

THE BEACON OUTLOOK CALIFORNIA



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WHAT'S GOING ON IN CALIFORNIA?

It's hard to know where to begin. Between the ICE raids, the more than 30 lawsuits California has filed against the Trump administration, ongoing tariff battles, and a growing state budget deficit, there's no shortage of headlines. But underneath the noise, what really matters are the fundamentals, and they're sending a mixed message.

California remains a growth leader among U.S. states, but its economic momentum is also constrained. Unemployment remains elevated compared to national averages, especially among teens, while key industries such as agriculture, construction, and hospitality continue to experience job losses. At the same time, public sector hiring has been rising fast, both in California and across the country, which raises questions about the sustainability of government-driven employment gains. Ongoing uncertainty around immigration policy also weighs on the state's long-term labor force outlook, especially given California's disproportionately large foreign-born population. Even so, rising household incomes and tech-led productivity gains are providing critical support for growth.

Looking ahead, job gains are expected to remain modest over the next 12 to 18 months, with strength concentrated in health care, logistics, and tech-adjacent industries that are capitalizing on AI-driven efficiency. But labor supply will continue to act as a constraint, particularly in service sectors where immigration rules, wage mandates, and limited housing supply make hiring more difficult. Housing, in particular, remains a central concern. While demand is rising alongside incomes and smaller household sizes, permitting activity remains well below pre-pandemic levels. CEQA reforms passed in June 2025 aim to change that by fast-tracking infill housing projects, particularly in urban areas.¹ But until construction meaningfully picks up, supply will remain a bottleneck, limiting who can live and work in California and posing a longer-term risk to competitiveness.

On the fiscal side, the outlook is also tightening. The state's current budget deficit, combined with anticipated federal cuts to Medicaid, is putting added strain on California's coffers. Governor Newsom's May Revision proposes \$16 billion in budget solutions, including an \$11 billion reduction in Medi-Cal spending and an additional \$5 billion in borrowing. With annual deficits of \$10 to \$20 billion projected through 2028–29 and reserves steadily declining, the state Legislature faces difficult trade-offs. California isn't in crisis, but the cracks are showing. What happens next depends on the choices policymakers make in the months ahead.

So where do things stand today? Let's start with the basics. How are California's vitals holding up?

¹ <https://www.nytimes.com/2025/06/30/us/california-environment-newsom-ceqa.html>

KEY INDICATORS

LABOR MARKET

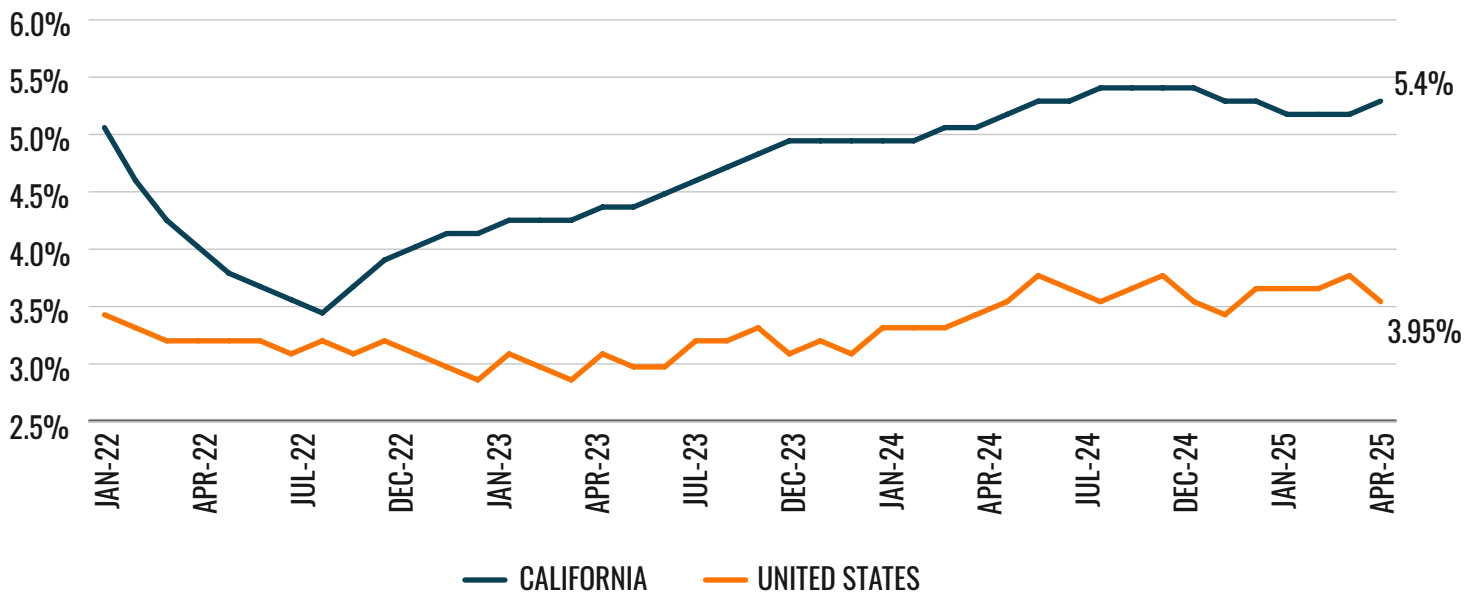
In terms of unemployment, the vital signs aren't great. As of June 2025, California's unemployment rate sits at 5.4%, well above the national average of 4.1%. And if you back California out of the national number, the rest of the country is actually hovering below 4%. So no, the state is not making much progress here. The disparity is especially clear among teen workers. Since June 2022, the unemployment rate for Californians aged 16 to 19 has risen by 9.2 percentage points, compared to a 3.3-point increase nationally. Looking back to before the pandemic in January 2020, teen unemployment in California is up nearly seven percentage points, five points higher than the national trend.

PERCENTAGE POINT CHANGES IN UNEMPLOYMENT RATES BY AGE GROUP

Period	Region	Age 16-19	Age 20-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65+
SINCE JUNE 2022	CA	+9.2%	+1.8%	-0.2%	-0.4%	-0.5%	+0.3%	-0.6%
	US	+3.3%	+1.3%	+0.4%	+0.0%	+0.5%	+0.2%	+0.4%
SINCE JAN 2020	CA	+6.9%	+2.8%	+1.0%	+1.4%	+0.2%	+1.7%	+1.3%
	US	+1.9%	+1.2%	+0.1%	+0.4%	+0.5%	+0.1%	+0.6%
SINCE JUNE 2018	CA	+5.7%	+2.8%	+0.1%	+0.9%	+0.3%	+1.2%	+1.3%
	US	+1.8%	+0.8%	-0.1%	+0.2%	-0.2%	+0.0%	+0.1%
SINCE JUNE 2016	CA	+2.4%	+0.5%	-0.9%	-0.3%	-0.7%	+0.5%	+1.0%
	US	-1.6%	-0.2%	-1.4%	-0.6%	-0.6%	-0.3%	-0.6%

