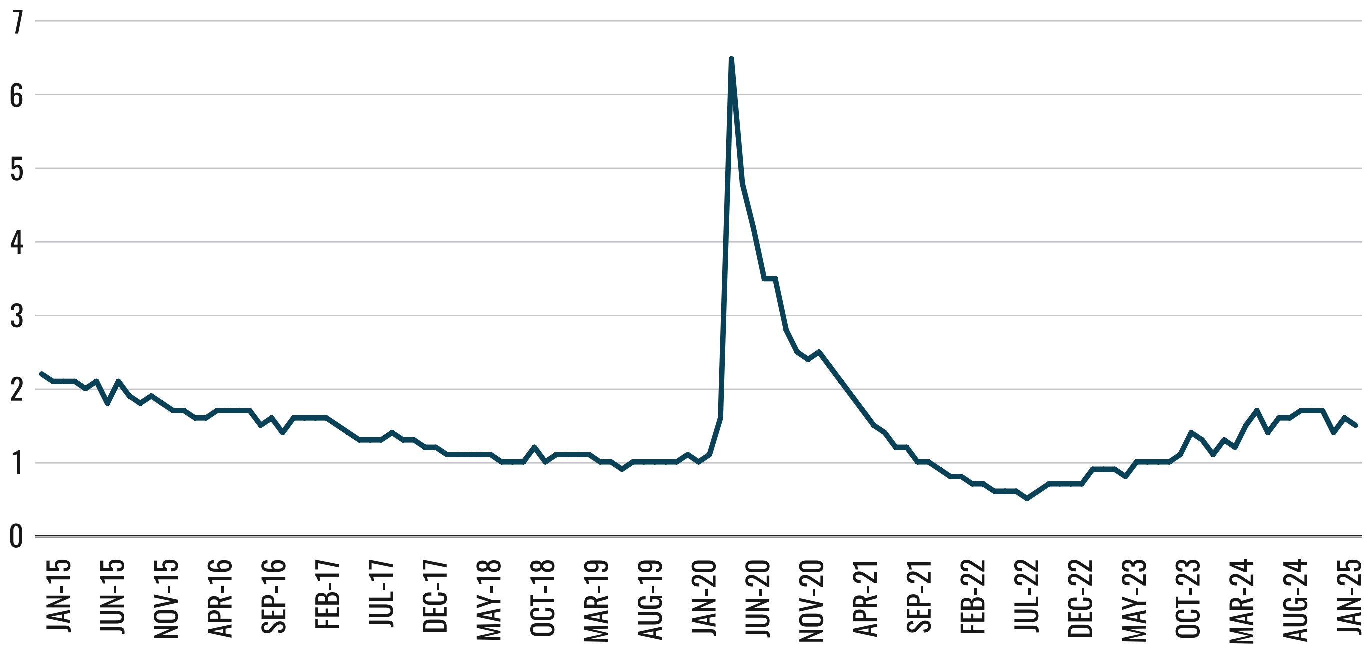
Size	4-Yr Est Change	4-Yr Emp Change	4-Yr Emp % Change	4-Yr Wage Change
<5	4,702	6,597	27%	26%
5 TO 99	-245	-7,637	-5%	28%
100 TO 499	-120	-27,432	-19%	31%
500 TO 999	-13	-9,932	-17%	32%
OVER 1000	9	16,491	9%	64%

SOURCE: CALIFORNIA EDD. ANALYSIS BY BEACON ECONOMICS.

This matters in California more than it does in other states. Real GDP from the Information sector makes up 14% of the state's total industry GDP and 16% of its private sector GDP, compared to just 7% and 8%, respectively, for the nation overall. That means job losses in tech and film have broader impacts across California's economy. And as these high-wage sectors cool, they have exposed deeper structural issues— problems that were easier to overlook during boom years but won't vanish when growth returns. They'll just become harder to spot. Those structural issues include wage mandates, a restrictive residential permitting process, and a growing dependence on volatile revenue sources.

