THE BEACON OUTLOOK
CALIFORNIA

Winter 2026

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OVERVIEW

Entering 2026, uncertainty remains the dominant force shaping economic behavior. That uncertainty stems from a mix of negative popular narratives as well as actual policies – both existing and proposed.

Existing policies, including progressive documentary transfer taxes (often referred to as "mansion taxes") adopted by cities across California, have made real estate transactions and development less attractive. State minimum wage policies, often layered with even higher city-level requirements, have made it harder for businesses to hire entry-level and younger workers. Federal immigration policy has ramped up costs and risks in a state that relies heavily on immigrant labor. At the same time, construction costs are being pushed higher by federal trade policy and tariff uncertainty, which is especially problematic in California, where supply is already constrained. Long-standing NIMBY resistance to housing development and rent control policies (statewide and city-specific) that discourage new investment have further restricted housing-supply growth and reduced the likelihood of meaningful price decreases.

Proposed policies add another layer of uncertainty. Measures such as the proposed "billionaire tax," which will appear on the ballot in November, risk reinforcing the perception that California is becoming increasingly unfriendly to high earners and capital. The idea behind the policy is that a relatively small group of very wealthy households will stay put and simply pay the tax, helping to close budget gaps. In practice, people respond to incentives. Highly mobile taxpayers, especially those with significant wealth, have both the means and flexibility to relocate. If a tax like this encourages even a modest share of that group to leave, the result could be a smaller tax base, not a larger one. At a time when California is already facing budget pressure, policies that encourage even a small number of high earners to leave risk reducing tax revenues and the business activity they help support.

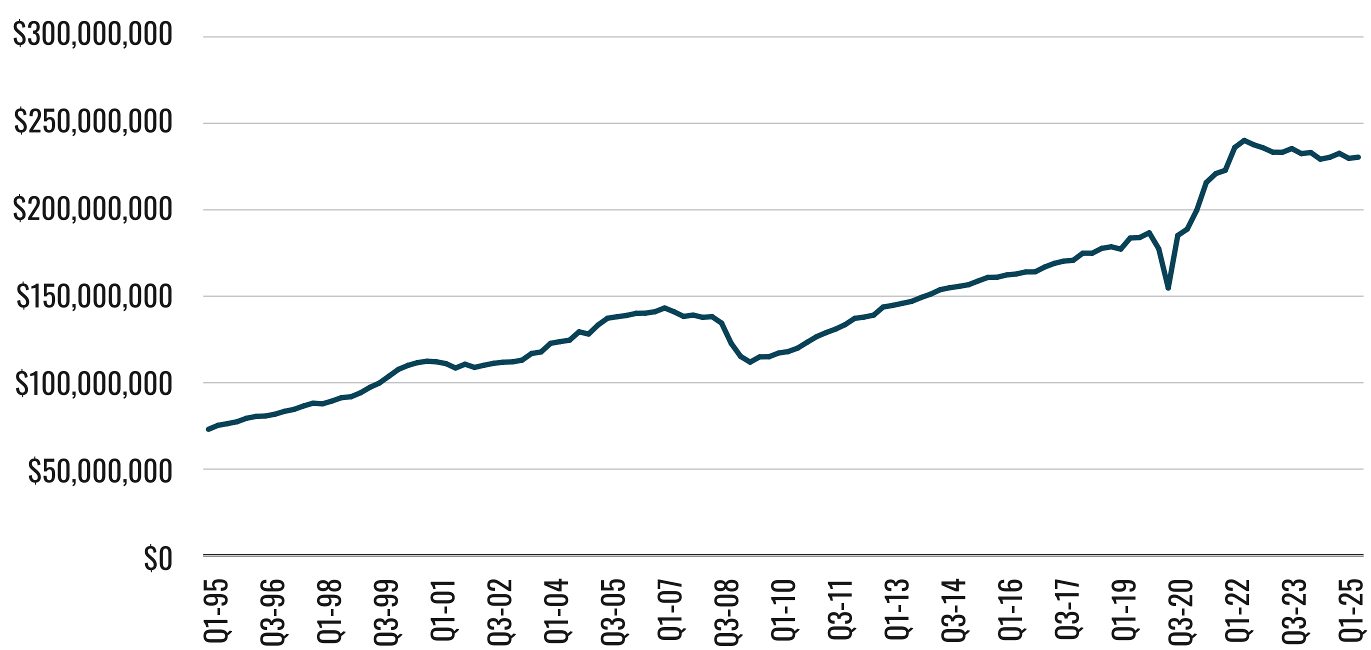
There are other proposals on the table that could also weigh on California's economy. For example, Senate Bill 789 proposes a tax on vacant property, and the City of Los Angeles is actively discussing a similar policy modeled after Oakland's. While policies like this sound appealing in theory, they risk making the state's housing problem worse by increasing costs and uncertainty for property owners in an already supply-constrained market.

The effects can be seen most clearly in California's labor market. Hiring has remained soft since the pandemic, labor force growth continues to lag the nation, and unemployment remains high. Demand for workers hasn't disappeared, but it has clearly cooled. Job postings are now roughly in line with 2015 levels—well below both the recent hiring surge and the pre-pandemic period. Employers are still hiring but are doing so much more selectively. After the broad Unclassified category,[1] Health Care now accounts for the largest share of job postings—around 15% of the total, more than double its share in 2010.[2] Consistent with that, much of the job growth over the past year has been concentrated in Health Care and Social Assistance and Government, particularly at the local level. In the case of Health Care, this growth reflects demographic pressures rather than broad-based economic strength.

This is not to say that California's labor market is broken. Instead, it reflects two overlapping forces. First, California is simply not adding residents at the same pace it once did. Lower birth rates, reduced in-migration, and a persistently constrained housing supply have slowed labor force growth and left the population considerably older than it was a decade ago. Second, businesses appear to be delaying hiring and investment decisions amid uncertain federal policy and an unfavorable state and local policy environment.

Even so, consumer demand has not fallen. Compared to the stimulus-fueled surge during the pandemic, demand may feel weaker, but rather than declining, taxable sales in California have been flat since early 2022. They also remain higher than they likely would have been without the pandemic and its associated stimulus packages.

FIGURE 1. TAXABLE SALES, CALIFORNIA



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

[1] NAICS code 99

[2] Source: Lightcast

National GDP data reinforces this picture. In the third quarter of 2025, real GDP grew at a 4.3% annualized rate, driven largely by personal consumption, with roughly three-quarters of that consumption growth coming from services rather than goods.[3] Trade was not a major source of momentum. While declining imports provided a modest lift to headline GDP, the more telling signal was flat business investment. Gross private domestic investment made a slightly negative contribution, underscoring that firms remain cautious about expanding capacity.

The first quarter of 2026 will be an important inflection point. The beginning of the year is typically when firms reassess conditions, finalize budgets, and decide whether to move forward on any hiring and investment decisions that were delayed late in the previous year. Most likely, the labor market will remain soft in the near term, with modest employment gains and elevated unemployment persisting. Job growth is expected to stay concentrated in Health Care, Social Assistance, and Government, while goods-producing industries, including Construction and Manufacturing, continue to face headwinds. Housing starts and permits are likely to remain subdued early in the year, with any notable pickup dependent on clearer policy signals and improved financing conditions in later months. Even so, California's economy may continue to grow at a pace that rivals or exceeds the nation, supported by high-value industries and resilient consumer demand. [4]

THE LABOR MARKET

After months of delay tied to the government shutdown, the California Employment Development Department released updated employment data through September 2025. Overall, the data point to a labor market that remains softer than the nation's, driven largely by slower labor force growth rather than a sudden collapse in demand.