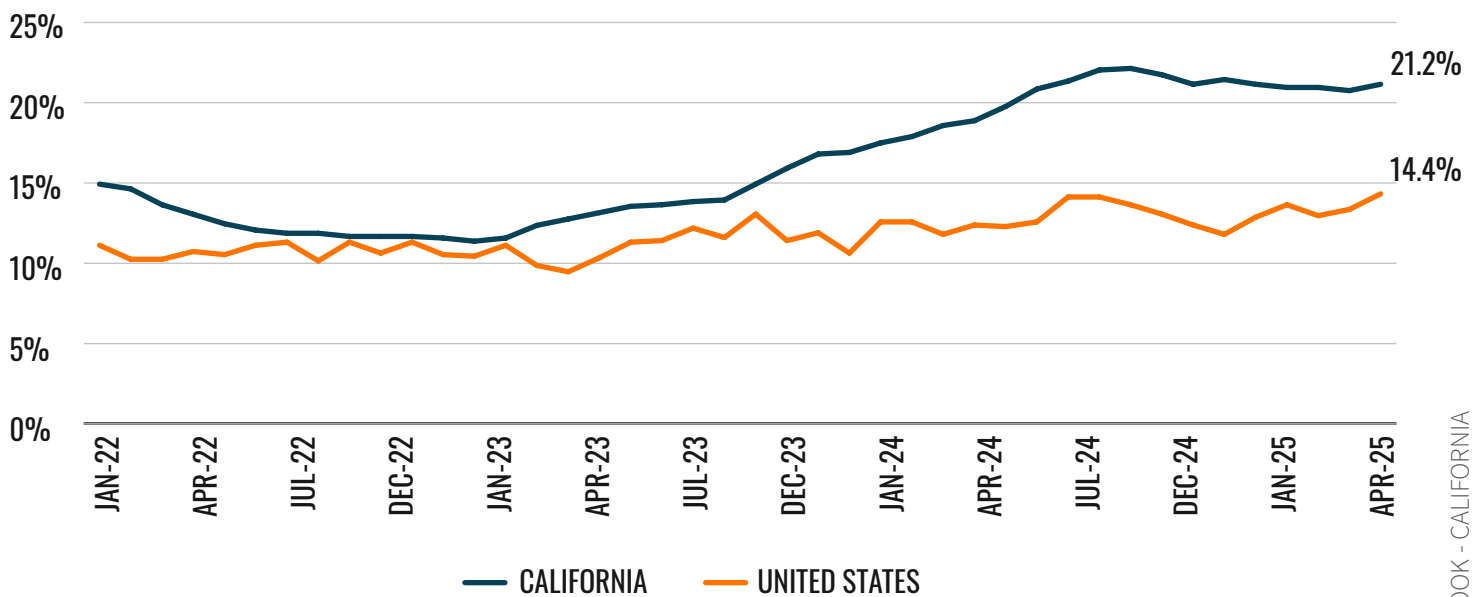
SOURCE: U.S. CENSUS BUREAU & U.S. BUREAU OF LABOR STATISTICS, CURRENT POPULATION SURVEY. ANALYSIS BY BEACON ECONOMICS.

UNEMPLOYMENT RATES



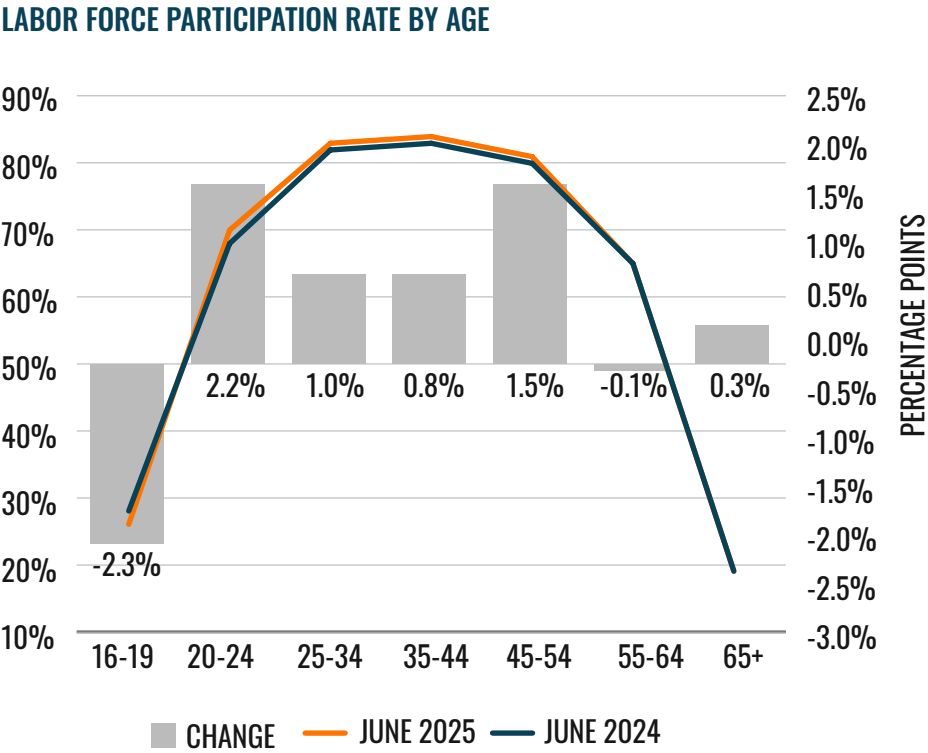
SOURCE: U.S. BUREAU OF LABOR STATISTICS. ANALYSIS BY BEACON ECONOMICS.

UNEMPLOYMENT RATES, AGES 16-19



SOURCE: U.S. CENSUS BUREAU & U.S. BUREAU OF LABOR STATISTICS, CURRENT POPULATION SURVEY. ANALYSIS BY BEACON ECONOMICS.

Labor force participation tells a similar story. The teen unemployment rate isn't rising because more teens are looking for work. In fact, the opposite is true. According to data from the California Employment Development Department, labor force participation among 16- to 19-year-olds has dropped over the past year, the largest decline of any age group. While most other age groups saw rising participation, teens have been exiting the labor force, not entering it. That makes the rise in teen unemployment even more concerning.



SOURCE: CALIFORNIA EDD. ANALYSIS BY BEACON ECONOMICS.

Surprisingly, job growth in California is being driven more by the public sector than the private sector, despite ongoing fiscal constraints. In the last quarter of 2024, public employment grew by 138,100 jobs (or 5.7%), more than six times the gain across all private industries, which added just 22,500 (0.1%) jobs. Over the year, state and local government (excluding healthcare) matched the full-year gains of the private sector. This points to a labor market supported more by public sector hiring than by broad-based private-sector growth.

Even more surprising, this dynamic isn't unique to California. Nationally, public sector jobs grew by 6.4% over the last quarter of 2024 (2.1% over the year), while private sector employment increased by just 0.1% (0.7% over the year), suggesting that government-driven job growth may be a broader feature of the current labor market cycle.

Among private industries, a few sectors continue to carry the load in California. Health care and social assistance remains the most reliable source of growth, expanding by double the national average over the quarter, the year, and the past five years. Logistics has also seen steady gains (with employment growth slightly outpacing national trends), fueled by ongoing shifts in e-commerce and goods movement.

Retail trade, meanwhile, is sending mixed signals. The sector added jobs in the fourth quarter of 2024 but remains 1% below 2023 levels and nearly 5% below its pre-pandemic employment base, both of which are worse than trends at the national level. Yet output is telling a different story: real GDP in the sector is up 18% over the year and more than 37% over five years. This points to productivity gains, likely tied to the growth of online retail and shifts in how consumers shop, rather than a sign of retail decline.

We see a similar dynamic in the information (which includes tech and the entertainment industry) and manufacturing sectors. Manufacturing employment has shrunk—down nearly 86,000 jobs over the past year and 88,000 over five years—but output continues to grow, with California manufacturers producing more than the national average with fewer workers. This holds true across both durable and non-durable goods. In the information sector, job losses have occurred over the quarter, the year, and the past five years, but real GDP has grown steadily. In fact, information now represents the largest share of California’s real GDP.

EMPLOYMENT CHANGE BY INDUSTRY (ROUNDED), CALIFORNIA

Industry	Q4-24 Employment	Quarterly Chg	Annual Chg	5YR Chg
AGRICULTURE	408,684	-72,600 -15.10%	-12,900 -3.10%	-16,800 -4.00%
RESOURCE EXTRACTION	19,915	-300 -1.50%	-800 3.70%	-3,700 -15.70%
UTILITIES	56,942	300 0.60%	1,600 2.80%	10,500 22.70%
CONSTRUCTION	901,094	-20,200 -2.20%	-15,100 -1.60%	8,300 0.90%
MANUFACTURING	1,319,739	-23,100 -1.70%	-85,900 -6.10%	-88,200 -6.30%
WHOLESALE TRADE	693,816	-2,900 -0.40%	-10,600 -1.50%	-38,600 -5.30%
RETAIL TRADE	1,706,467	43,700 2.60%	-18,000 -1.00%	-87,000 -4.90%
LOGISTICS	670,920	33,800 5.30%	3,000 0.40%	112,100 20.10%

EMPLOYMENT CHANGE BY INDUSTRY (ROUNDED), CALIFORNIA (CONT.)

