

THE BEACON OUTLOOK CALIFORNIA



Fall 2025

Niree Kodaverdian, PhD, Research Manager

IS CALIFORNIA REACHING ITS LIMIT?

We have been taking California for granted: its beauty, the talent it draws, the companies that choose to put down roots here. We continue layering policy on top of policy and assume the state can absorb it all, but even California has limits. Every system does. The question is whether we are nearing that limit now, as signs of weakness are showing up in the economic data.

It's not fair to pin all the blame on Sacramento, although some of the culpability certainly lies with the state, where time seems to be measured in policy entropy: as the years pass, rules accumulate faster than they are cleaned up. It also remains painfully difficult to build housing in California (more on [CEQA reforms](#) later in this outlook), rules have pushed [refineries](#) out, and we are in the process of [decommissioning a nuclear plant](#) (with the last plant scheduled to close as well) at a moment when we need more steady, clean generation.

Some of the problem is national. Tighter immigration enforcement in the second Trump administration is putting disproportionate stress on California where the labor force is nearly one-third immigrant. And some of it is global. [AI adoption](#) is affecting hiring (at least for certain roles) in the short-term, even if long-term we can expect to see a new mix of jobs and increased hiring. Falling [birth rates](#) are not helping either.¹ Labor needs people, and people need places to live. Taken together, these circumstances are not creating the best soil for growth, and the slowdown we see in the data should not surprise anyone.

California's real GDP growth has slowed compared to last year. It grew 1.8% year-over-year in the 1st quarter of 2025, about half the pace of early 2024 and below the state's long-run first-quarter average of roughly 2.7%.² The labor market has softened too, with unemployment remaining at 5.5% in August, a three-year high and well above the 4.3% national rate.³

1 In fact, the DOF has had to downward revise its California population estimates several times due to falling birth rates. See: Thunell, J. (2024, May). *What's going on with fertility in the U.S., California, and the SCAG region?* Slide deck presented at the SCAG Demographic Workshop (Panel 1.01). Southern California Association of Governments. https://scag.ca.gov/sites/default/files/2024-05/demo29_panel0101.pdf

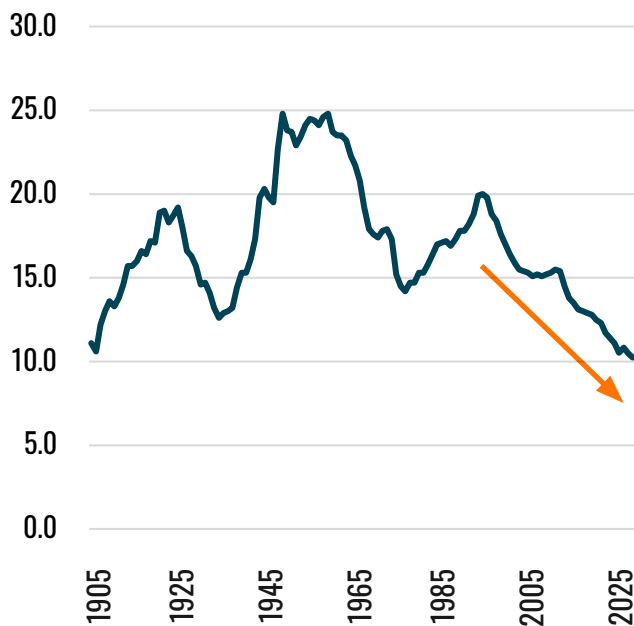
2 Source: U.S. Bureau of Economic Analysis (BEA).

3 Source: U.S. Bureau of Labor Statistics (BLS).

The pace of inflation has largely returned to normal, but the price level remains elevated.¹ In California, the CPI index is now around 353 compared to a projected 330 if prices had simply continued along their 2015–2020 trend. That means today's prices are roughly 7% higher than where they would have been without the pandemic-era reset. Recent tariffs may be playing a role, although an analysis from Yale's Budget Lab² suggests their overall impact on prices has been limited. With the Fed's recent 25-basis-point rate cut, we can expect inflation to pick up pace again.

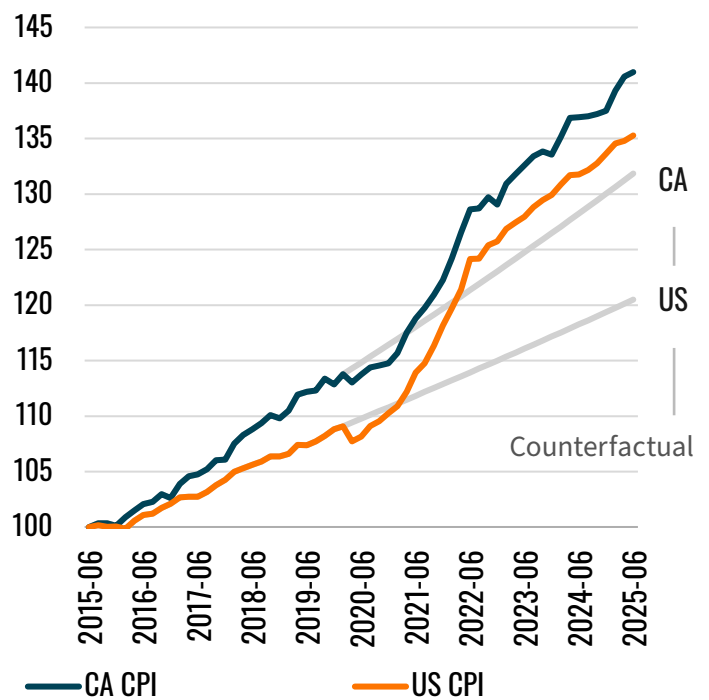
Overall, the picture is one of a cooling economy, with slower growth, softer hiring, and calmer inflation. To see what comes next, we look at the three markets that shape daily life and competitiveness: labor, housing, and energy, each showing where pressures points are building.

CRUDE BIRTH RATE, CALIFORNIA



SOURCE: DEPARTMENT OF FINANCE.
ANALYSIS BY BEACON ECONOMICS.

PRICE INDICES, INDEXED, CALIFORNIA VS U.S.



SOURCE: U.S. BUREAU OF LABOR STATISTICS (BLS) AND CALIFORNIA DEPARTMENT OF INDUSTRIAL RELATIONS (DIR).
ANALYSIS BY BEACON ECONOMICS.

1 Source: California Department of Industrial Relations, U.S. Bureau of Labor Statistics.

2 Source: <https://budgetlab.yale.edu/research/short-run-effects-2025-tariffs-so-far>

LABOR MARKET

The labor market in California has cooled somewhat over the last quarter. Between April and July, the unemployment rate in the state ticked up from 5.3% to 5.5%, while nationally it held steady at 4.2%. Excluding the pandemic spike, the last time California's unemployment rate was this high was April 2016. The rate remained unchanged between July and August (the most recent data).