Labor Force: Since 2010, California's labor force has grown more slowly than the U.S. overall (8% versus 12%). That gap widened after the pandemic. While both labor forces fell sharply in 2020, the U.S. has rebounded more quickly, to around 5% above its pre-pandemic level. California, by contrast, is only about 1% above pre-pandemic levels. As of September, the state's labor force is up just 1.2% since February 2020 and continues to limit employment growth. Year-over-year, the civilian labor force increased by 0.9%.

Job Postings: Job posting data suggest that demand for labor has cooled but not collapsed. Openings in California are well below the elevated levels seen in 2021–2022 and are now closer to where they were in the mid-2010s, suggesting that employers are being more selective rather than pulling back entirely. Higher state and local minimum wages have likely played a role, particularly for entry-level and lower-wage positions, where businesses appear more cautious about growing payrolls. At the same time, the mix of job postings is changing. A growing share of job ads now list AI skills as a requirement, reflecting how firms are responding to cost pressures by leaning more heavily on productivity and technology rather than an expanding headcount.

[3] See: https://www.bea.gov/sites/default/files/2025-12/gdp3q25-ini.pdf
[4] Real GDP in California grew at annual rate of 4.3% between Q1 and Q2 2025, compared to 3.8% in the nation overall. See: https://www.bea.gov/news/2025/gross-domestic-product-state-and-personal-income-state-2nd-quarter-2025-and-personal

Unemployment: This softness shows up clearly in the unemployment data. California's unemployment rate stands at 5.6%, the second highest in the nation, compared with 4.6% nationally. While the rate edged up only slightly over the past year (from 5.5% to 5.6%), it remains persistently elevated relative to other states.

Employment: Employment growth has been modest. Year-over-year, total employment rose 0.8%. Nonfarm employment increased just 0.3% (compared with 0.8% nationally), while farm employment declined 0.2%. The rapid post-pandemic expansion of 2021 and 2022, when farm and nonfarm employment were growing at more than 4% annually, is clearly behind us. Beneath the surface, performance varies widely by industry. Goods-producing sectors, which make up about 12% of nonfarm employment, fell more than 2% over the year and remain below pre-pandemic levels. Service-providing industries continued to expand, growing 0.7% year-over-year. Health Care remains the clear anchor, adding 153,500 jobs over the past year and sitting nearly 23% above its pre-pandemic level. Government and Leisure and Hospitality also posted modest gains, while Manufacturing (-36,400 jobs) and Professional, Scientific, and Technical Services (-32,100 jobs) saw the largest declines.

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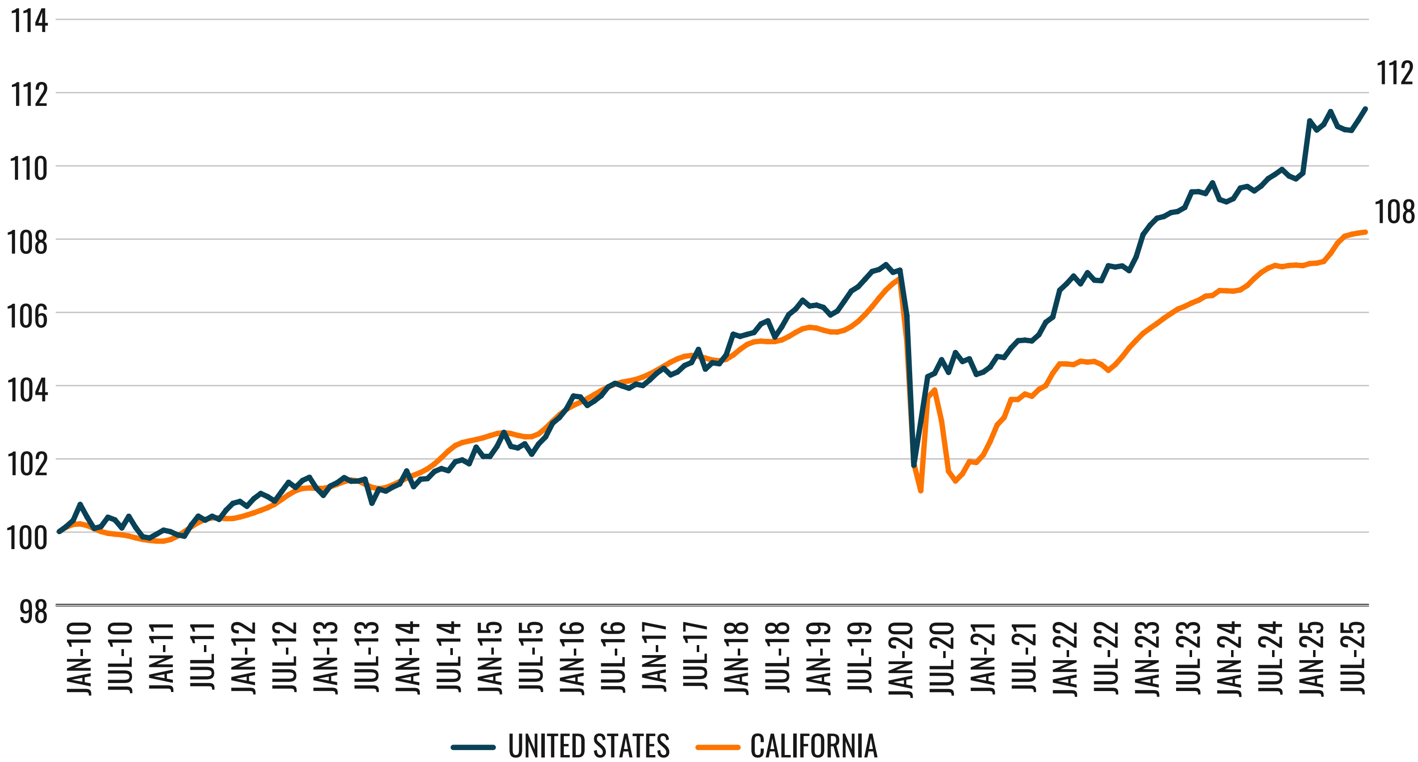
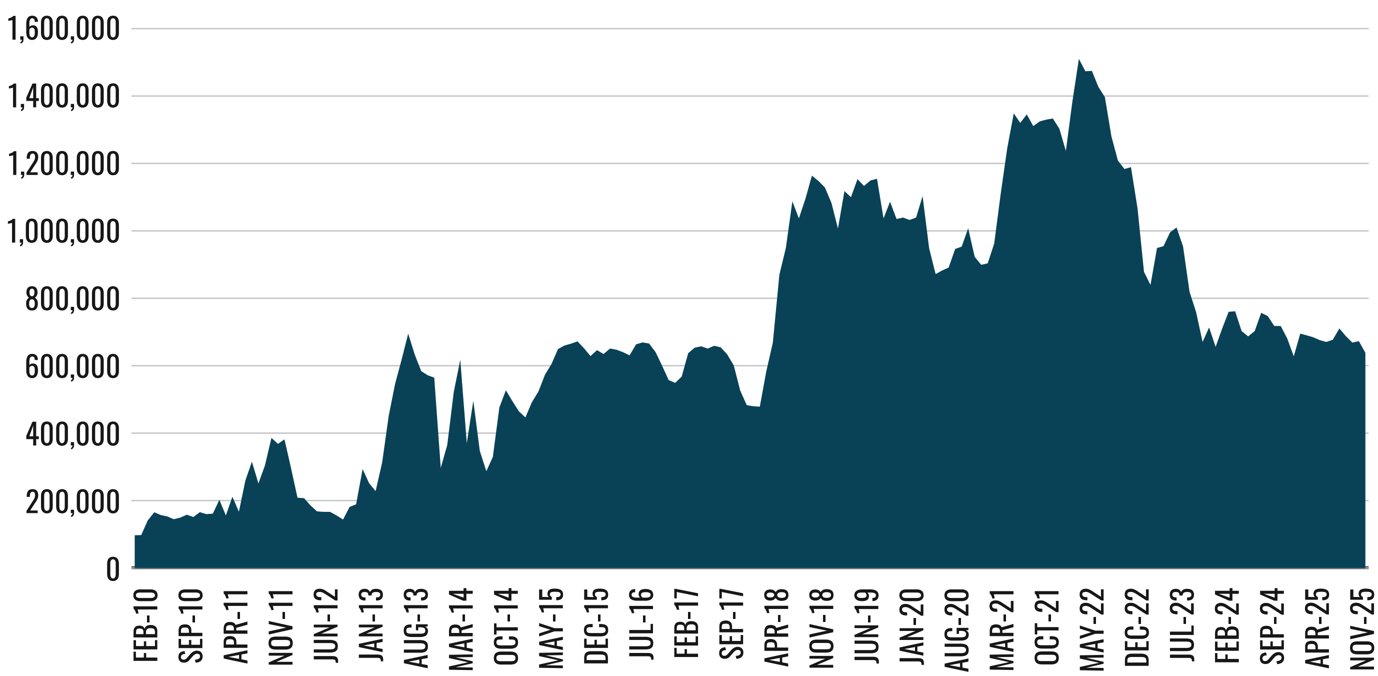
FIGURE 2. INDEXED LABOR FORCE, CALIFORNIA VS. U.S.