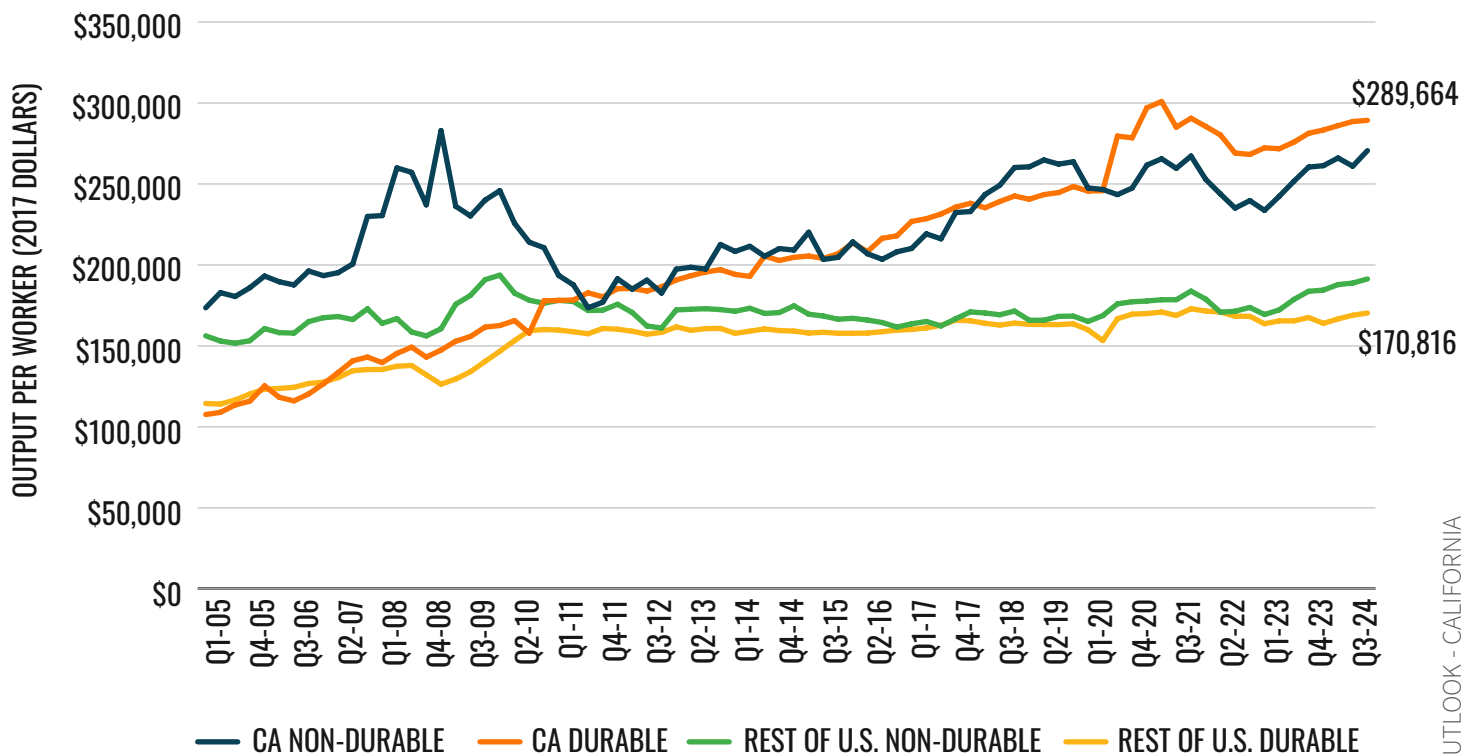
Industry	Q4-24 Employment	Quarterly Chg	Annual Chg	5YR Chg
INFORMATION	558,478	-2,200 -0.40%	-7,700 -1.40%	-25,100 -4.30%
FINANCE AND INSURANCE	543,664	-5,200 -1.00%	-12,500 -2.20%	-52,100 -8.70%
REAL ESTATE	309,715	3,900 1.30%	3,300 1.10%	0 0.00%
PROF/SCI/TECH SERVICES	1,358,266	3,200 0.20%	-2,700 -0.20%	53,500 4.10%
MANAGEMENT	254,283	-6,000 -2.30%	41,700 19.60%	27,600 12.20%
ADMINISTRATIVE SUPPORT	1,165,557	11,900 1.00%	-17,700 -1.50%	-60,900 -5.00%
EDUCATION	344,837	24,400 7.60%	10,100 3.00%	37,900 12.30%
HEALTH CARE AND SOCIAL ASSISTANCE	2,438,279	57,900 2.40%	185,700 8.20%	431,200 21.50%
ARTS, ENTERTAINMENT AND RECREATION	331,760	-5,100 -1.50%	11,100 3.50%	17,600 5.60%
ACCOMMODATION AND FOOD SERVICE	1,711,306	-18,800 -1.10%	-14,200 -0.80%	-50,100 -2.80%
OTHER SERVICES	552,184	0 0.00%	6,600 1.20%	22,400 4.20%
ALL PRIVATE INDUSTRY	15,345,906	22,500 0.10%	65,000 0.40%	298,600 2.00%
STATE AND LOCAL HEALTHCARE	179,483	500 0.30%	13,700 8.30%	25,700 16.70%

EMPLOYMENT CHANGE BY INDUSTRY (ROUNDED), CALIFORNIA (CONT.)

Industry	Q4-24 Employment	Quarterly Chg	Annual Chg	5YR Chg
ALL OTHER STATE AND LOCAL GOV.	2,114,464	138,000 7.00%	65,000 3.20%	112,700 5.60%
FEDERAL GOVERNMENT	250,355	-300 -0.10%	1,400 0.60%	4,600 1.90%
ALL PUBLIC	2,544,302	138,100 5.70%	80,100 3.30%	143,000 6.00%
CALIFORNIA	17,890,208	160,600 0.90%	145,100 0.80%	441,600 2.50%

SOURCE: U.S. BUREAU OF ECONOMIC ANALYSIS, QUARTERLY CENSUS OF EMPLOYMENT AND WAGES. ANALYSIS BY BEACON ECONOMICS.

CALIFORNIA VS. U.S. MANUFACTURING LABOR PRODUCTIVITY



SOURCE: U.S. BUREAU OF ECONOMIC ANALYSIS, QUARTERLY CENSUS OF EMPLOYMENT AND WAGES. ANALYSIS BY BEACON ECONOMICS.

Several sectors are under pressure, however. Accommodation and food services experienced job losses over the year in California, even as national employment grew in this sector. While this category includes more than just fast food, cost pressures from the Fast Act's \$20 minimum wage likely played a role.² At the same time, job gains in arts, entertainment, and recreation (both statewide and nationally) suggest that discretionary spending is holding up and isn't the main driver of the decline.