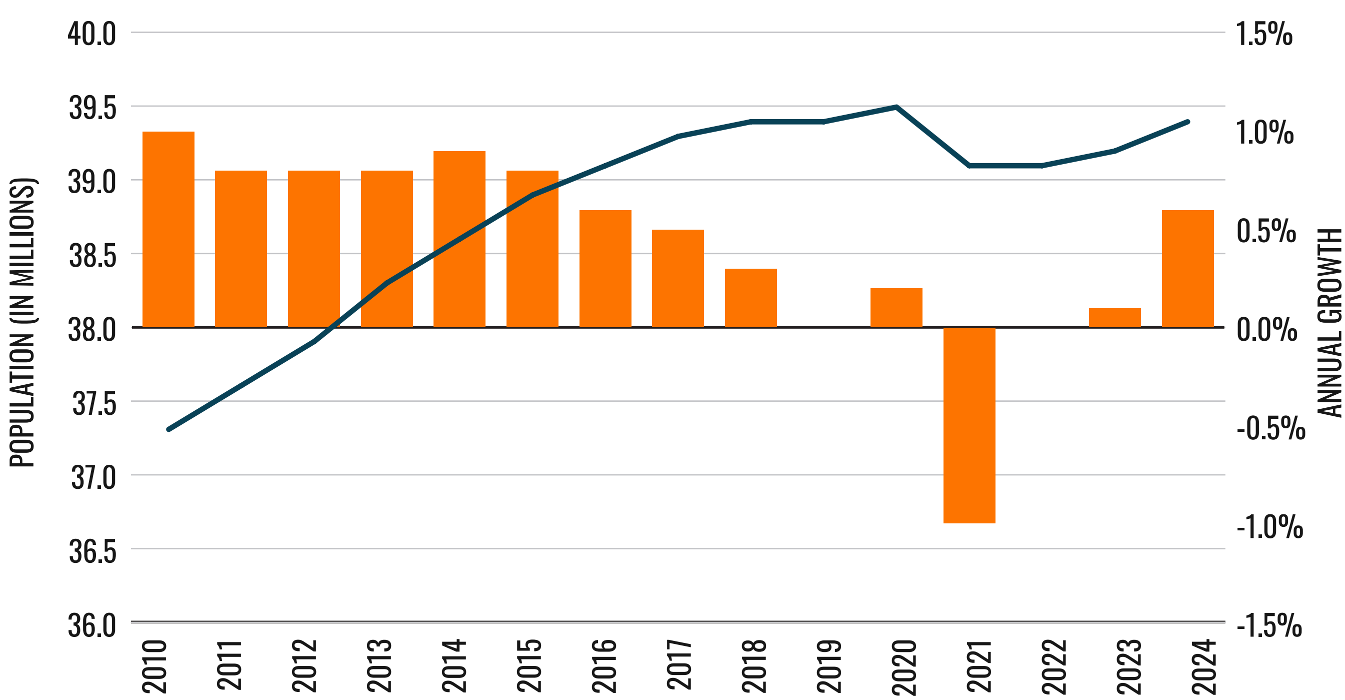
It's particularly easy to see the effects of these structural problems in the rest of the labor market. California's EDD released its January 2025 report on March 14, which show the latest numbers for the state as well as revisions to the previous 18 months of data. The report includes a downward revision in total payroll jobs of 92,100 for December 2024, a drop of about 0.5%. It also shows a climbing unemployment rate, which has risen from 5.1% in December 2023 to 5.4% in January 2025, the second highest in the nation, behind only Nevada. Data from the U.S. Bureau of Labor Statistics shows the number of unemployed persons per job opening in California has been rising too—from a low of 0.5 in July 2022 to 1.5 today, which is higher than the pre-pandemic level of 1.0.

FIGURE 4. UNEMPLOYED PERSONS PER JOB OPENING IN CALIFORNIA: 2015 TO 2025



SOURCE: U.S. BUREAU OF LABOR STATISTICS' JOB OPENINGS AND LABOR TURNOVER SURVEY (JOLTS)