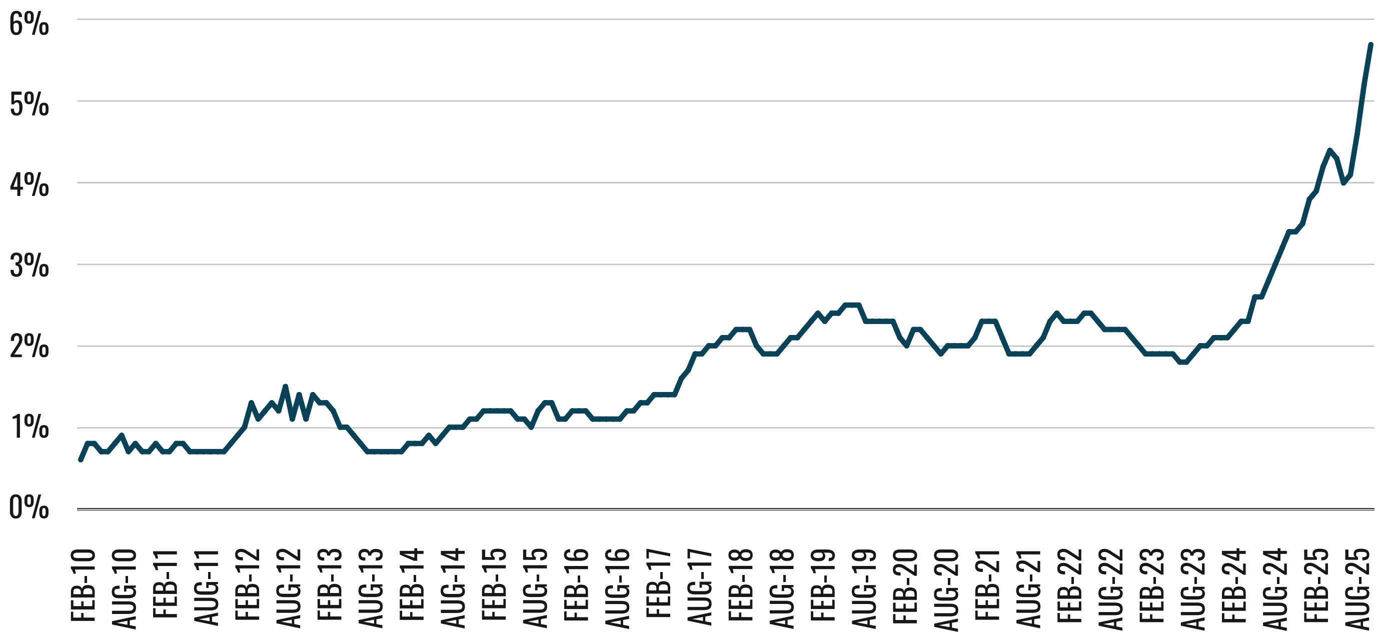
SOURCE: U.S. BUREAU OF LABOR STATISTICS VIA FRED®. ANALYSIS BY BEACON ECONOMICS.

FIGURE 3. JOB POSTINGS, CALIFORNIA



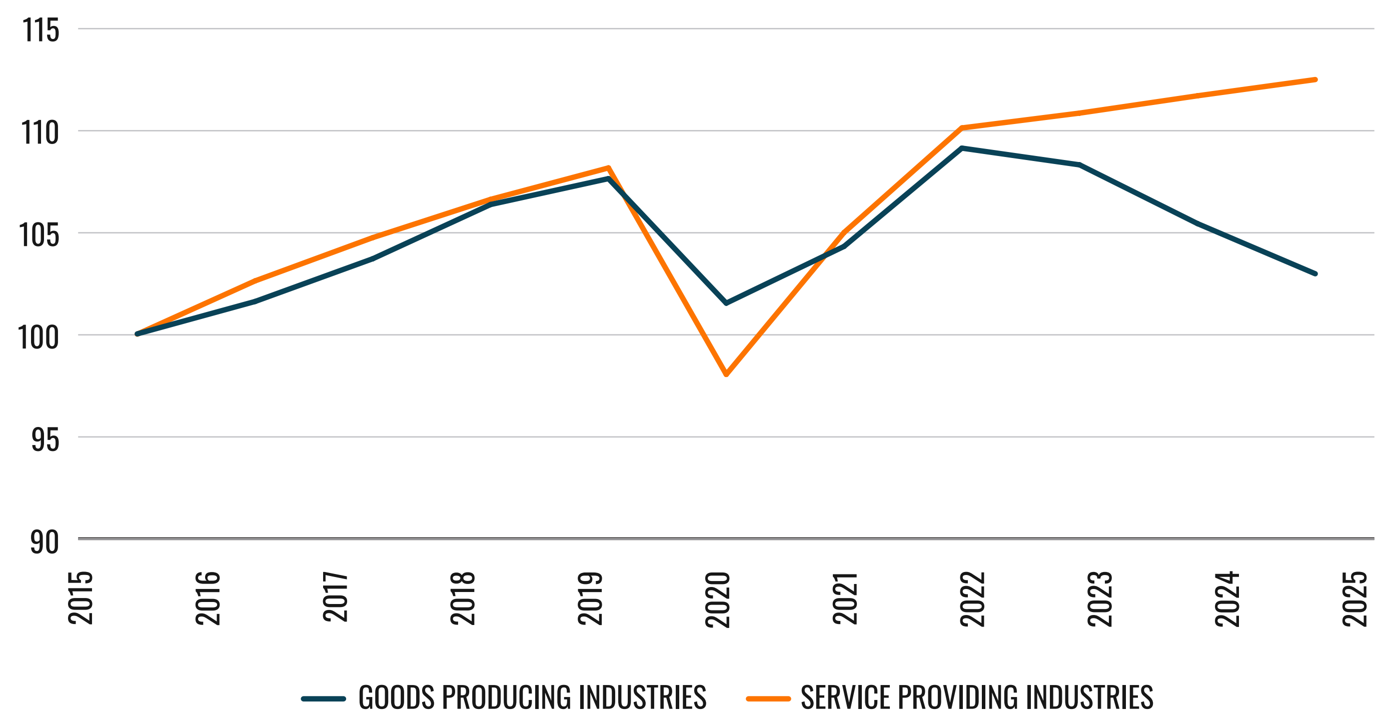
SOURCE: LIGHTCAST. ANALYSIS BY BEACON ECONOMICS.