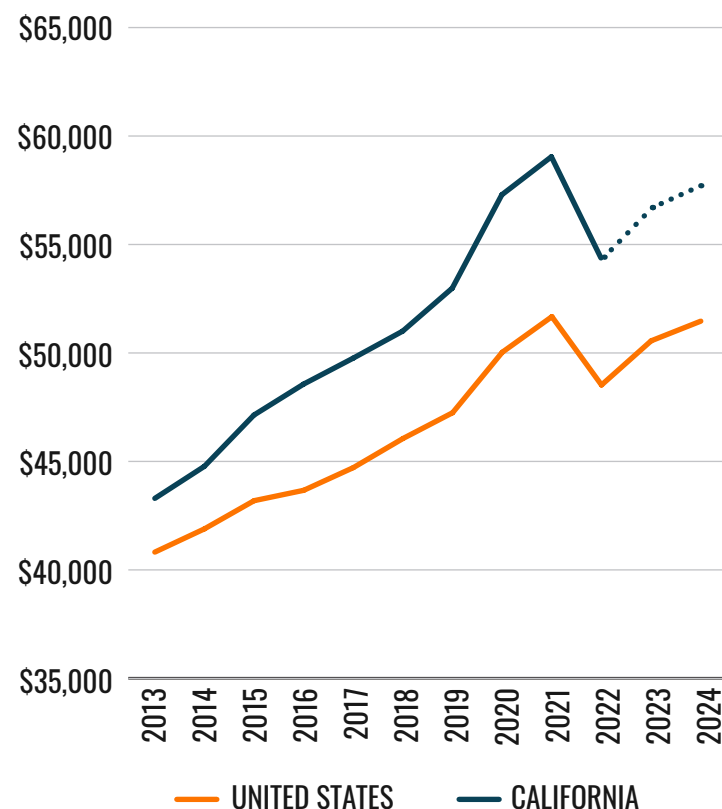
Agriculture, too, has come under strain. The sector saw significant job losses over the quarter and is down over both the year and the past five years. Over five years, output rose nearly 11% even as employment declined, pointing to productivity gains likely driven by automation and technology. But over the last year, both real GDP and employment fell, suggesting that there are other factors at play. Trade disruptions, labor shortages, and/or the effects of federal immigration crackdowns could be putting pressure on this sector.

HOUSEHOLD INCOMES

One of the more telling trends is the path of real disposable personal income per capita in California and the United States. In the years leading up to the pandemic, income levels were steadily rising. That trend accelerated sharply during 2020 and 2021, fueled by historic levels of government stimulus. But the fall was just as dramatic: by 2022, real disposable income saw its steepest percentage decline in at least 60 years.

Since then, growth has resumed at a more typical pace, roughly in line with pre-pandemic trends. Still, the sharp drop helps explain the persistent sense of financial strain reported by many California households³ and the broader drop in consumer sentiment.⁴ It's not necessarily that people are worse off than they were a decade ago, but relative to the unusually high levels of spending power they experienced during and just after the pandemic, they feel like they've fallen behind. In behavioral economics, this is known as reference dependence⁵: when temporary gains reset people's expectations, even a return to "normal" can feel like a loss.

REAL DISPOSABLE PERSONAL INCOME PER CAPITA (2017 DOLLARS)



SOURCE: U.S. BUREAU OF ECONOMIC ANALYSIS.
ANALYSIS BY BEACON ECONOMICS.

² See: <https://publicpolicy.pepperdine.edu/institutes-initiatives/alternative-viewpoints-research-initiative.htm>

³ <https://abc7.com/post/united-ways-california-report-finds-more-third-households-are-struggling-make-ends-meet/16280091/#:~:text=A%20new%20report%20from%20the,to%20cover%20basic%20living%20expenses.>

⁴ <https://www.sca.isr.umich.edu>

⁵ Tversky, A., & Kahneman, D. (1991). Loss aversion in riskless choice: A reference-dependent model. The quarterly journal of economics, 106(4), 1039-1061.

REAL GDP

California is maintaining its position as the country's top economic engine, with the state's real GDP reaching an annualized, seasonally adjusted \$3.4 trillion, more than 14% of total U.S. output according to data from the U.S. Bureau of Economic Analysis. However, growth slowed in the first quarter of 2025, dropping by 0.2%, slower than its quarterly increase of 1.4% in the last quarter of 2024. But considering that the drop in first quarter of 2025 was 0.5% for the United States as a whole, California's decline is not out of place. For all of 2024, the state's real GDP grew by 3.6%, which was faster than the 2.8% growth for the nation as a whole.

At the industry level, information stands out. It's the state's largest sector and grew 2.5% in the first quarter of 2025, with 50% growth over the past five years and 141% over the past decade. This has happened despite job losses and is likely due to gains in AI and automation. Health care, logistics, and retail trade also expanded over the year, while sectors such as agriculture, accommodation and food services, and resource extraction contracted both quarterly and annually.

In the first quarter of 2025, though, most sectors in California posted declines. Only information, real estate, education, and health care and social assistance saw growth. Overall, private sector real GDP fell, while public sector output rose by 0.5%.

REAL GDP CHANGE BY INDUSTRY, CALIFORNIA

Industry	Q1-25 Real GDP	Share of Q1-25 Total	Quarterly Chg	Annual Chg	5YR Chg	10 YR Ch
AGRICULTURE	\$40.3 B	1.2%	-5.7%	-5.6%	17.1%	10.7%
RESOURCE EXTRACTION	\$7.5 B	0.2%	-1.9%	-5.5%	-26.1%	-32.6%
UTILITIES	\$40.8 B	1.2%	-2.4%	1.9%	7.7%	28.0%
CONSTRUCTION	\$103.8 B	3.1%	-0.7%	-0.2%	-10.4%	9.3%
MANUFACTURING	\$347.1 B	10.2%	-0.3%	0.8%	6.9%	32.5%
WHOLESALE TRADE	\$143.7 B	4.2%	-1.5%	-0.7%	-11.8%	-8.1%
RETAIL TRADE	\$194.6 B	5.7%	-0.8%	4.7%	17.6%	37.1%
LOGISTICS	\$102.8 B	3.0%	-0.6%	2.5%	16.5%	68.9%

REAL GDP CHANGE BY INDUSTRY, CALIFORNIA (CONT.)

Industry	Q1-25 Real GDP	Share of Q1-25 Total	Quarterly Chg	Annual Chg	5YR Chg	10 YR Ch
INFORMATION	\$491.4 B	14.5%	2.5%	5.0%	50.3%	141.0%
FINANCE AND INSURANCE	\$139.9 B	4.1%	-1.8%	0.3%	2.6%	-6.5%
REAL ESTATE	\$453.9 B	13.4%	1.0%	2.4%	13.6%	25.9%
PROF/SCI/TECH SERVICES	\$390.3 B	11.5%	-0.3%	1.5%	30.0%	69.0%
MANAGEMENT	\$62.0 B	1.8%	-1.7%	-1.5%	26.9%	66.0%
ADMINISTRATIVE SUPPORT	\$99.8 B	2.9%	-0.1%	-0.3%	8.8%	35.5%
EDUCATION	\$34.9 B	1.0%	0.1%	0.9%	6.3%	15.9%
HEALTH CARE AND SOCIAL ASSISTANCE	\$248.2 B	7.3%	0.9%	5.1%	24.5%	54.3%
ARTS, ENTERTAINMENT AND RECREATION	\$49.1 B	1.5%	-2.0%	2.1%	19.6%	33.0%
ACCOMMODATION AND FOOD SERVICE	\$82.4 B	2.4%	-1.5%	-3.3%	-0.7%	4.5%
OTHER SERVICES	\$49.1 B	1.5%	-2.5%	-3.7%	-11.4%	-11.2%
ALL PRIVATE INDUSTRY	\$3038 B	89.6%	-0.1%	1.7%	14.6%	37.5%
STATE AND LOCAL GOV.	\$47.5 B	1.4%	0.5%	1.2%	3.8%	16.0%
FEDERAL CIVILIAN GOVERNMENT	\$280.3 B	8.3%	0.6%	3.0%	8.3%	17.3%
ALL PUBLIC	\$354.9 B	10.5%	0.5%	2.4%	7.1%	14.8%
CALIFORNIA	\$3391.3 B	100.0%	-0.0%	1.8%	13.7%	34.7%

SOURCE: U.S. BUREAU OF ECONOMIC ANALYSIS. ANALYSIS BY BEACON ECONOMICS.