FIGURE 5. POPULATION GROWTH IN CALIFORNIA: 2010 TO 2024



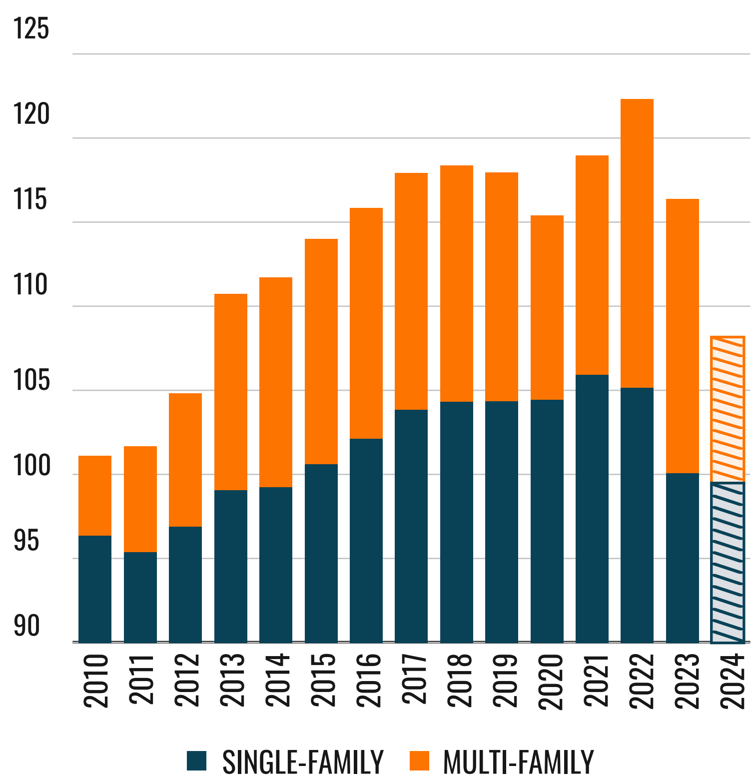
SOURCE: U.S. CENSUS BUREAU, RETRIEVED FROM FRED, FEDERAL RESERVE BANK OF ST. LOUIS. ANALYSIS BY BEACON ECONOMICS.

At the same time, the labor force estimate was revised upward by 300,000, which means California's labor force has grown by over 125,000 people in the last 12 months. That's… good-ish, considering it had grown by nearly double that in the year prior. Some of the growth is due to a rebound in population—the state added 233,000 people from 2023 to 2024 after several years of stagnation. But labor force participation stayed flat at 62.1%, suggesting that while more people are entering the state, they're not necessarily finding work.

Policies that affect labor costs are undeniably part of the problem. California already has one of the highest minimum wages in the country at $16.50 per hour, and the Fast Act (Assembly Bill 1228), which went into effect on April 1, 2024, raised the minimum wage to $20 per hour for fast-food workers at large chains. Economic theory and a large body of research into the effects of minimum wages have long predicted that higher minimum wages lead to job losses—and that's exactly what we're seeing. Limited-service restaurants (fast food) alone accounted for nearly one-quarter of the downward revisions to payroll jobs in December. While earlier estimates suggested the sector was flat in 2024, revised data now shows that it lost more than 3.2% of its jobs, or over 23,000 positions, in the past 12 months. The downturn has continued into 2025.

Beyond wage mandates, California's restrictive residential permitting process is holding back growth, although Governor Gavin Newsom did issue an executive order in January waiving CEQA and Coastal Act requirements for the homes destroyed in the Los Angeles and Ventura County fires. [1]Permit issuance has slowed in the state, which has contributed to shifts in household formation patterns. The data clearly shows that the number of households has increased, from about 13.2 million pre-pandemic to 13.9 million in 2024, while the average household size has declined from 2.96 to 2.75 over the same period. This is due to two key dynamics intersecting: a lack of new housing and rising real incomes. Higher-income residents are able to afford the luxury of spreading out and forming smaller, separate households, while lower-income Californians are being priced out and leaving the state altogether.