FIGURE 4. SHARE OF JOBS SEEKING AI SKILLS, CALIFORNIA



SOURCE: LIGHTCAST. ANALYSIS BY BEACON ECONOMICS.

FIGURE 5. INDEXED EMPLOYMENT, CALIFORNIA



SOURCE: CALIFORNIA EDD. ANALYSIS BY BEACON ECONOMICS.

HOUSING AND RENTAL MARKETS

Housing Market: After the extreme tightness of 2020–2022, California's housing market has cooled, but that cooling has not translated into meaningful price relief. Unsold inventory has rebounded from pandemic levels but remains below pre-pandemic levels and is 20% lower than in 2015. With listings still limited, price growth has slowed, but prices themselves have not fallen. Current trends look similar to the pre-pandemic period.

At its core, this is still a supply issue. Over the past decade, California permitted an average of around 9,000 single- and multifamily housing units per month, not nearly enough to meaningfully expand supply. Under the 2021–2029 RHNA cycle, jurisdictions are expected to accommodate about 2.5 million units statewide,[5] or roughly 312,000 units per year. Actual production, even in strong years, has typically been around 100,000 to 130,000 units annually, meaning the state has been building only about one-third of what planners estimate is needed to keep up with demand and address existing undersupply.

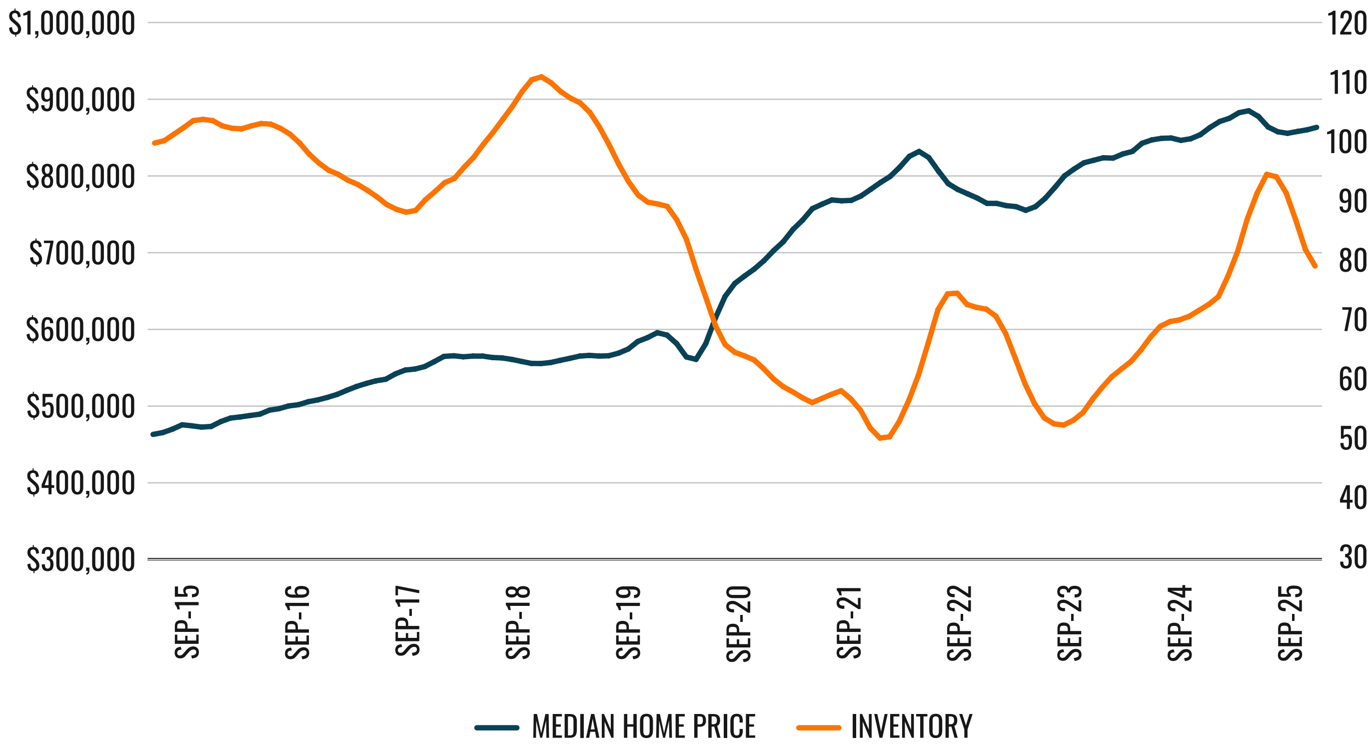
At the same time, Californians are earning more and, since they can afford to do so, taking up more of the existing housing stock. Household counts continue to rise, while the average number of people per household has declined, meaning residents are forming smaller households and occupying more space per person. This "spreading out" effect increases demand for housing units even when overall population growth is modest, putting additional pressure on an already constrained supply.

Rental Market: Rental conditions reflect the same imbalance. Apartment vacancy rates have risen slightly from pandemic levels but remain low by historical standards—roughly 5.3% compared with about 8.2% nationally. In this environment, rent control may provide short-term relief for those households lucky enough to benefit from it, but it's more of a band-aid than a cure. By reducing turnover and competition, it can contribute to faster rent growth rather than addressing the underlying shortage of residential units.

Recent efforts by the state to allow **greater residential density** and **streamline CEQA approvals** are important steps in the right direction, but implementation remains the key risk heading into 2026. Local resistance to new development is still strong, and without sustained increases in housing production, supply constraints are likely to persist regardless of cyclical shifts in demand.