This cooling fits a longer pattern. Over the last three years, job growth has primarily been concentrated in three sectors: private education, government, and healthcare. If you set those aside, the rest of nonfarm employment has been declining, which lines up with the recent uptick in unemployment.

By age group, the biggest shifts over the past year are among teenagers. From July 2024 to July 2025, the teen employment-to-population ratio fell 2.3 percentage points, and their labor force participation fell 2.8 points. Workers ages 55–64 saw a smaller decline in employment-to-population, while other age groups posted gains on both measures. This indicates that the youngest workers (who tend to fill entry-level, lower-wage roles) are being hit the hardest, and this pattern is not unique to California. Teen unemployment has been rising nationally as well, although the increase has been steeper here.

Policy is likely part of the story here. On January 1, 2025, the statewide minimum wage rose to \$16.50 per hour as planned. Another bump is scheduled for January 1, 2026, when the base will rise to \$16.90.³ It's also higher in certain cities, and some industries have carve-outs: [fast-food workers](#) are now at \$20 per hour, and [healthcare workers](#) range from \$18.63 to \$24 depending on the type of facility in which they work. San Diego recently adopted a [tourism-minimum wage](#) that phases to \$25 per hour by 2030, and Los Angeles approved a more aggressive [hospitality minimum wage](#) that will reach \$30 per hour by 2028.

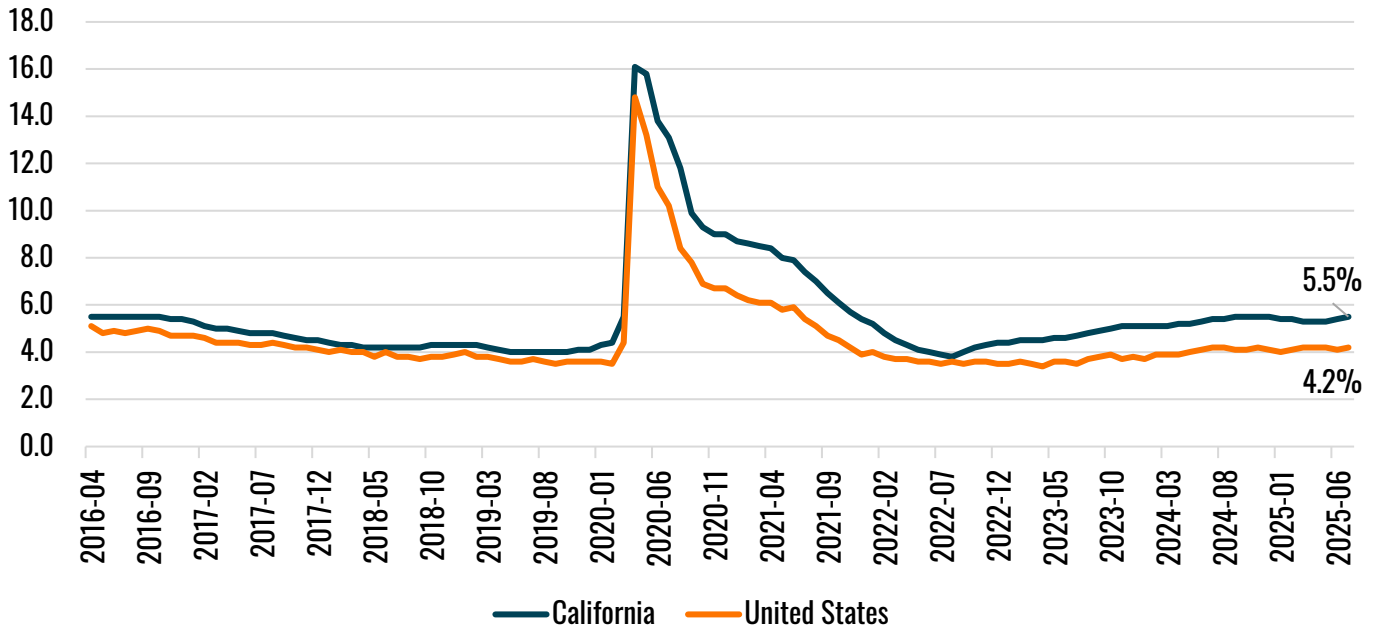
Recent college graduates (ages 22–27) have also seen their unemployment rise faster than other young workers and faster than the overall workforce across the country.⁴ The drivers are likely multi-pronged: firms have slowed hiring amid international and immigration policy uncertainty, and early [AI adoption](#) could be shifting demand within entry-level, college-track roles (e.g., certain admin, analytics, and routine coding tasks).

In an environment where structural changes to labor demand are occurring, it is especially important to avoid piling on policies that make job matching even more difficult. Otherwise, we can expect to see continued labor market challenges for the state's youngest workers.

³ Source: State of California Department of Industrial Relations.

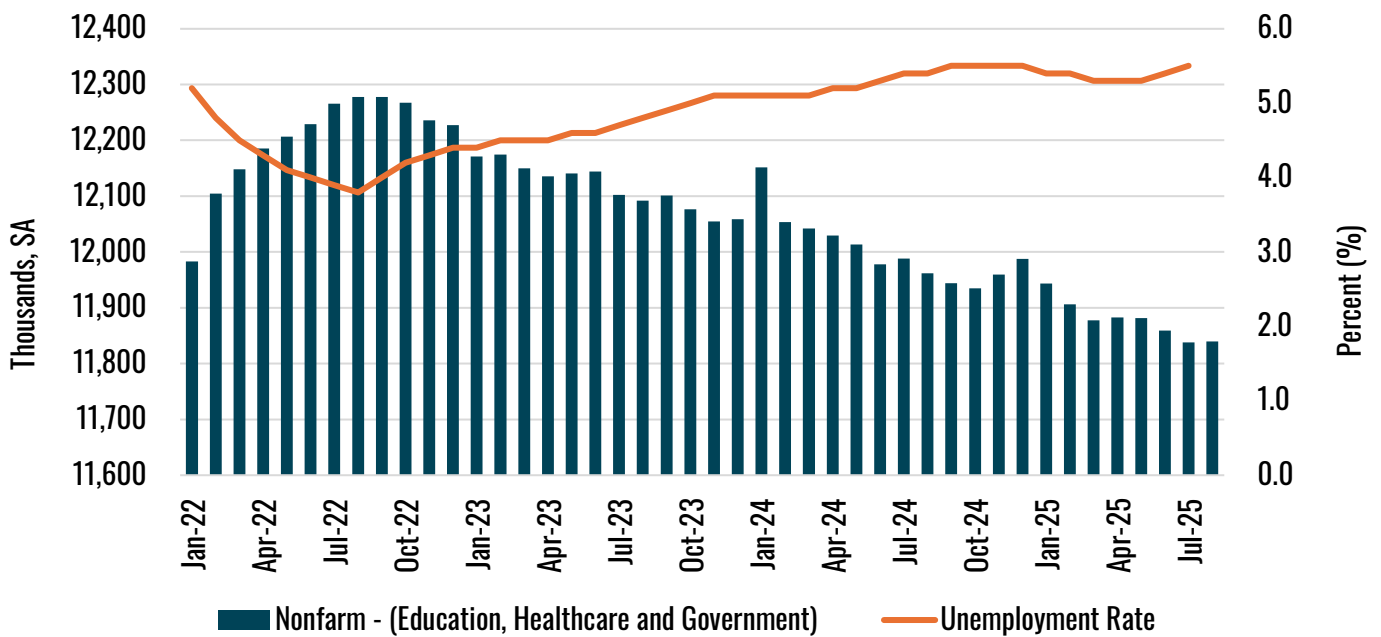
⁴ Source: : U.S. Census Bureau and U.S. Bureau of Labor Statistics, Current Population Survey (IPUMS).