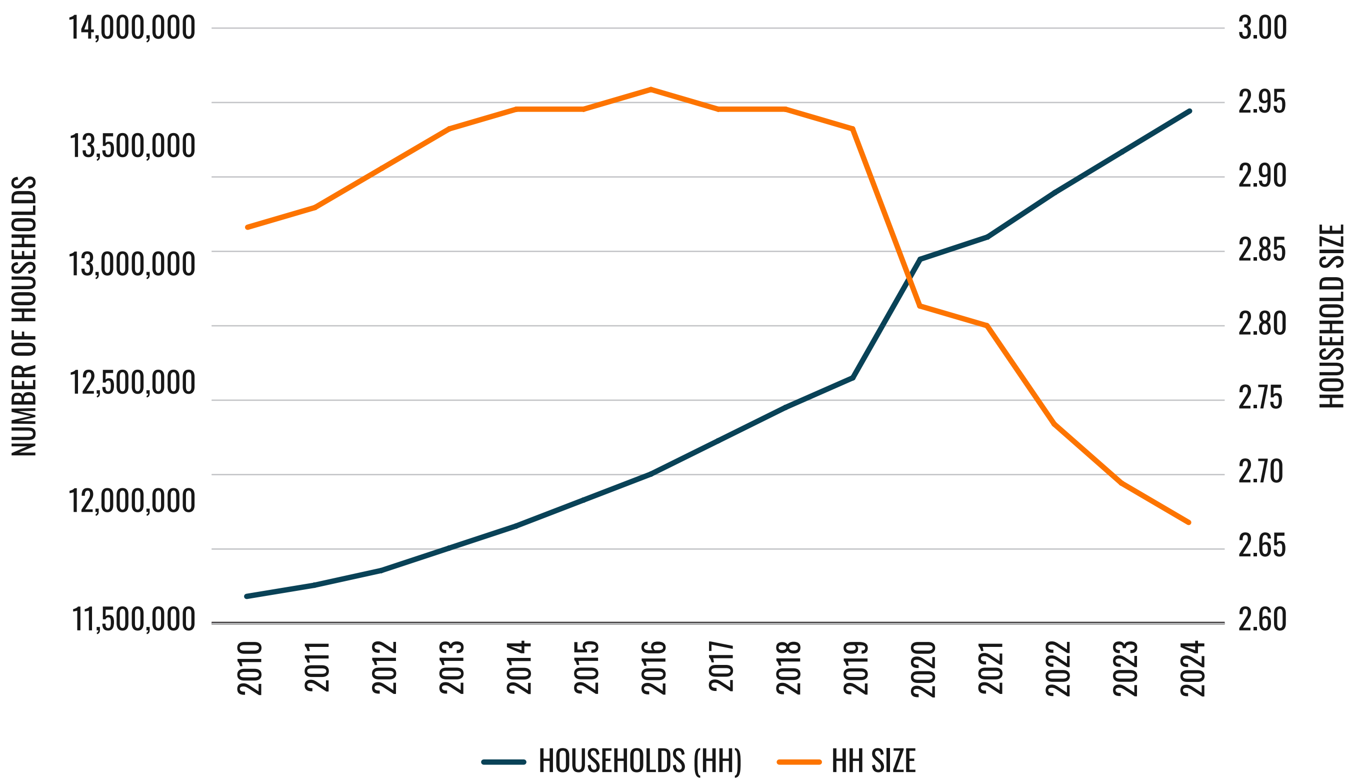
FIGURE 6. SF AND MF (UNIT) PERMITS IN CALIFORNIA: 2010 TO 2024



SOURCE: CONSTRUCTION INDUSTRY RESEARCH BOARD.
ANALYSIS BY BEACON ECONOMICS.

[1] https://www.gov.ca.gov/wp-content/uploads/2025/01/EO-N-4-25-Rebuilding-Final-signed.pdf

FIGURE 7. HOUSEHOLDS AND HOUSEHOLD SIZE IN CALIFORNIA: 2010 TO 2024



SOURCE: CALIFORNIA DEPARTMENT OF FINANCE. ANALYSIS BY BEACON ECONOMICS.