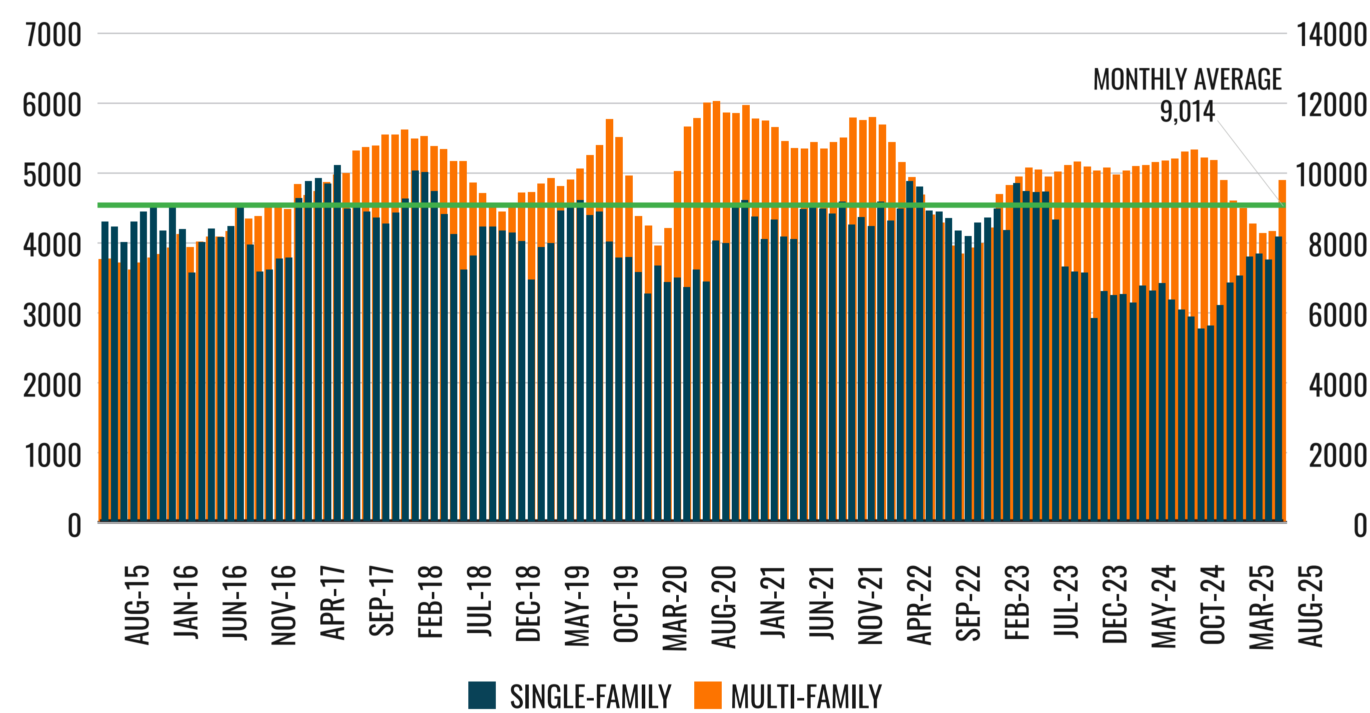
[5] https://shou.senate.ca.gov/system/files/2024-11/background-he-and-rhna-updated-11.2024.pdf

FIGURE 6. MEDIAN HOME PRICES AND INVENTORY, CALIFORNIA



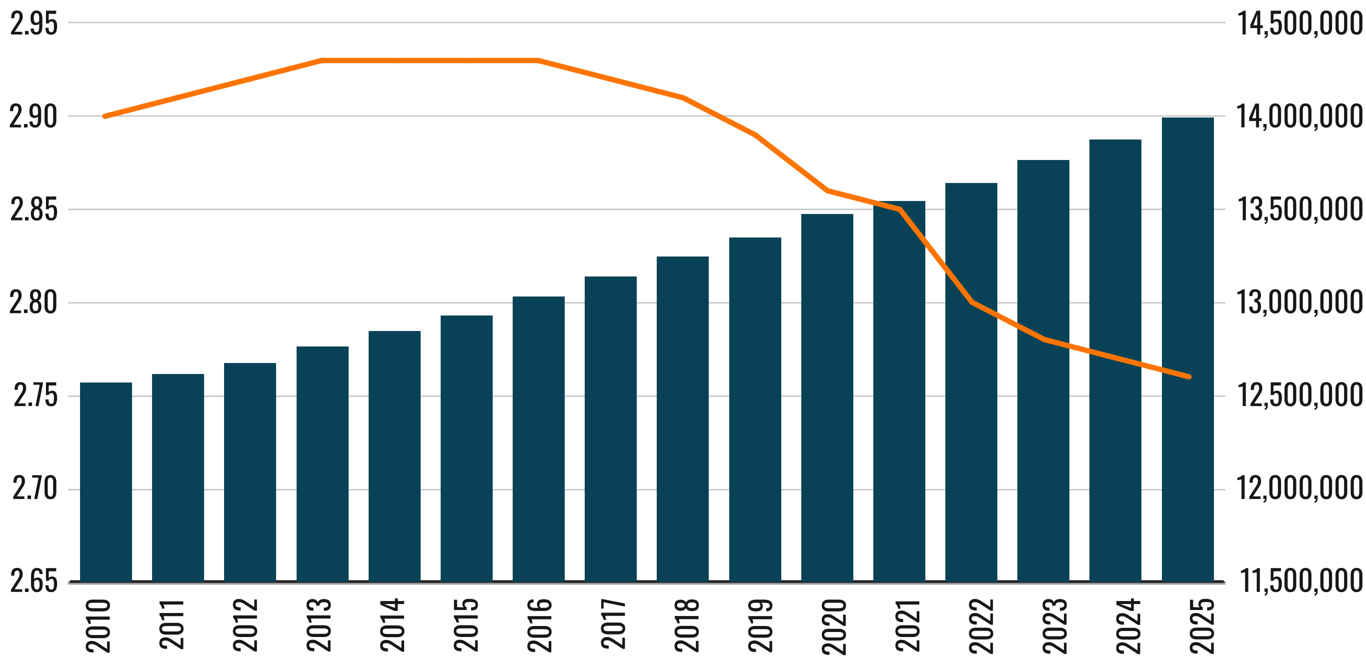
SOURCE: REDFIN AND CORELOGIC. ANALYSIS BY BEACON ECONOMICS.

FIGURE 7. HOUSING PERMITS, CALIFORNIA



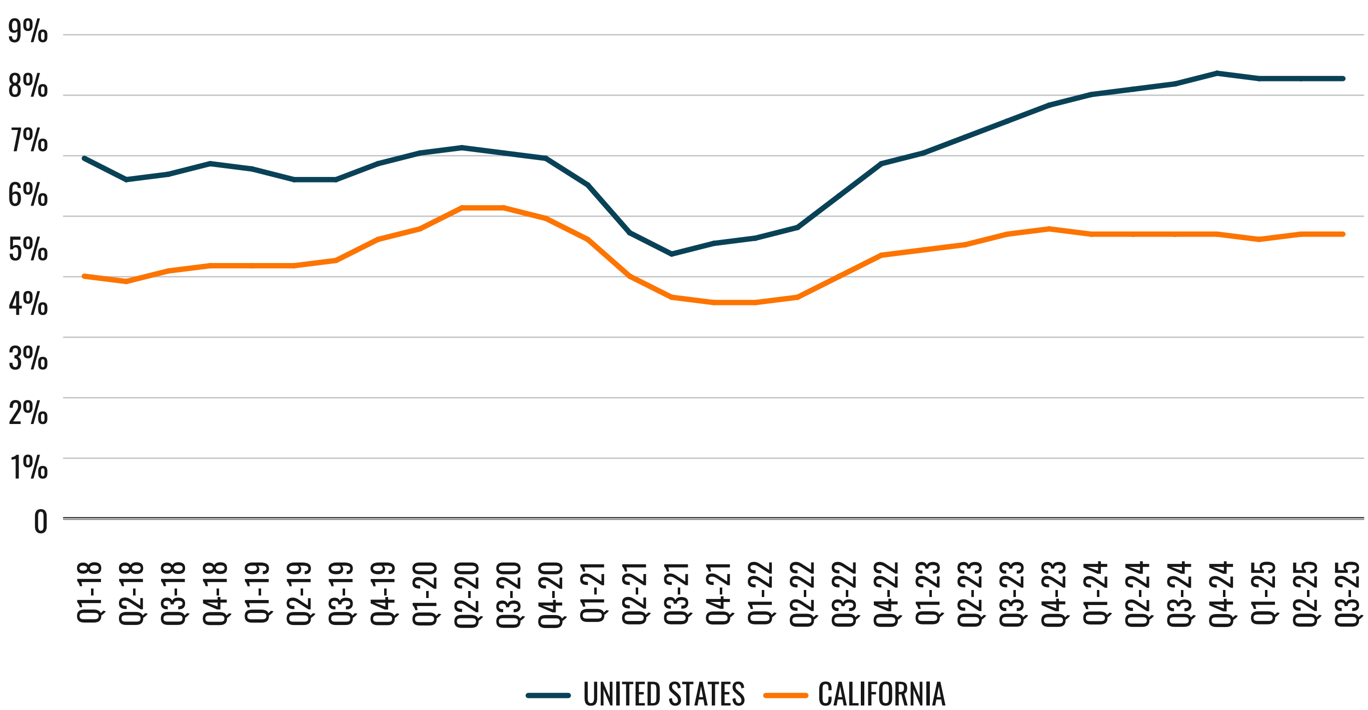
SOURCE: CALIFORNIA EDD. ANALYSIS BY BEACON ECONOMICS.