UNEMPLOYMENT RATE, CALIFORNIA VS U.S.



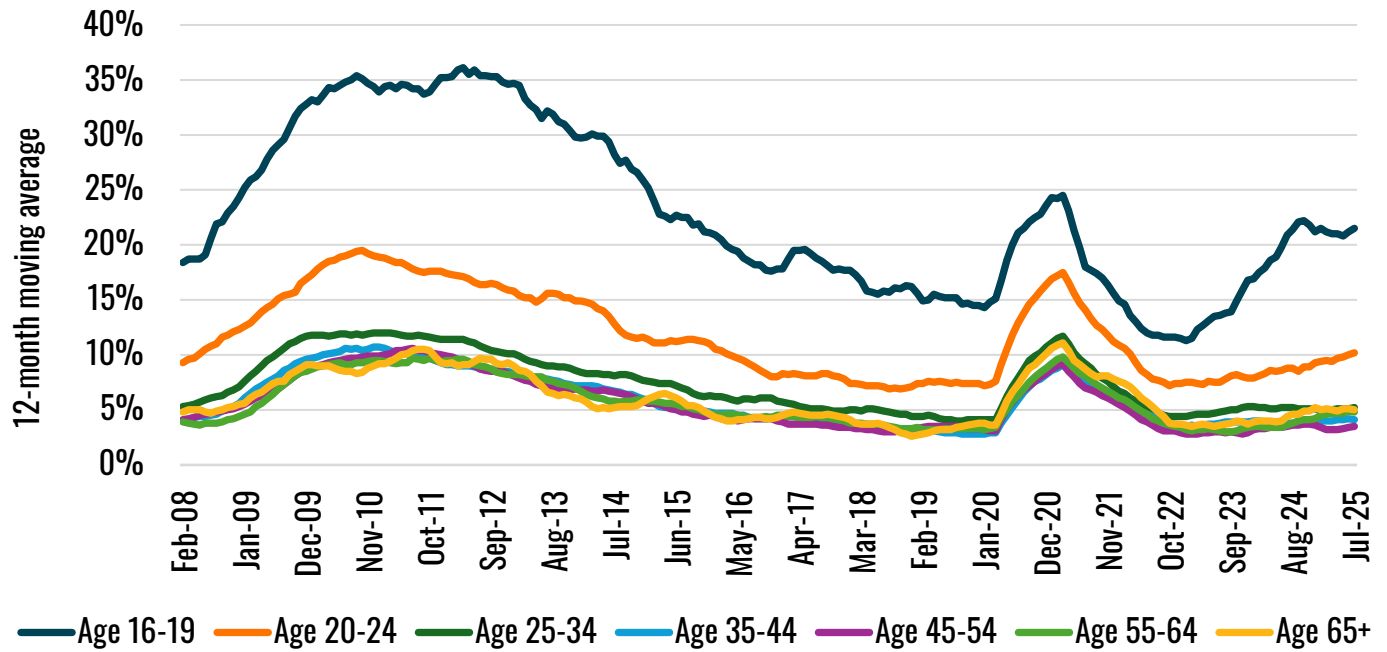
SOURCE: U.S. BUREAU OF LABOR STATISTICS (BLS). ANALYSIS BY BEACON ECONOMICS.

NONFARM EMPLOYMENT EXCLUDING EDUCATION, HEALTHCARE, AND GOVERNMENT AND UNEMPLOYMENT RATES, CALIFORNIA



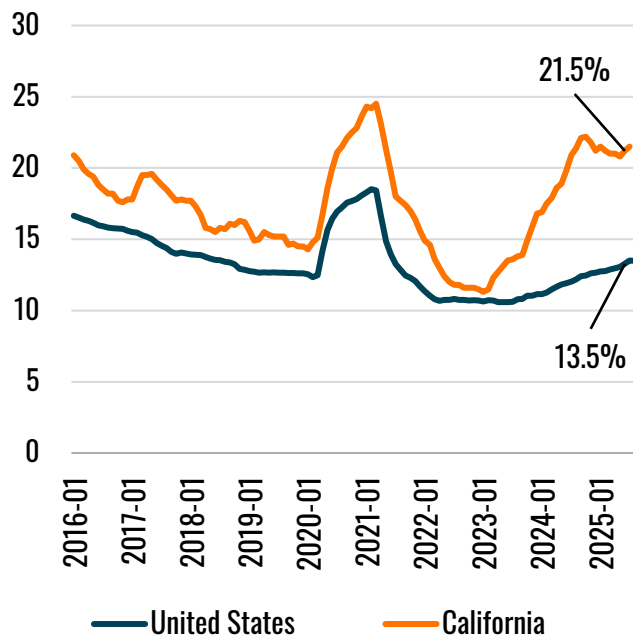
SOURCE: CALIFORNIA ECONOMIC DEVELOPMENT DEPARTMENT (EDD) AND U.S. BUREAU OF LABOR STATISTICS (BLS). ANALYSIS BY BEACON ECONOMICS.

UNEMPLOYMENT RATE BY AGE, CALIFORNIA



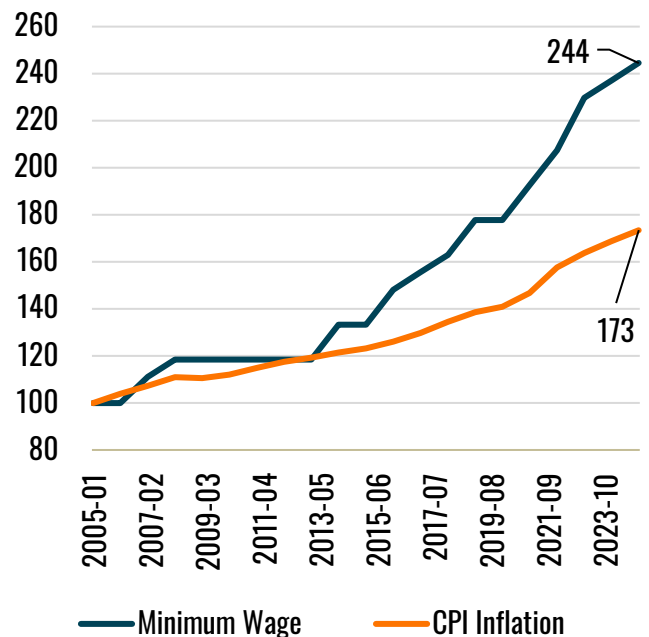
SOURCE: CALIFORNIA ECONOMIC DEVELOPMENT DEPARTMENT (EDD). ANALYSIS BY BEACON ECONOMICS.