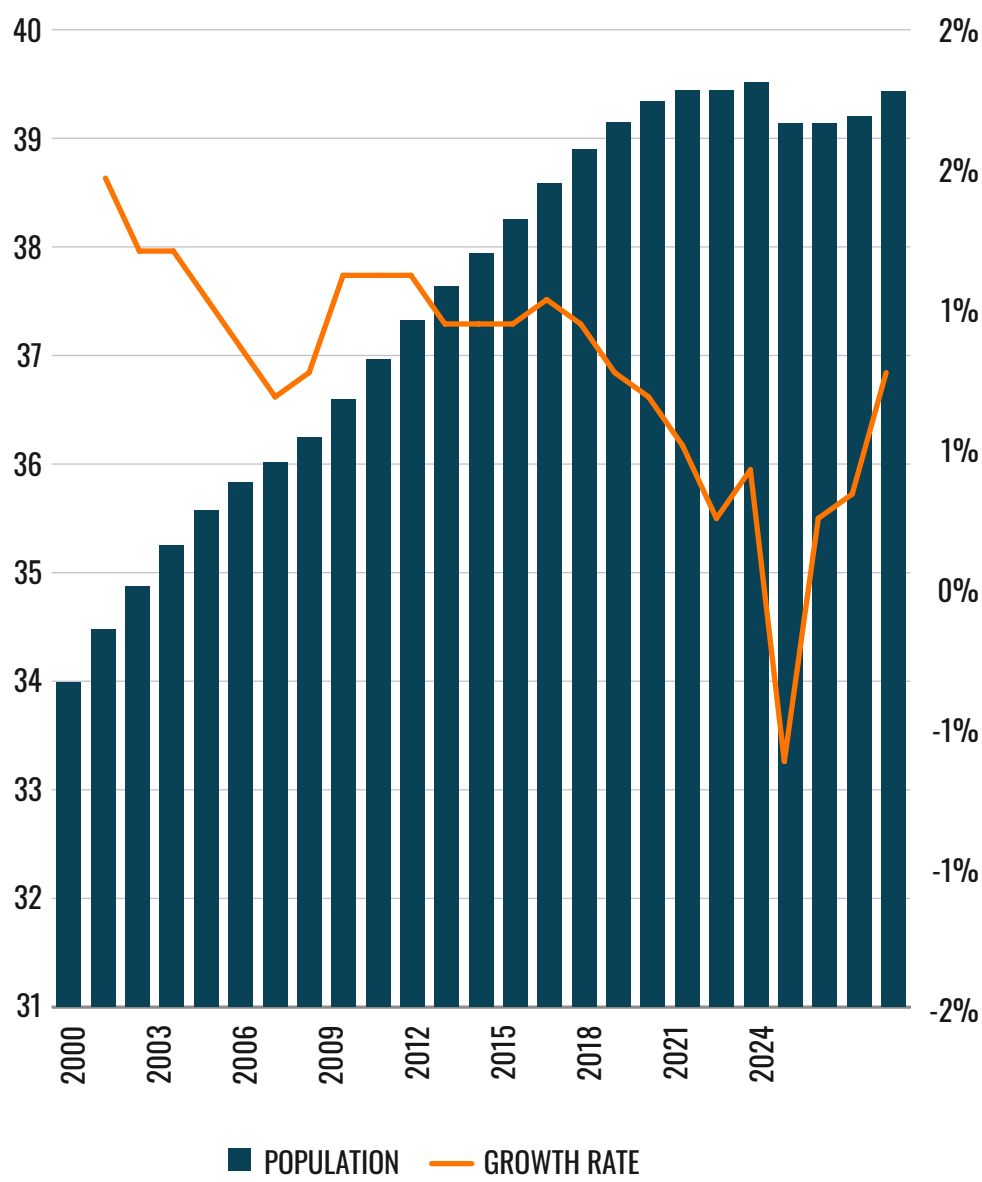
KEY CHALLENGES

POPULATION

Population growth matters. Without it, expanding the labor force becomes difficult unless labor force participation rates rise significantly. After several years of slowing growth and outright population decline, California’s population growth rate turned positive again in 2024. While the state’s total population hasn’t returned to pre-pandemic levels, it is moving in the right direction.

However, these figures do not reflect developments in 2025. Immigration crackdowns by the Trump administration (most recently through ICE raids) are likely to weigh on California’s population outlook. As of 2023, immigrants made up 27.3% of the state’s population, compared to 14.3% nationally. This means immigration policy shifts will disproportionately affect California’s labor force and economy.

POPULATION LEVELS (IN MILLIONS), CALIFORNIA



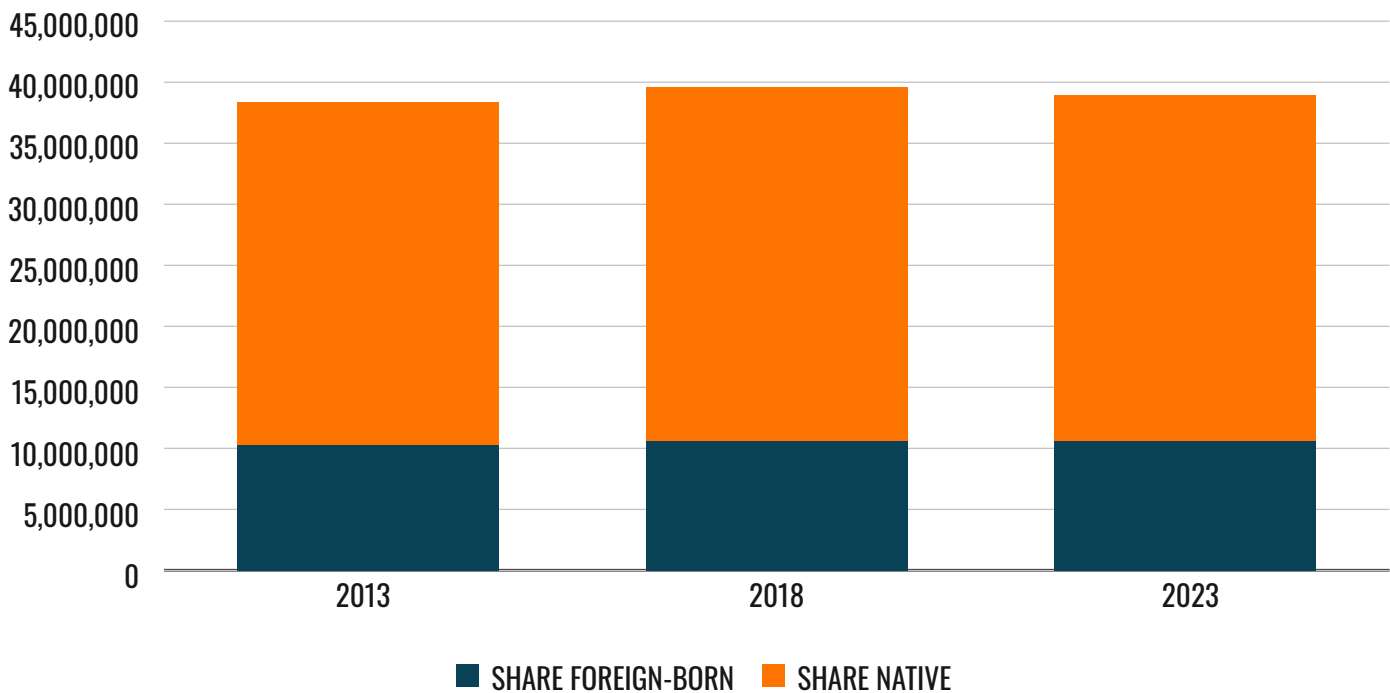
SOURCE: CALIFORNIA DEPARTMENT OF FINANCE. ANALYSIS BY BEACON ECONOMICS.