FIGURE 8. HOUSEHOLD COUNTS AND SIZE, CALIFORNIA



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

FIGURE 9. APARTMENT VACANCY RATES, CALIFORNIA VS. U.S.



SOURCE: COSTAR. ANALYSIS BY BEACON ECONOMICS.

RISKS AND LOOKING AHEAD

1. Housing Costs Face New Pressures from Trade and Immigration Policy

Housing remains a major pressure point for California, and recent federal trade and immigration policies risk making an already serious situation worse. Housing availability is closely tied to labor force growth, and the state is currently struggling on both fronts. Last year, California imported more than $1.8 billion in construction materials and is on track to exceed that. In theory, tariffs should curb imports by raising prices. In practice, uncertainty about their scope, duration, and the likelihood of further measures has prompted importers to front-load purchases instead.

The origins of imported goods are already changing. Imports from Vietnam have surged, overtaking China, which has faced some of the most restrictive tariffs. At the same time, imports from Mexico and Canada have declined, even though they could be protected under USMCA, likely reflecting uncertainty ahead of the agreement's **renegotiation** next year. Because total import volumes have not fallen in dollar terms, it's reasonable to assume that tariff-related costs are being absorbed somewhere along the supply chain, adding to construction costs. These cost estimates also exclude large appliances, a significant and often overlooked aspect of total housing costs.

Current immigration policy adds another layer of risk. More than a quarter of California's construction workforce—over 400,000 workers—are non-citizens, compared with around 16% nationwide. As immigration enforcement intensifies, fear-driven absences are already affecting job sites, leading to delays, safety issues, and higher costs. Because non-citizen workers tend to fill essential roles in the construction industry, reduced availability will drive labor costs even higher. Combined with already elevated material prices, these pressures reinforce a long-running trend: construction costs in California have been rising for decades and surged sharply after 2021. While permitting reform is an important piece of the housing puzzle, rising material and labor costs, now further strained by trade and immigration policy, remain a serious obstacle to improving the state's housing supply.

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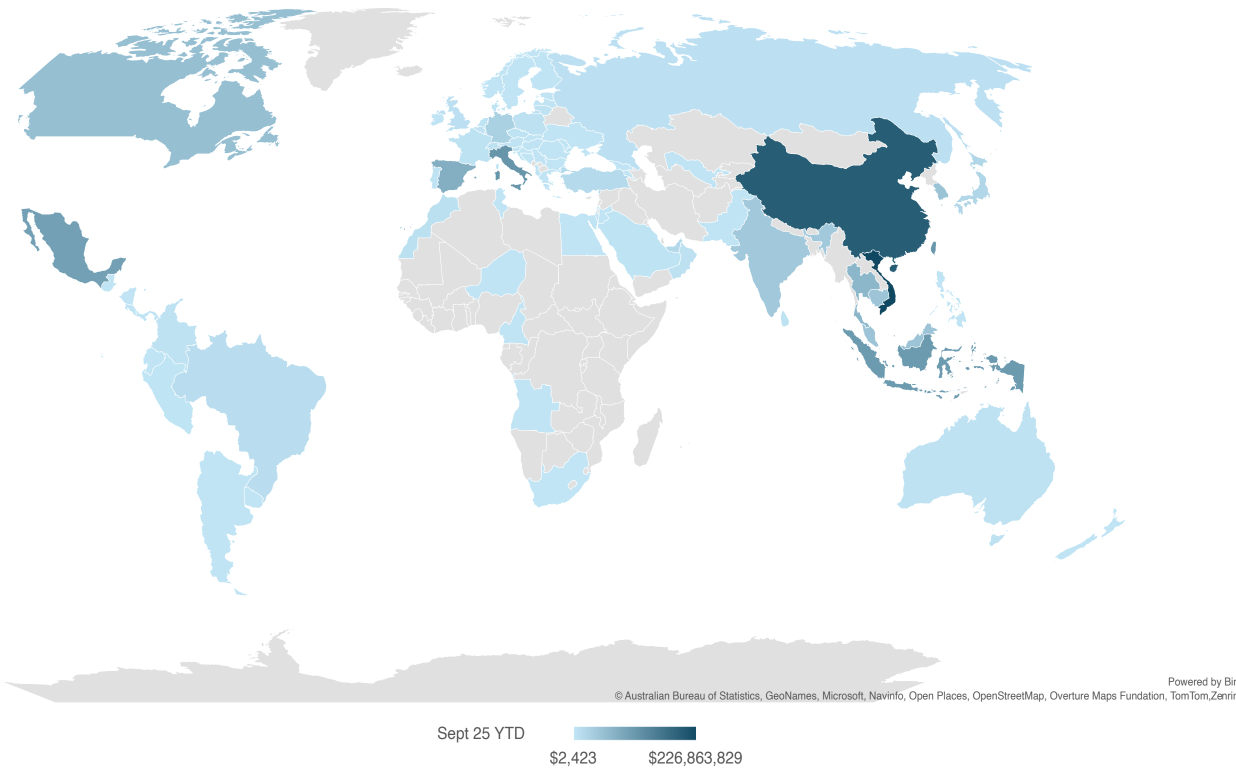
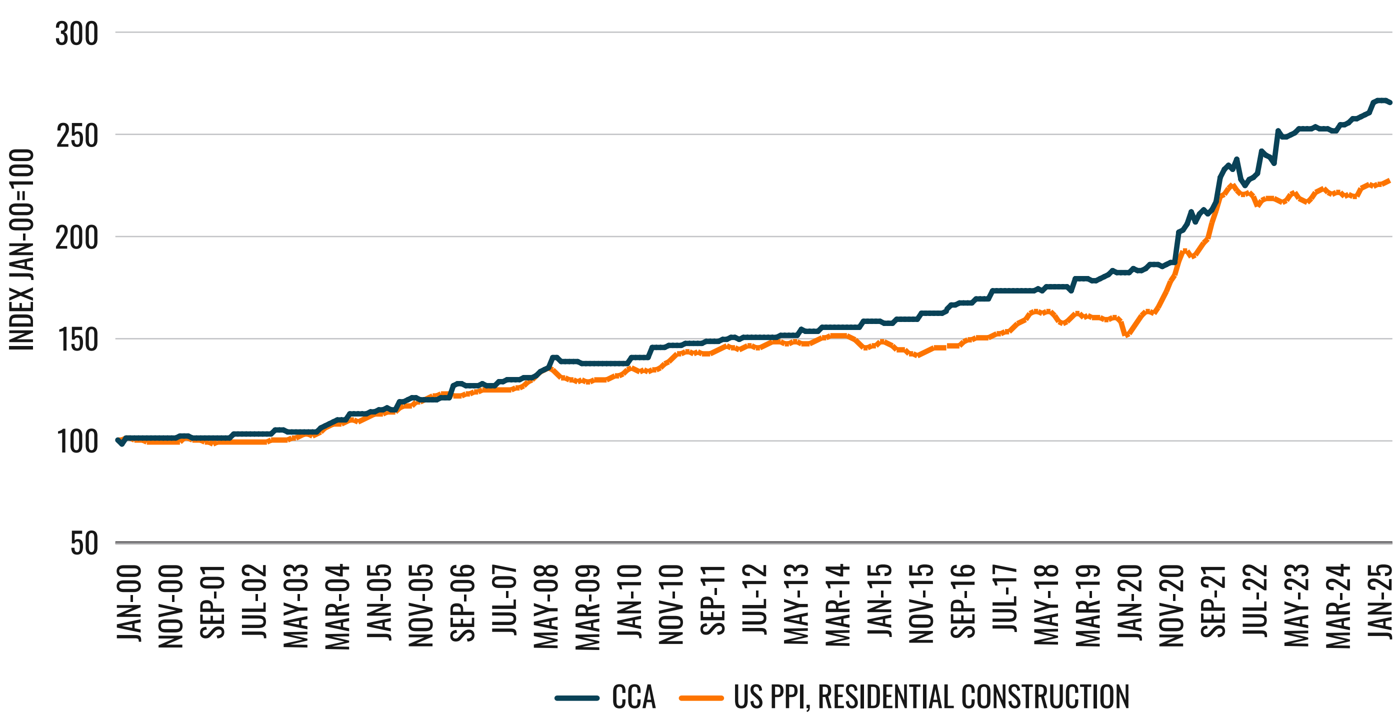
FIGURE 10. CALIFORNIA BUILDING MATERIAL IMPORT VOLUME