UNEMPLOYMENT RATE, AGE 16-19, CALIFORNIA VS U.S.



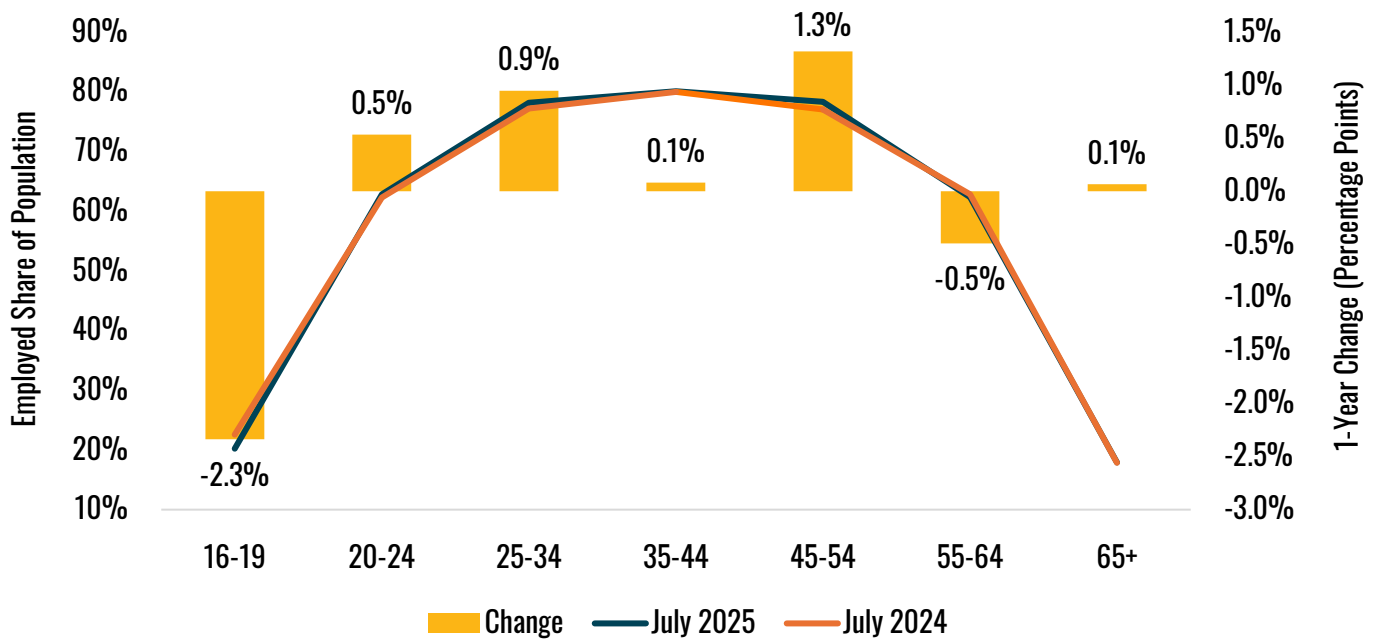
SOURCE: U.S. BUREAU OF LABOR STATISTICS (BLS) AND CALIFORNIA ECONOMIC DEVELOPMENT DEPARTMENT (EDD). ANALYSIS BY BEACON ECONOMICS.

INDEXED CPI INFLATION AND MINIMUM WAGE, CALIFORNIA



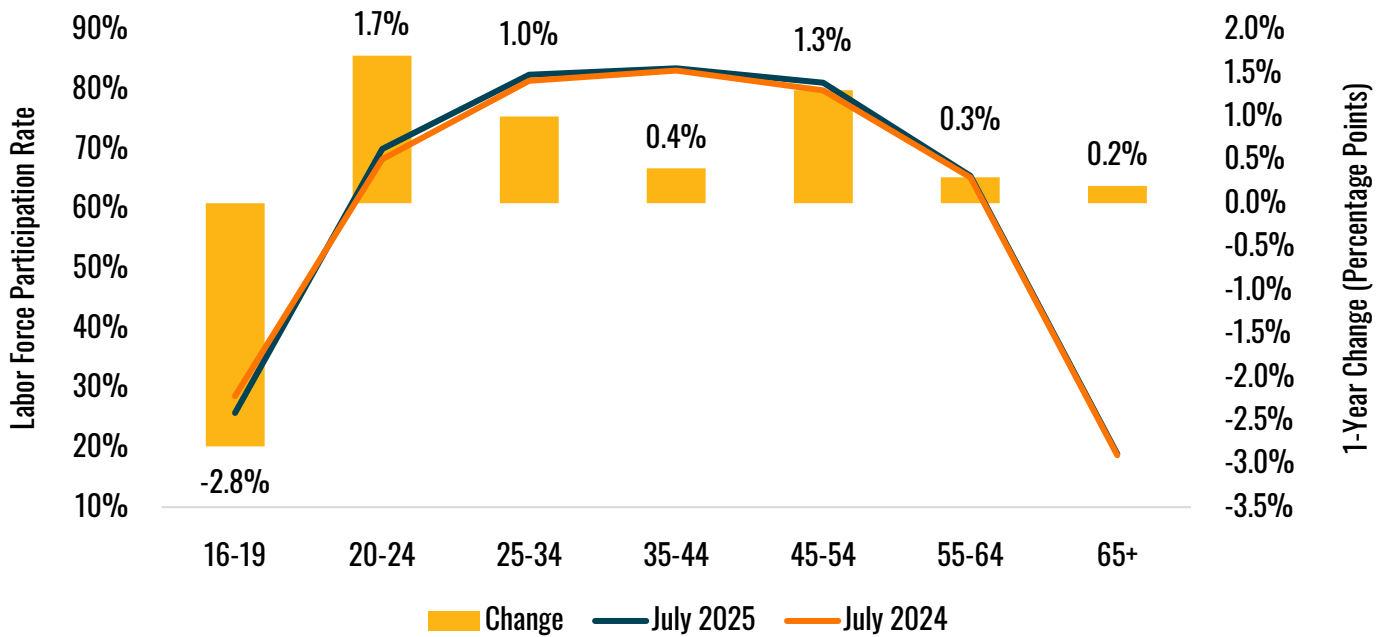
SOURCE: CALIFORNIA DEPARTMENT OF INDUSTRIAL RELATIONS AND U.S. DEPARTMENT OF LABOR. ANALYSIS BY BEACON ECONOMICS.

EMPLOYMENT TO POPULATION RATIO BY AGE, CALIFORNIA



SOURCE: CALIFORNIA ECONOMIC DEVELOPMENT DEPARTMENT (EDD). ANALYSIS BY BEACON ECONOMICS.