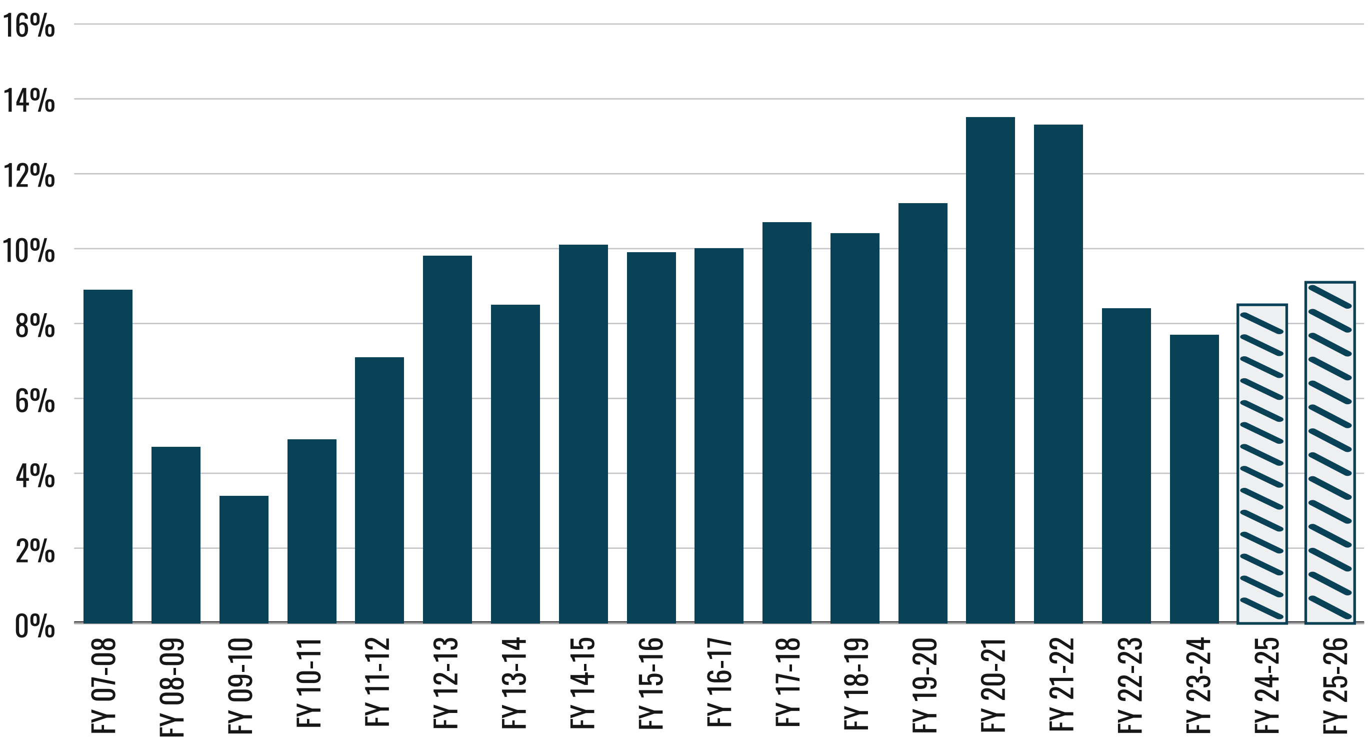
Without enough new housing, population and labor force expansion can't keep pace with a growing economy. As economic theory tells us, competitive advantages arise from an abundance, not a shortage, of resources. If California lacks an abundant labor force due to housing shortages, industries like the service sector that rely heavily on labor will struggle to expand.

The state's revenue model is another growing concern. And this becomes especially clear when looking at the state budget released in January by Governor Gavin Newsom for the 2025-2026 fiscal year. As usual, the budget will undergo a revision in May before going into effect in July. On paper, it looks "roughly balanced," with a deficit of about $2 billion. [2]But one glaring issue stands out: the state's growing reliance on three volatile revenue sources—personal income taxes, capital gains, and corporate income taxes.

[2] Legislative Analyst's Office. (2025). The 2025 26 budget: Overview of the Governor's budget. Sacramento, CA: Author. Retrieved from https://lao.ca.gov/reports/2025/4951/budget-overview-2025-011325.pdf