SOURCE: WISER. ANALYSIS BY BEACON ECONOMICS.

FIGURE 11. CONSTRUCTION COST INDEX, CALIFORNIA VS. U.S.



SOURCE: CA DEPARTMENT OF GENERAL SERVICES (DGS). ANALYSIS BY BEACON ECONOMICS.

TABLE 1. CALIFORNIA TOP 10 BUILDING MATERIAL TRADING PARTNERS

Country	Import Volume, Sept 2025 YTD ($)	Change from Sept 2024 YTD
VIETNAM	226,863,829	34.2%
CHINA	196,446,426	-12.7%
ITALY	114,949,958	17.6%
TAIWAN	112,646,408	-17.0%
INDONESIA	107,921,361	31.2%
MEXICO	99,233,016	-10.2%
SPAIN	77,211,255	16.1%
THAILAND	66,662,593	-6.3%
CANADA	53,744,052	-26.1%
KOREA, REPUBLIC OF	48,968,966	-16.9%
ALL OTHER	307,455,162	1.8%
TOTAL	**1,412,103,026**	**1.5%**

SOURCE: WISER. ANALYSIS BY BEACON ECONOMICS.

TABLE 2. CALIFORNIA'S CONSTRUCTION WORKFORCE

Immigration Status	California			Rest of US Construction Industry Share
	Workforce	Share of Industry	Median Anuual Wages	
NATIVE-BORN	884,143	59.6%	$58,110	77.2%
NATURALIZED	199,299	13.4%	$60,000	6.7%
NON-CITIZEN	400,858	27.0%	$37,400	16.1%

SOURCE: ACS PUMS 2024. ANALYSIS BY BEACON ECONOMICS.

2. **Given the state's large foreign-born population, immigration policy remains an important area to watch for California.**

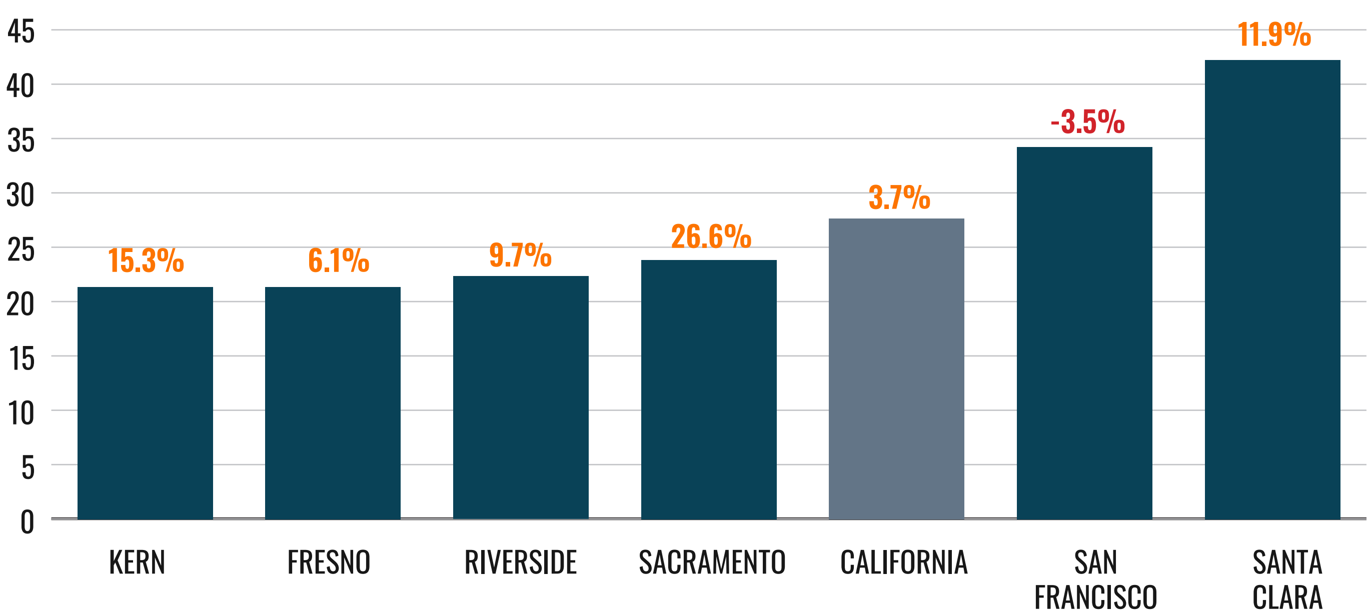
Given the state's large foreign-born population, immigration policy has ramifications for California beyond the construction sector. Census ACS data show that foreign-born residents make up roughly 20% to more than 40% of the population in many California counties. As a result, shifts in immigration flows have a disproportionate influence on the state's population growth and labor-force dynamics.

Historically, net foreign migration into California has been positive, although there has been a gradual downturn over the past few decades. Net foreign migration declined over the past decade, with a steep pandemic-era drop followed by a rebound in 2022–2024 to roughly its 2019 level. The trend may look different once the full 2025 data become available.

At the same time, California has generally experienced negative net domestic migration, meaning more residents move out of the state than move in. While this pattern varied in earlier decades, net domestic out-migration has been consistently negative for the past 25 years. After 2020, these outflows grew substantially, with greater remote-work flexibility and higher housing costs both likely playing a role.