LABOR FORCE PARTICIPATION RATE BY AGE, CALIFORNIA



SOURCE: CALIFORNIA ECONOMIC DEVELOPMENT DEPARTMENT (EDD). ANALYSIS BY BEACON ECONOMICS.

HOUSING MARKET

California is seeing continued cooling in its housing market as well. A few years ago, demand was supercharged by COVID stimulus and very low mortgage rates (around 3%). But that era is over... at least for now. Mortgage rates have bounced between 6.5% and 7.5% for the last three years, with an average over that period of 6.7%.

Some buyers and would-be sellers may feel encouraged by the Fed's recent [rate cut](#), but it is important to clarify which rate the Fed lowered. The Federal Reserve does not set mortgage rates. It sets a target for the federal funds rate, which is the short-term rate banks charge each other for overnight loans. Though consumers don't directly experience these rates, it's an important benchmark that influences many short-term rates in the economy.

Thirty-year mortgages are different. They track long-term interest rates more closely, especially the 10-year U.S. Treasury yield, plus a spread for mortgage-backed securities. Inflation expectations, the economic outlook, and investor demand for Treasuries and MBS are key here. A Fed cut can nudge mortgage rates if it changes these expectations, but it does not translate one-for-one. The bottom line is that a lower federal funds rate does not automatically mean a lower 30-year mortgage rate; we need to watch the 10-year Treasury to gauge where mortgage rates are headed.

With higher mortgage costs, people are moving less; at the same time, job and income growth have cooled. That shows up in transaction activity: with fewer new households forming, fewer homes are selling and more are staying on the market longer. Pre-pandemic, California home sales averaged about 400,000 a year. They dipped at the onset of COVID, then surged above 500,000 a year for about twelve months amid near-zero rates and high stimulus (a V-shaped recovery from the pandemic, as [Beacon forecast](#)). Since then, with higher mortgage rates, sales have settled closer to 300,000 a year.

The demand shift is visible in inventory. "Months of supply" is defined as the amount of time it would take today's listings to sell at the recent sales pace. California is at about [3.7 months](#) as of July 2025. That is higher than the one-month frenzy that immediately followed the pandemic, but still below the United States, at roughly 4.6 months, and below the [5 to 6 months](#) that usually signals a balanced market, according to the National Association of Realtors. This means that buyers have a bit more choice, yet resale conditions still tilt toward sellers.

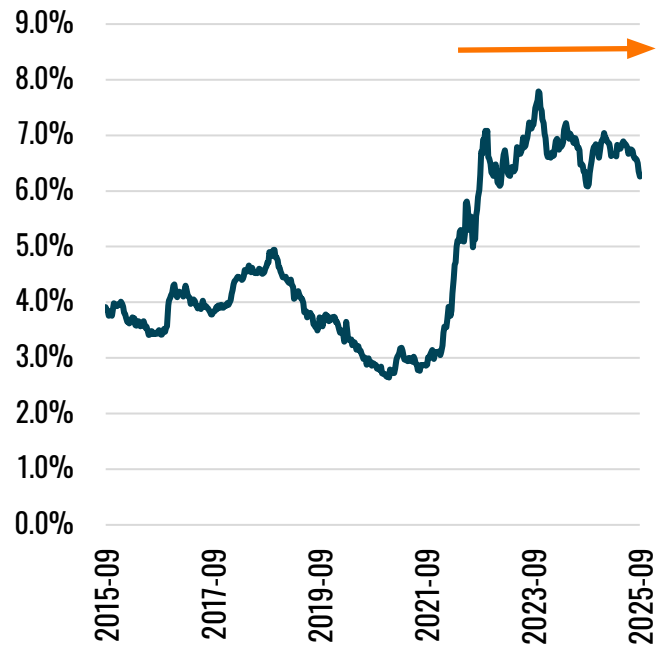
Home prices remain high, although price growth has returned to a more normal pace—similar to consumer prices generally. Regional Price Parity data show housing is still California's largest cost premium relative to the United States, but that premium has been narrowing in recent years. The state's house price index has also settled back into its pre-pandemic rhythm, rising by about 8 index points per quarter, which is similar to the pace seen from 2012 through early 2020.

Given that prices shape homeownership, it's not surprising that homeownership is higher in the United States than in California, roughly 66% nationally versus about 55% in California. The paths of the nation and state have been similar, with both now slightly more than three percentage points below their 2000 levels. Since 2016, California's homeownership rate has been trending up. That runs counter to the idea that the state is becoming dramatically more renter heavy and homeownership is an ever-elusive dream for the state's residents. With more supply, the gains can be broader and more durable.

Indeed, supply is the real constraint in California. Permits for single-family and multifamily homes have been basically flat for a decade, stuck near 100,000 a year. To hit the [RHNA target](#) of 2.5 million homes over eight years, California would need closer to 310,000 permits a year, so we are running at about one-third of what's required. ADUs are a bright spot. Permits have jumped more than twentyfold since 2015 and they are adding real units in infill neighborhoods.⁵ Helpful, yes, but not enough on their own. If the state wants to achieve real progress on affordability, we need a much larger, faster build-out.

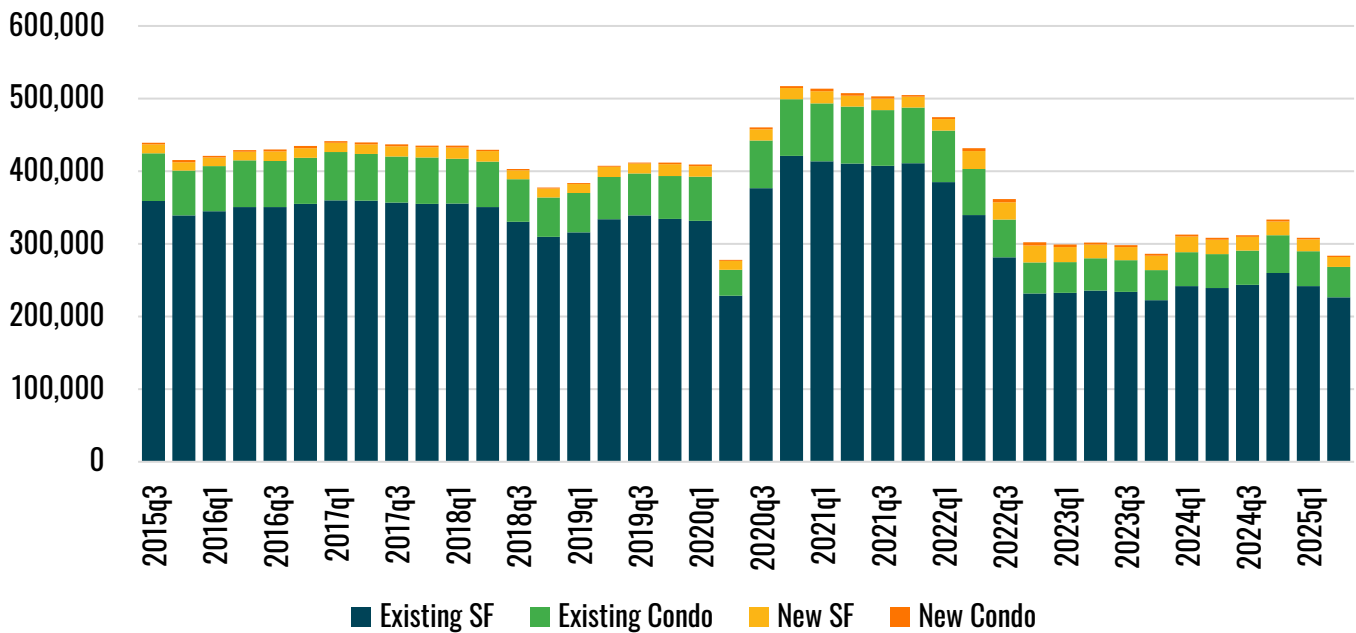
The recent CEQA reforms are definitely a step in the right direction, although whether they will be enough to change the landscape is too early to tell. They aim to make urban infill easier, while leaving rules on greenfield expansion largely unchanged. In theory, that should be [good for both the environment](#) and for housing delivery, which is why opposition from some [environmental groups](#) is puzzling.