Of these, personal income taxes play the largest role. Over the years, taxes per $100 of income and taxes per capita have risen in real terms in California, and personal income taxes have shouldered a much larger share of the state's total tax revenue. [3]In 1980, these taxes accounted for about one-third of the state's tax revenues. [4]By 1990, that share had grown to 39%. [5]Today, they make up 44% of California's total tax revenue. [6]In comparison, across all U.S. states, personal income taxes made up 30% of total state tax revenues in 2023, similar to the 32% share in 1990. Even among states that have an income tax, the figure was 34%, meaning California is relatively more reliant on these taxes. Personal income taxes aren't the only unstable revenue source for California—capital gains taxes are also a key, but volatile, piece of the state budget. Capital gains realizations spiked to a record high of $349 billion in 2021, before falling to $156 billion in 2022, and further to $137 billion in 2023. As a share of personal income, capital gains realizations followed a similar path, peaking at 11.6% in 2021, followed by a drop to 5.2% in 2022, and further down to 4.5% in 2023—their lowest level since 2013. [7]Looking ahead, and assuming stable market conditions, this share is expected to rise to 5.6%.

FIGURE 8. CAPITAL GAINS AS PERCENT OF GENERAL FUND REVENUES IN CA



SOURCE: CALIFORNIA DEPARTMENT OF FINANCE. ANALYSIS BY BEACON ECONOMICS.

[3] Source: California Department of Finance. 2025-26 Governor's Budget. Retrieved from https://ebudget.ca.gov/budget/2025-26/#/Home
[4] https://www2.census.gov/govs/pubs/state_govt_tax_collections/1980_state_govt_tax_collections.pdf
[5] https://www2.census.gov/govs/pubs/state_govt_tax_collections/1980_state_govt_tax_collections.pdf
[6] U.S. Census State Tax Collections Table: US and States: 2023
[7] https://ebudget.ca.gov/2024-25/pdf/Revised/BudgetSummary/FullBudgetSummary.pdf

Despite their volatility, capital gains make up a larger share of the state's General Fund than they used to. In the 2009-2010 fiscal year, capital gains taxes made up just 3% of the General Fund. By 2021-2022, that had grown to 13%. While it's projected to drop to 8% through 2025-2026, that still represents a significant revenue source for a state with a General Fund of nearly $230 billion.

This growing dependence on personal income and capital gains taxes isn't too surprising, when we consider overall stock market trends and the presence of big tech in the state. Last year, the market performed well, with the S&P 500 exceeding expectations. A 13% rise of the index in the third quarter alone led to a forecasted $6 billion increase in capital gains realizations.[8] And with four of the Magnificent Seven firms headquartered in California, their strong performance over the last few years has had a direct impact on state tax revenues through salaries and equity compensation.

The role of big tech doesn't stop there. Corporate taxes have also grown significantly, exceeding forecasts by about $1 billion in July 2024. According to the California Department of Finance, this unexpected rise in corporate tax revenues was likely due to "large payments by a small number of companies"—probably the same big four tech firms driving other sources of revenue. [9] Like income taxes, corporate taxes have been making up a larger share of the state's tax revenues over time, now accounting for 14% of total state tax revenues, up from 11% in 1990.

Again, this tech-fueled tax revenue is not exactly stable, and the Legislative Analyst's Office heeds the same warning.[10] While the S&P 500 grew more than 20% in each of the last two years through December 2024, it plunged 23% in 2022 and has already fallen 6% in 2025. Drops like this could hit the state budget hard, and the problem is only made worse by California's growing reliance on reserves to patch funding gaps. In 2023-2024, the state had about $36 billion in general fund reserves and nearly $56 billion in special fund reserves. By 2025-2026, those numbers are expected to shrink to $22.5 billion and $37 billion, respectively.