POPULATION GROWTH, CALIFORNIA AND SELECT COUNTIES

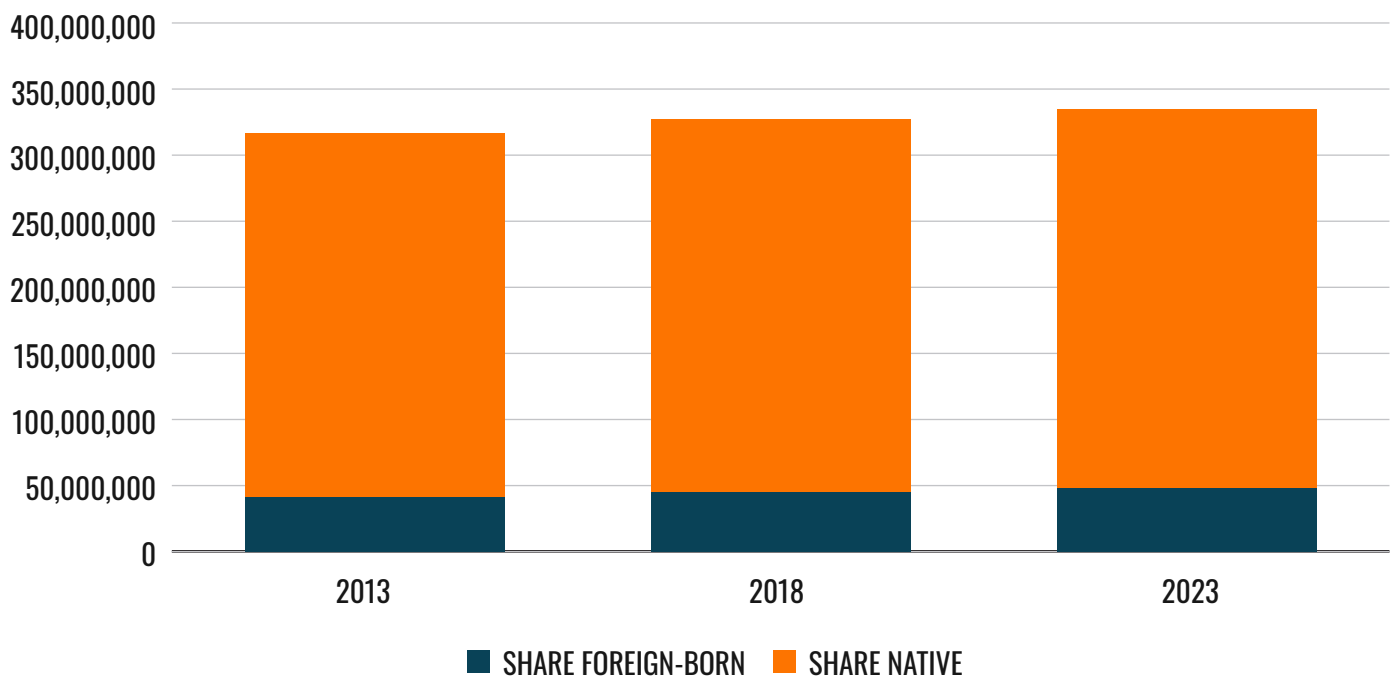
County	2024 Total Population	10-Year Chg. (%)
CALIFORNIA	39,128,162	1.5
SAN JOAQUIN	791,408	11.3
SACRAMENTO	1,578,938	7.7
RIVERSIDE	2,442,378	6.6
FRESNO	1,017,431	5.4
KERN	910,300	4.6
CONTRA COSTA	1,146,626	4.3
SAN BERNARDINO	2,181,433	4.1
ALAMEDA	1,641,869	3.2
SAN DIEGO	3,291,101	1.8
ORANGE	3,150,835	0.9
SANTA CLARA	1,903,198	0.9
SAN FRANCISCO	843,071	-1.2
SAN MATEO	741,565	-1.7
LOS ANGELES	9,824,091	-2.5
VENTURA	823,863	-2.5

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

SHARE OF FOREIGN-BORN POPULATION, CALIFORNIA



SHARE OF FOREIGN-BORN POPULATION, UNITED STATES

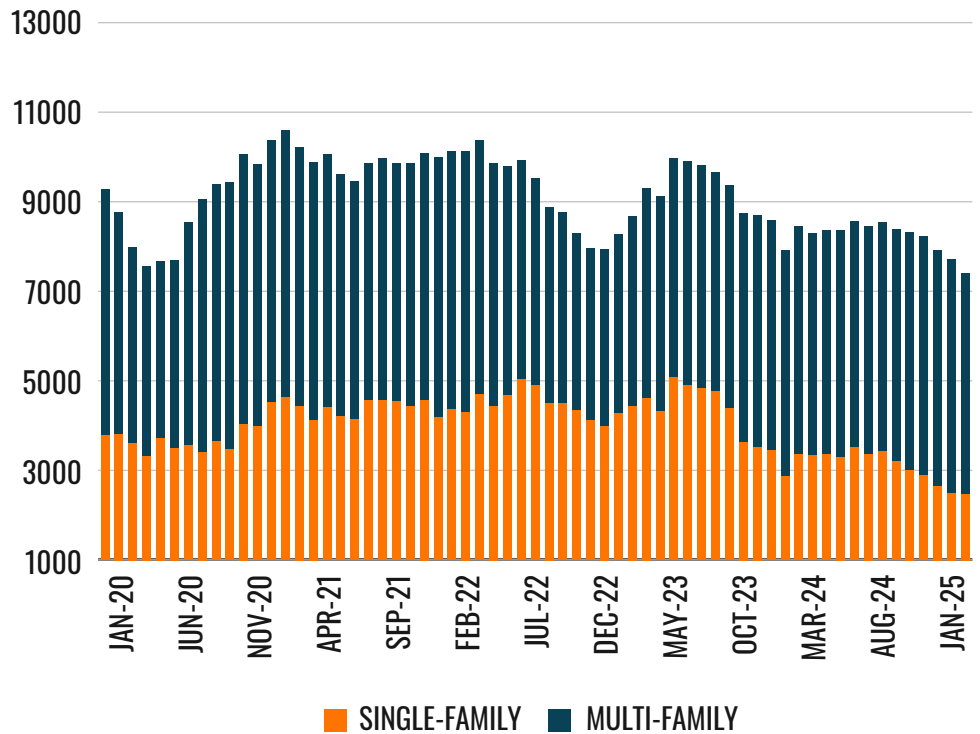


SOURCE: U.S. CENSUS BUREAU. AMERICAN COMMUNITY SURVEY, 1-YEAR ESTIMATES. ANALYSIS BY BEACON ECONOMICS.

HOUSING

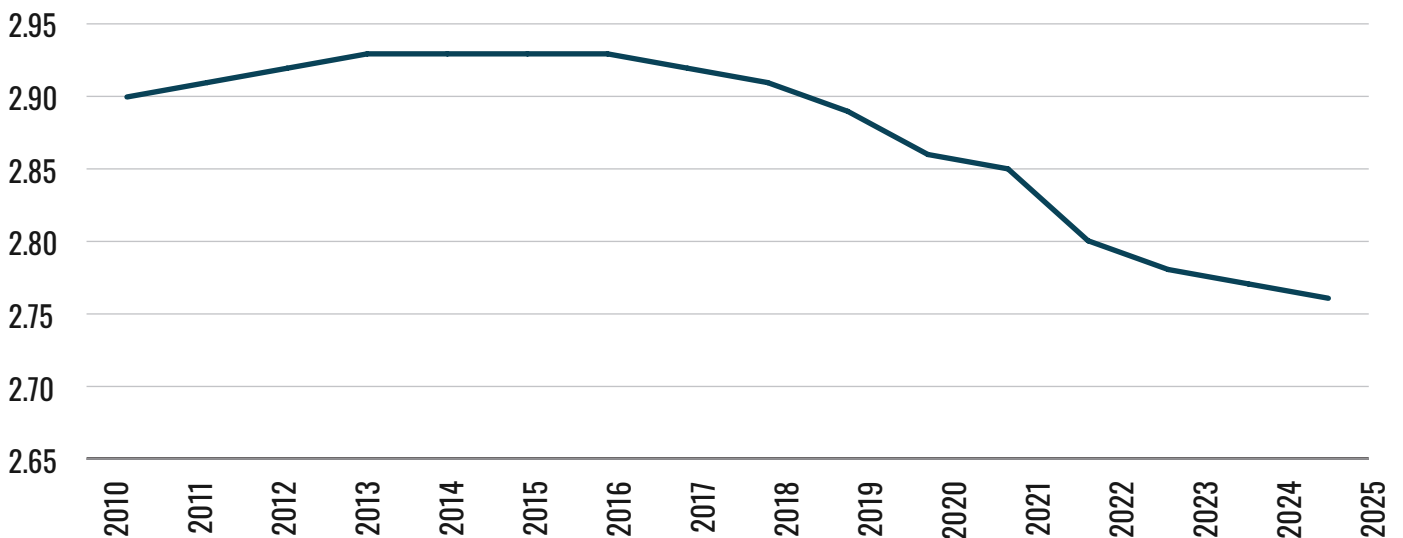
As household incomes rise, Californians are spreading out, reducing average household size and driving up demand for housing. But new residential construction hasn't kept pace. Permit activity for both single-family and multi-family units remains below pre-pandemic levels. This growing mismatch between supply and demand is a threat to the state's economic momentum. Without adequate housing, businesses will find it harder to attract and retain workers, making long-term economic growth harder to sustain.