WEEKLY MORTGAGE RATES, CALIFORNIA



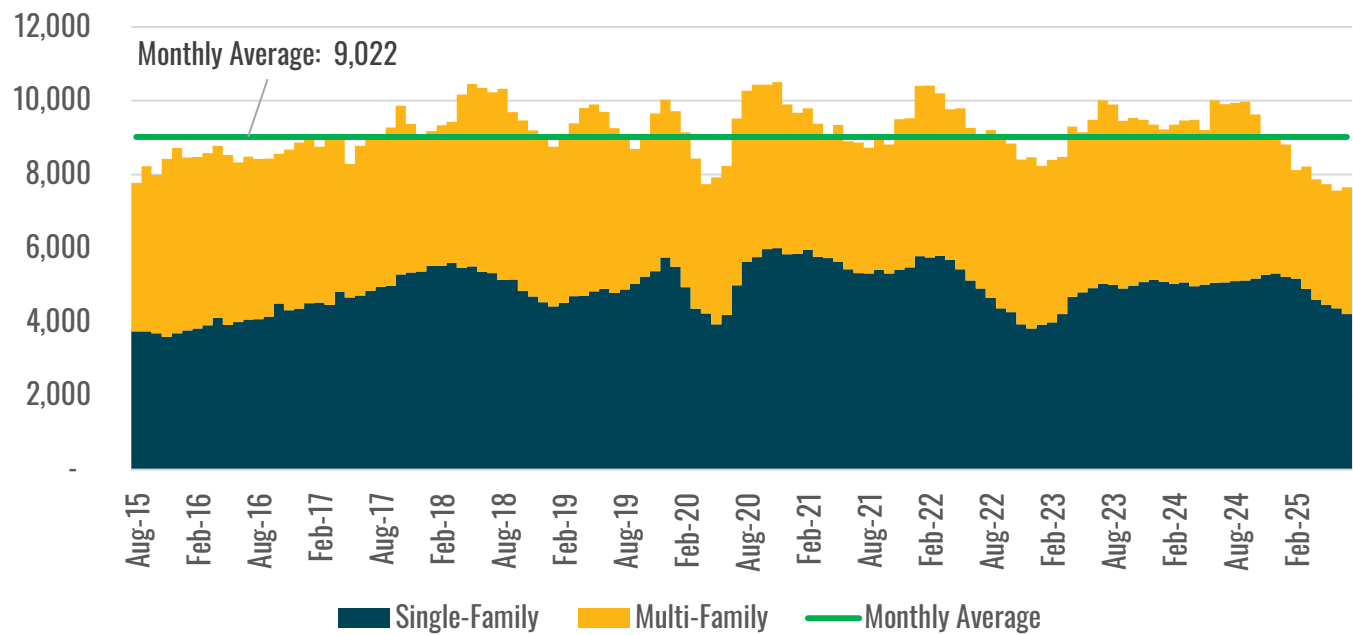
SOURCE: FREDDIE MAC. ANALYSIS BY BEACON ECONOMICS.

HOME SALES, CALIFORNIA



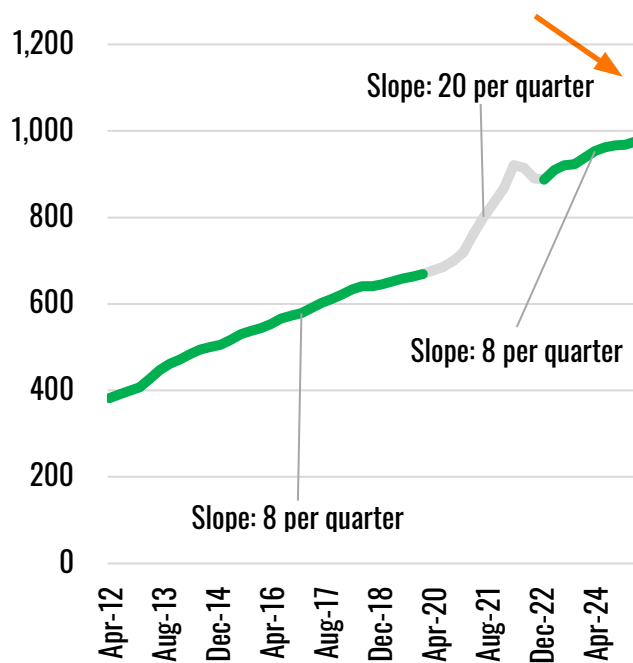
SOURCE: CORELOGIC. ANALYSIS BY BEACON ECONOMICS.

RESIDENTIAL PERMITS, CALIFORNIA



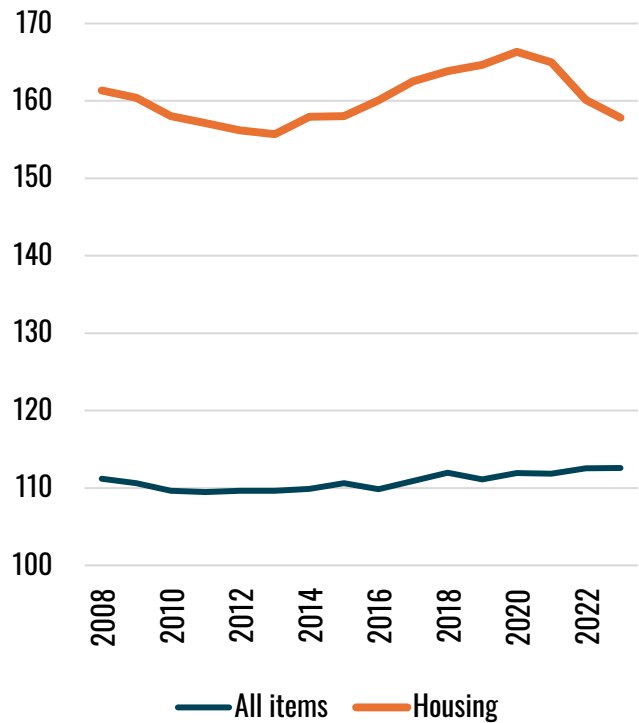
SOURCE: U.S. CENSUS BUREAU. ANALYSIS BY BEACON ECONOMICS.