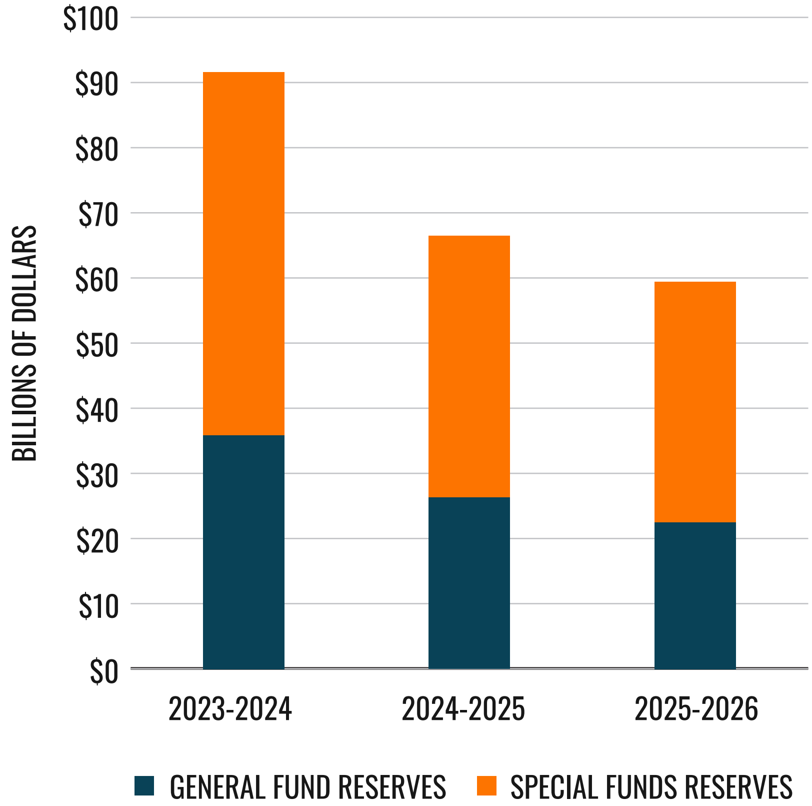
The Governor's budget does aim to rein in spending, but it still chips away at the state's financial cushion, leaving less room to respond if a downturn hits. And since California, like all states, has to maintain a balanced budget, that usually means cutting spending or raising taxes, both of which can worsen the effects of a slowdown. The proposed budget paints a picture of a state thriving on its current economic strength, but walking a fine line. With so much of California's revenue tied to the stock market and the tech sector, it's not hard to see how quickly things could unravel.

[8] Source: https://ebudget.ca.gov/2025-26/pdf/BudgetSummary/FullBudgetSummary.pdf
[9] Source: https://calmatters.org/economy/technology/2024/10/ca-corporate-tax-revenue-surge/
[10] https://lao.ca.gov/reports/2025/4951/budget-overview-2025-011325.pdf

Meanwhile, uncertainty around federal policies, ranging from trade and immigration to taxation, is creating additional ambiguity. How that plays out in California, like elsewhere, remains to be seen.

At a glance, the fundamentals may still look solid in a state as large and dynamic as California. But as parts of the economy begin to soften, they reveal what's been harder to see during boom times: structural challenges—from minimum wage hikes and housing constraints to growing reliance on volatile revenue streams and one-time budget fixes—that leave the state vulnerable to sharper shocks when the next downturn hits. How California responds now will shape its resilience in the years ahead.

FIGURE 9. CALIFORNIA'S GENERAL AND SPECIAL FUND RESERVES



SOURCE: CALIFORNIA DEPARTMENT OF FINANCE.
ANALYSIS BY BEACON ECONOMICS.

CALIFORNIA FORECAST

CALIFORNIA FORECAST - KEY INDICATORS

	Current		Forecast		
	Q3-24	**Q4-24**	Q1-25F	Q2-25F	Q3-25F
Nonfarm Payrolls (000s, SA)	**17,937.10**	**17,992.40**	18,056.50	18,087.40	18,102.80
Unemployment Rate (%, SA)	**5.4**	**5.5**	5.5	5.6	5.7
Real GDP (Millions 2012$, SAAR)	**3,380,751.20**	**3,387,138.70**	3,403,911.00	3,434,781.00	3,450,961.00
Home Prices ($, SA)	**727,016.70**	**746,617.50**	763,497.50	776,873.30	785,196.40

	Forecast				
	Q4-25F	Q1-26F	Q2-26F	Q3-26F	Q4-26F
Nonfarm Payrolls (000s, SA)	18,108.90	18,124.40	18,144.60	18,169.60	18,202.20
Unemployment Rate (%, SA)	5.8	5.8	5.8	5.7	5.6
Real GDP (Millions 2012$, SAAR)	3,468,401.00	3,490,092.00	3,515,558.00	3,543,941.00	3,574,025.00
Home Prices ($, SA)	787,902.30	791,065.50	795,557.80	800,814.40	807,043.90

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

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