SINGLE-FAMILY AND MULTI-FAMILY PERMITS, CALIFORNIA



SOURCE: U.S. CENSUS BUREAU. ANALYSIS BY BEACON ECONOMICS.

HOUSEHOLD SIZE, CALIFORNIA



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

STATE BUDGET

California stands to lose more than any other state under the federal Medicaid cuts outlined in the Trump administration’s “One Big Beautiful Bill Act,” with estimated reductions totaling \$150 billion over 10 years. While other states may face steeper percentage cuts, California’s size makes the absolute impact far greater. Earlier projections by the Kaiser Family Foundation estimated that between 1.25 and 2 million Californians could lose coverage under the proposed Medicaid cuts. Other analyses place the potential losses even higher, with estimates ranging up to 3.4 million⁶, particularly affecting low-income families, seniors, and people with disabilities. While research shows Medicaid reduces financial stress, the evidence on long-term health outcomes is more mixed.^{7,8,9,10,11} Still, these federal cuts strain hospitals and long-term care providers and worsen California’s budget deficit.

In response, Governor Gavin Newsom has proposed an \$11 billion reduction in Medi-Cal spending, which is California’s version of Medicaid. This accounts for about two-thirds of the total savings in his proposed May budget plan. The Legislative Analyst’s Office (LAO) projects ongoing deficits of between \$10 and \$20 billion annually from 2025–26 through 2028–29 and recommends that the Legislature should at least adopt the Governor’s \$16 billion package of budget solutions.¹²

But cuts alone won’t close the gap. The LAO also estimates that California will add another \$5 billion in borrowing this year, bringing total budgetary borrowing to \$17.3 billion for the fiscal year. Since 2023–24, the Legislature has dealt with \$82 billion in shortfalls, mostly through spending cuts, but with a “non-negligible share” coming from borrowing. It seems the state is back to relying on short-term fixes to patch long-term imbalances.

⁶ <https://www.gov.ca.gov/2025/06/27/governor-newsom-slams-trump-over-bill-that-would-cut-millions-in-health-coverage-food-assistance-for-california/>

⁷ Baicker, K., & Finkelstein, A. (2011). The effects of Medicaid coverage—learning from the Oregon experiment. *The New England journal of medicine*, 365(8), 683.

⁸ Baicker, K., Taubman, S. L., Allen, H. L., Bernstein, M., Gruber, J. H., Newhouse, J. P., ... & Finkelstein, A. N. (2013). The Oregon experiment—effects of Medicaid on clinical outcomes. *New England Journal of Medicine*, 368(18), 1713-1722.

⁹ Christopher, A. S., McCormick, D., Woolhandler, S., Himmelstein, D. U., Bor, D. H., & Wilper, A. P. (2016). Access to care and chronic disease outcomes among Medicaid-insured persons versus the uninsured. *American journal of public health*, 106(1), 63-69.

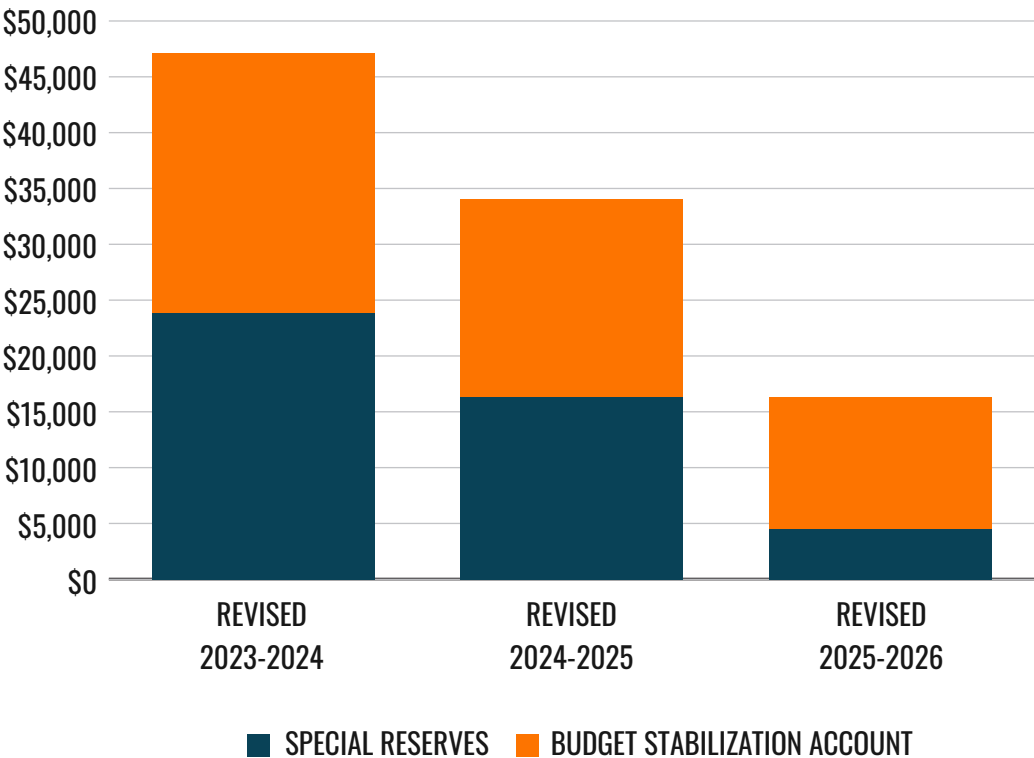
¹⁰ Goodman-Bacon, A. (2021). The long-run effects of childhood insurance coverage: Medicaid implementation, adult health, and labor market outcomes. *American Economic Review*, 111(8), 2550-2593.

¹¹ Bellerose, M., Collin, L., & Daw, J. R. (2022). The ACA Medicaid Expansion And Perinatal Insurance, Health Care Use, And Health Outcomes: A Systematic Review: Systematic review examines the effects of expanding Medicaid on insurance coverage, health care use, and health outcomes during preconception, pregnancy, and postpartum. *Health Affairs*, 41(1), 60-68.