ALL TRANSACTIONS – HOUSE PRICE INDEX, CALIFORNIA



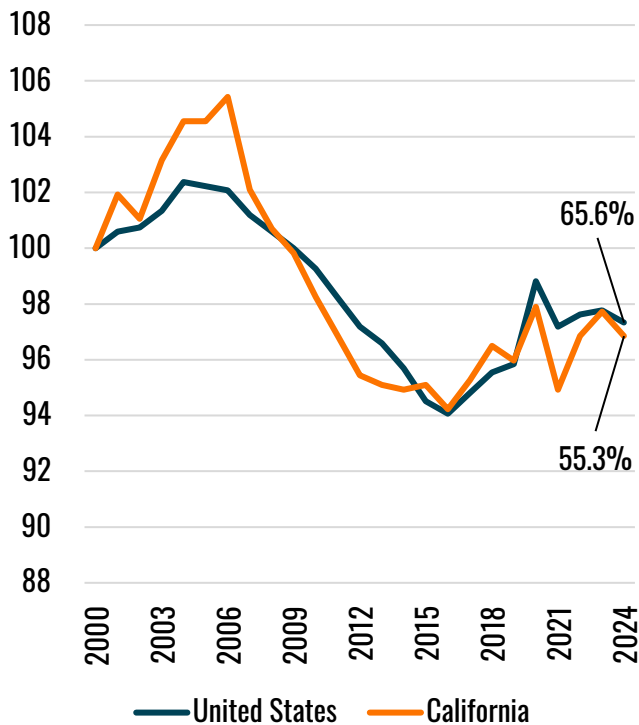
SOURCE: U.S. FEDERAL HOUSING FINANCE AGENCY.
ANALYSIS BY BEACON ECONOMICS.

REGIONAL PRICE PARITY, CALIFORNIA



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

HOMEOWNERSHIP RATES, CALIFORNIA VS U.S.



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

ENERGY MARKET

While the labor and housing markets are cooling, energy remains hot with prices continuing to rise. Electricity costs have increased faster across California cities than in U.S. cities in recent years, and the broader utilities basket (electricity, natural gas, water, and sewer) has climbed faster here than nationally since 2008.

Energy prices have climbed due to several moving parts, including global factors. Climate change has been making natural disasters [more extreme](#) worldwide, including in California, where January

2025 saw the [most destructive fires](#) in Los Angeles' history. Utilities are spending billions on [wildfire prevention](#) and grid upgrades to handle heat, floods, and other risks, and those costs are showing up in customers' bills. California's climate [policies](#), including cap-and-trade, can also add some cost, but an [EPA study](#) finds the larger driver of retail electricity increases is fixed costs. These include investments in power infrastructure, wildfire mitigation, and clean-energy incentives.

That leads to a simple math problem. Californians use [less electricity](#) per person compared to the rest of the country and world, and per-capita use has been trending down as efficiency improves and rooftop solar expands.^{6, 7} That is good for the environment and helps many households. But since utilities are spending more on fixed costs and rates are determined by dividing those costs over the electricity sold, when total sales drop, the price per kilowatt-hour tends to rise.

Also on the demand side, [data centers](#) are using a lot more power. That doesn't automatically make bills cheaper though, as you might expect based on the math above. They add sales, but they also need new substations, lines, and other upgrades, which raises utilities' [fixed costs](#). On the supply side, California has already shut down one nuclear plant ([San Onofre](#)), and the last one, [Diablo Canyon](#), which supplies about [7% to 9%](#) of in-state energy generation, is scheduled to close in 2030. The state is relying more on solar, wind, and big batteries, which is good for emissions but means building more power lines and grid hardware to move and store electricity. All of that pushes overall utility costs up, which tends to mean higher rates for end users.

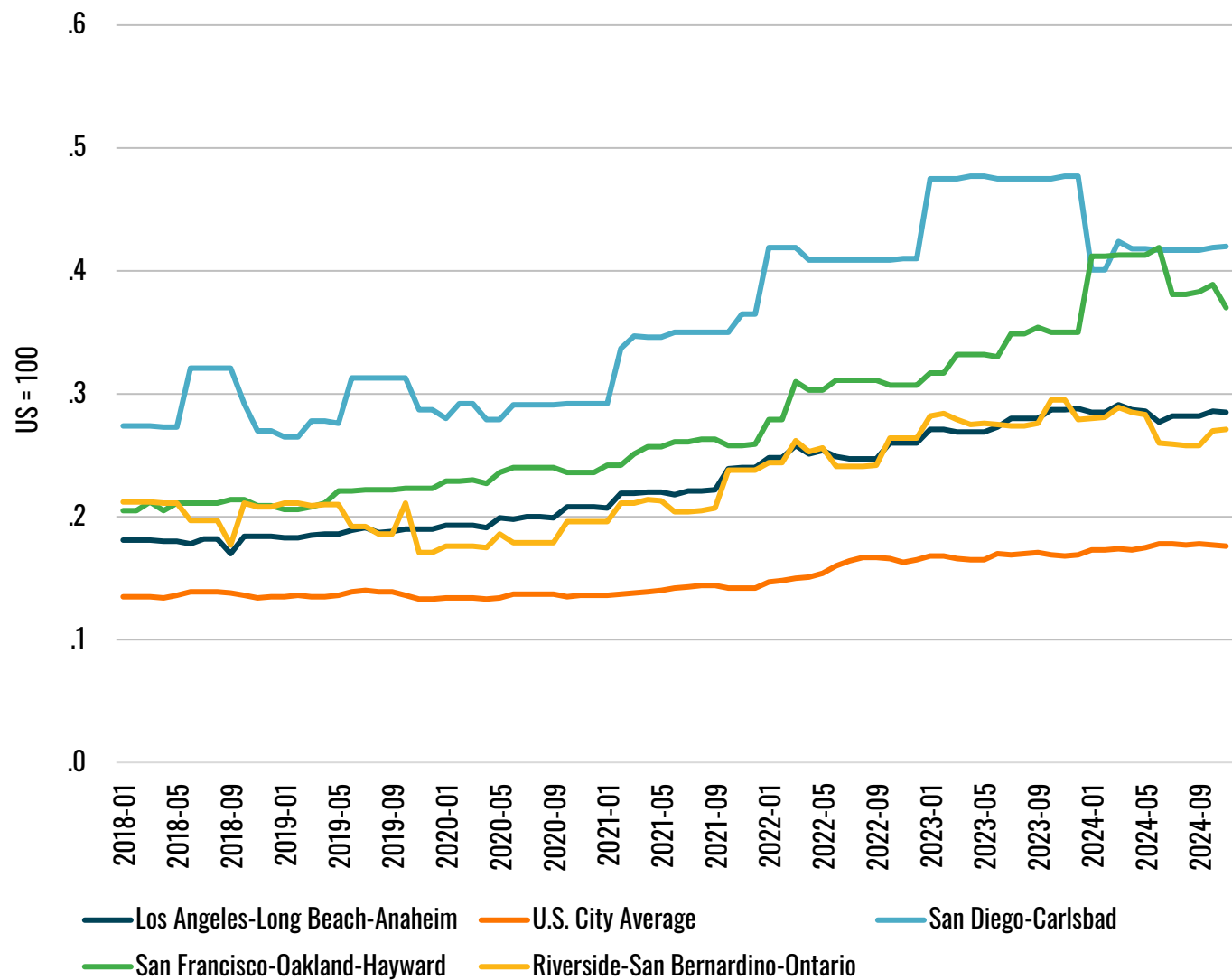
6 <https://www.ppic.org/blog/a-closer-look-at-californias-surging-electricity-rates/>

7 <https://www.pge.com/en/newsroom/currents/customer-service/pg-e-s-progress-on-the-things-you-care-about-the-most.html>

As with housing and labor, policy is part of the story here too. Governor Gavin Newsom just signed a six-bill [energy package \(SB 840\)](#) that extends the state’s cap-and-trade program beyond 2030. While a higher carbon price can partly be passed through to consumers, the EPA study suggests that this represents a small share of effective rate increases, in part because some proceeds flow back to households through the [Climate Credit](#). The indirect effect is larger: when the price of carbon rises, utilities spend to shift toward cleaner resources, and those transition costs can affect households’ bills.

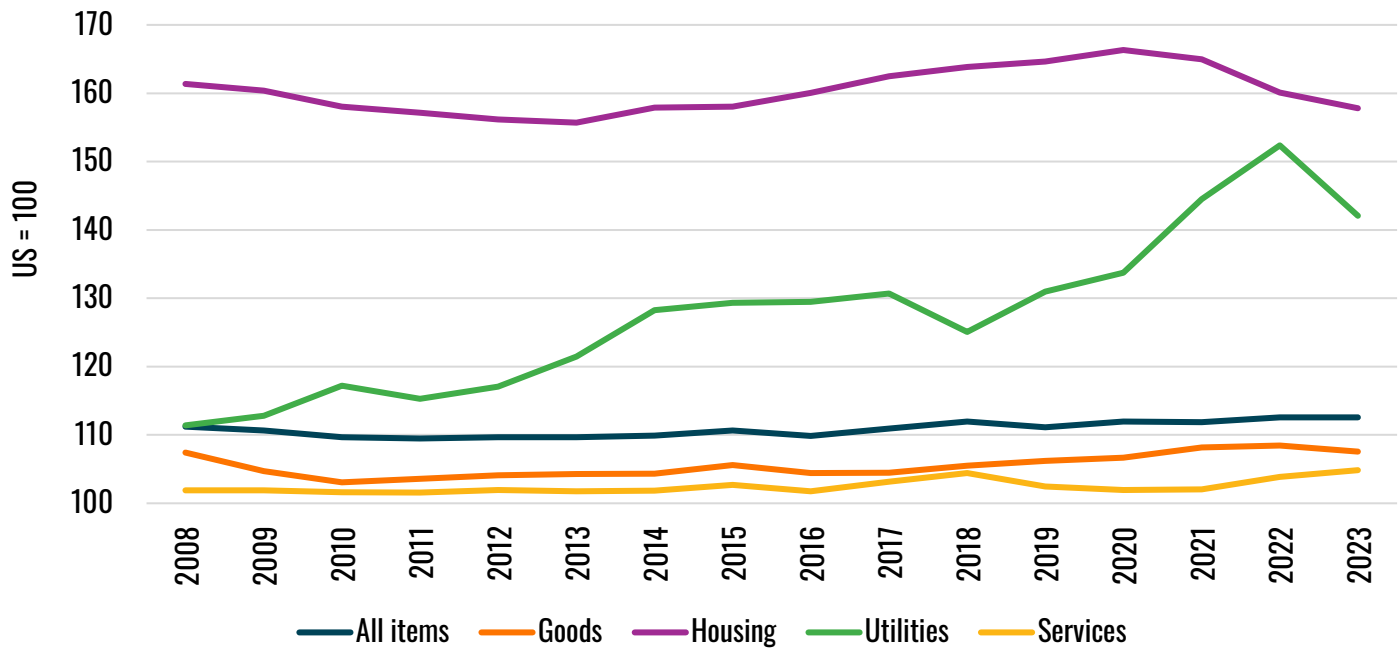
The energy package also puts \$18 billion into a fund for electric utilities that face bankruptcy after wildfires, and [provides](#) \$1 billion annually for the state’s embattled high-speed rail project. We should expect budget impacts from both, which will be unpacked in the next Beacon Outlook California. As with any policy, there is no such thing as a free lunch.

AVERAGE PRICE: ELECTRICITY PER KILOWATT HOUR



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

REGIONAL PRICE PARITY, CALIFORNIA



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

CONCLUSION

California's economy enters fall 2025 slower, but not in a downturn. Growth and hiring have cooled, prices remain high, housing is tight, and energy bills are rising. The path forward seems simple, but admittedly, is extremely fraught politically: build more homes, keep the grid reliable and affordable, and avoid piling on policies that make it harder to work, build, and invest. And that doesn't mean adding a new set of "pro-growth" programs; policy often, albeit unintentionally, distorts markets and raises costs. The Economics 101 exceptions clearly apply: tax negative externalities, subsidize positive externalities, and provide true public goods. California is a beautiful and special place, but we can't keep taking it for granted.

CALIFORNIA FORECAST

CALIFORNIA FORECAST - KEY INDICATORS

	Actual		Forecast		
	Q1-25	Q2-25	Q3-25F	Q4-25F	Q1-26F
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	5.4	5.5	5.5
Real GDP (Millions 2012\$, SAAR)	3,341,872.40	3,377,263.90	3,398,573.02	3,417,124.56	3,442,212.55
Home Prices (\$, SA)	757,478.20	737,474.30	738,217.40	737,968.80	740,037.90

	Forecast				
	Q2-26F	Q3-26F	Q4-26F	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)	5.4	5.3	5.3	5.2	5.2
Real GDP (Millions 2012\$, SAAR)	3,468,724.66	3,495,764.21	3,521,829.94	3,547,237.34	3,572,498.22
Home Prices (\$, SA)	743,704.30	748,920.90	754,676.40	760,541.50	766,469.70

SOURCE: U.S. BUREAU OF ECONOMIC ANALYSIS, U.S. BUREAU OF LABOR STATISTICS, CORELOGIC; FORECAST BY BEACON ECONOMICS