¹² <https://lao.ca.gov/Publications/Report/5052>

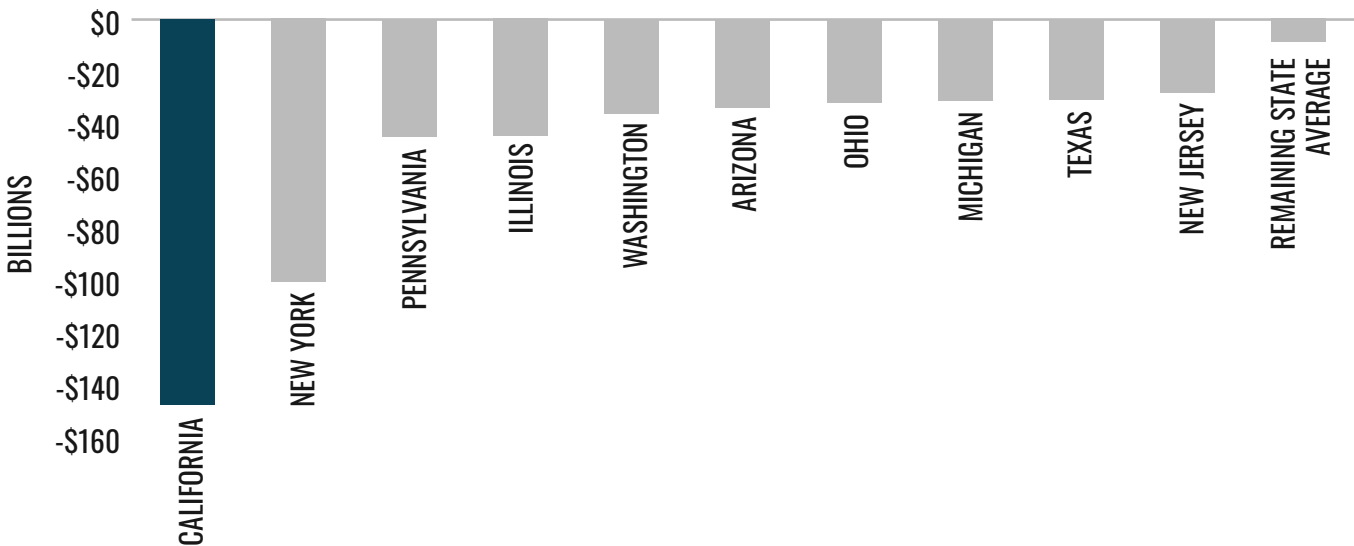
As the LAO points out, lawmakers still have choices. They could reduce Medi-Cal spending, increase taxes, or make tradeoffs in other parts of the budget. But whatever mix they choose, the minimum threshold is clear: the Legislature must at least match the \$16 billion in solutions proposed by the Governor. With reserves shrinking and structural deficits expected to persist, putting off hard decisions now will only make things more painful later.

TOTAL RESERVES (IN MILLIONS), CALIFORNIA



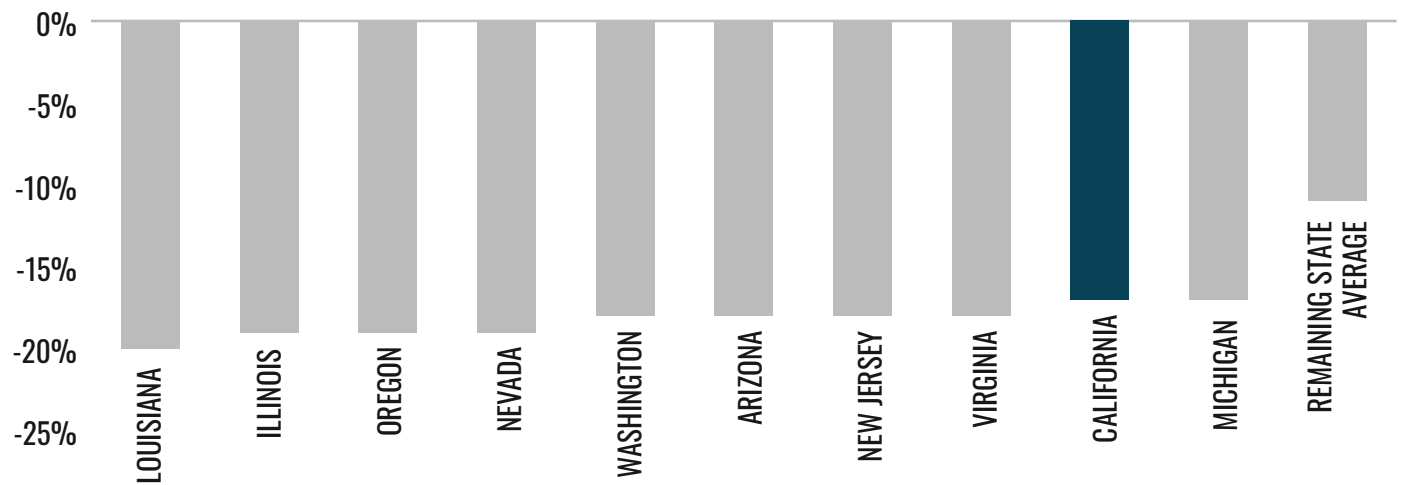
SOURCE: CALIFORNIA LEGISLATIVE ANALYST'S OFFICE. ANALYSIS BY BEACON ECONOMICS.

ESTIMATED 10-YEAR FEDERAL MEDICAID CUTS



SOURCE: KAISER FAMILY FOUNDATION. ANALYSIS BY BEACON ECONOMICS.

ESTIMATED 10-YEAR FEDERAL MEDICAID CUTS AS SHARE OF BASELINE



SOURCE: KAISER FAMILY FOUNDATION. ANALYSIS BY BEACON ECONOMICS.

ESTIMATED MEDICAID ENROLLMENT LOSS (PRELIMINARY ESTIMATES)



SOURCE: KAISER FAMILY FOUNDATION. ANALYSIS BY BEACON ECONOMICS.

NOTE: THE AVERAGE LOSS FIGURE FOR CALIFORNIA REPRESENTS 11% OF BASELINE EXPECTED ENROLLEES IN 2034. THIS ESTIMATE IS BASED ON EARLIER PROJECTIONS BY THE KAISER FAMILY FOUNDATION USING THE PROPOSED MEDICAID CUTS (NOT THE FINAL VERSION SIGNED INTO LAW) SO ACTUAL IMPACTS MAY DIFFER.

CONCLUSION

So, all in all, what can we say about where California is headed? In all honesty, it's difficult to predict. Some of the state's topline numbers are reassuring: household incomes are up, real GDP is strong, and real disposable income per capita is holding steady. But others are more troubling: unemployment remains high, especially for teens; job growth has lagged over the longer term; population growth has barely turned positive and is likely to slow again under the Trump administration's immigration crackdowns; and housing permits are still too low to support future growth.

Some of this tension can be explained by rising productivity, which is helping offset weaker employment gains, particularly in manufacturing and tech. A closer look at other industries may reveal similar patterns. But not every part of the economy can rely on automation or AI to boost output. Labor-intensive sectors still need actual workers. And that's been the story lately: on one hand, tech-led efficiency gains are doing some heavy lifting; on the other hand, it's public hiring that's propping up the overall numbers.

Which raises an important question: what's going on with public hiring? It's not just a California trend, as we're seeing the same thing occur nationally. If policymakers are serious about reining in spending, then the surge in government employment may warrant closer scrutiny. Still, not all spending is created equal. The proposed federal cuts to Medicaid, for instance, would shift costs to the state and leave critical service gaps, particularly for vulnerable populations. Budget discipline isn't just about cutting spending, it's also about making smart trade-offs.

California isn't in crisis, but the pressure is rising. And the heat isn't just coming from the summer sun.



CALIFORNIA FORECAST

CALIFORNIA FORECAST - KEY INDICATORS

	Actual		Forecast		
	Q1-25	Q2-25	Q3-25F	Q4-25F	Q5-25F
Nonfarm Payrolls (000s, SA)	17,994.20	18,011.30	18,040.00	18,047.70	18,053.90
Unemployment Rate (% , SA)	5.4	5.3	5.3	5.4	5.4
Real GDP (Millions 2012\$, SAAR)	3,391,308	3,404,430	3,425,911	3,444,612	3,469,901
Home Prices (\$, SA)	757,478	737,474	738,217	737,969	740,038

	Forecast				
	Q2-26F	Q3-26F	Q426F	Q1-27F	Q2-27F
Nonfarm Payrolls (000s, SA)	18,070.30	18,093.10	18,116.40	18,139.40	18,162.70
Unemployment Rate (% , SA)	5.3	5.3	5.2	5.2	5.1
Real GDP (Millions 2012\$, SAAR)	3,496,627	3,523,884	3,550,159	3,575,771	3,601,235
Home Prices (\$, SA)	743,704	748,921	754,676	760,542	766,470

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