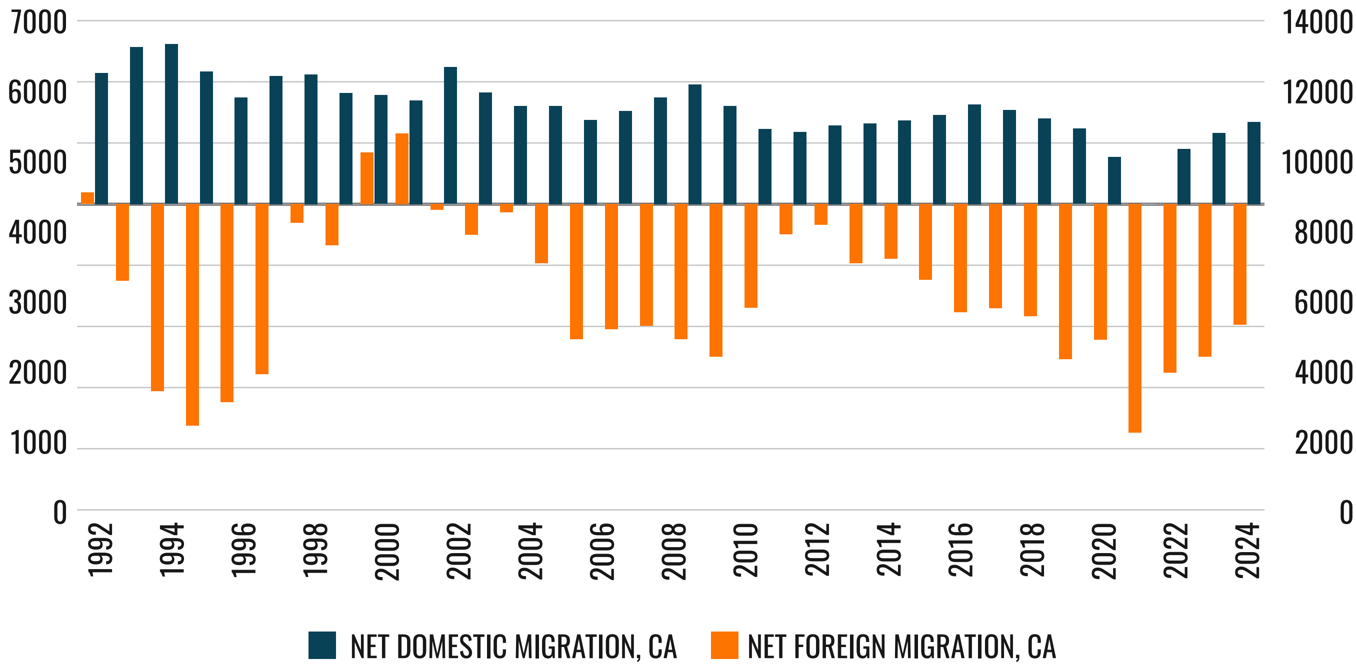
Looking ahead, tighter immigration policy, combined with slower natural population growth and continued domestic outmigration, poses a real risk to labor force growth and long-term economic momentum. While California remains highly attractive on a global scale, sustaining population stability will increasingly depend on expanding the housing supply and retaining workers in an increasingly competitive national landscape.

FIGURE 12. SHARE FOREIGN-BORN (AND 10-YEAR CHANGE), CALIFORNIA



SOURCE: U.S. CENSUS AMERICAN COMMUNITY SURVEY (ACS). ANALYSIS BY BEACON ECONOMICS.

FIGURE 13. NET MIGRATION, CALIFORNIA



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

3. California's Budget is Exposed to Market Volatility

Another risk heading into 2026 is California's budget position. The state's revenues are unusually sensitive to financial markets because so much of the tax base is tied to personal income taxes, including capital gains and stock-based compensation. That means a stock market correction, or a pullback following the recent AI-driven run-up, could easily translate into weaker revenues. And this is more of an issue now because California has limited room to absorb a shock. Current estimates by the Legislative Analyst's Office point to an almost **$18 billion** budget gap in 2026–27, larger than what was anticipated earlier in the year, despite some recent revenue improvement.

Looking further ahead, the challenge is structural. Spending growth continues to outpace revenue growth, driven in part by constitutional spending requirements and rising program costs. As a result, deficits are expected to widen beyond 2026–27. This is especially problematic given longer-term pressures from an aging population and growing demand for health care and public services. Together, these pressures limit California's flexibility, potentially affecting policy choices, business confidence, and the state's ability to invest in long-term growth.

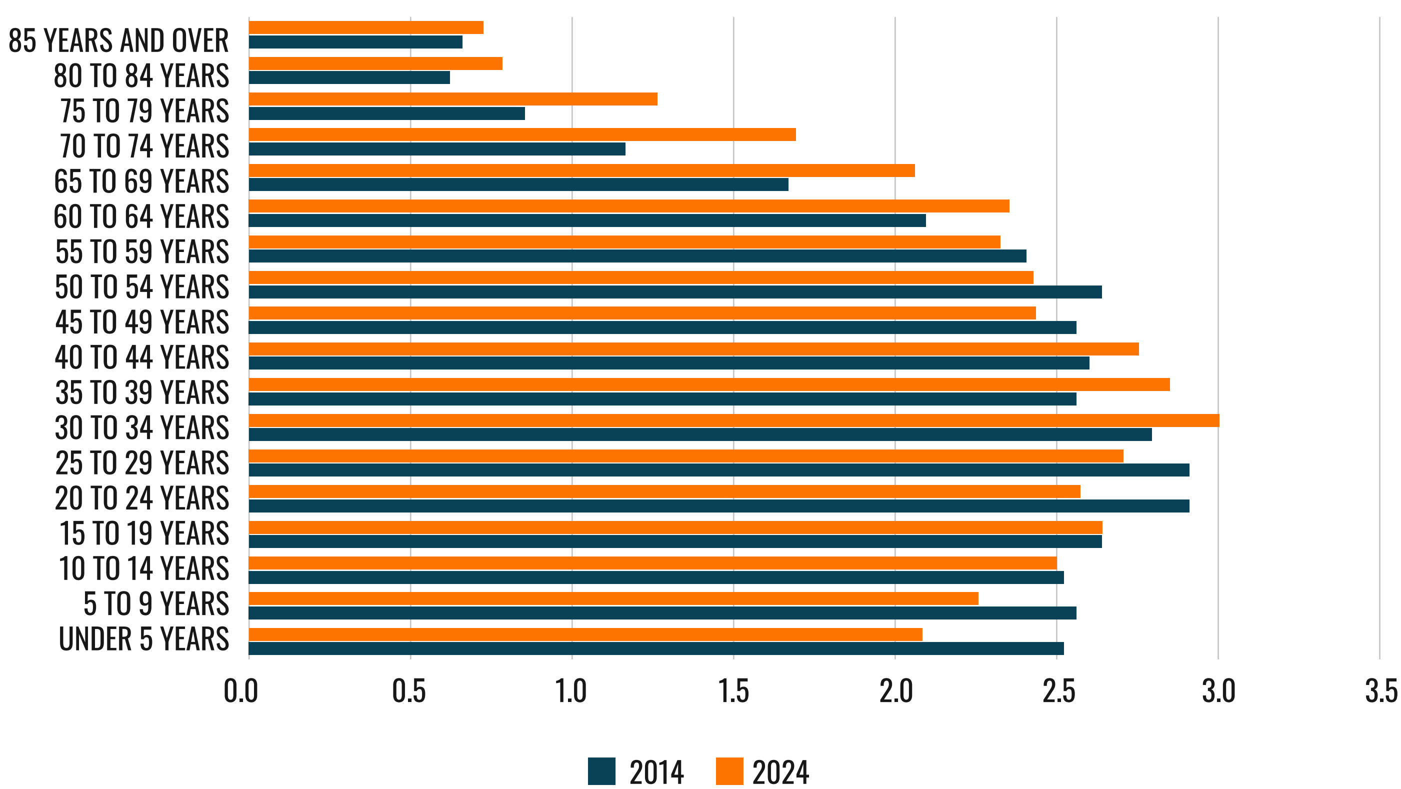
4. Demographic Aging Poses a Longer-Term Economic Risk

Alongside limited housing supply and near-term labor market issues, California is experiencing a gradual demographic transition that carries significant long-term implications. Over the past decade, the state's population has become notably older. Growth has been concentrated among residents aged 50 and over, while younger age groups have grown more slowly or declined. This reflects a combination of lower birth rates and fewer people moving into the state, especially following the pandemic.

While net domestic migration has been negative for years and accelerated after 2020, net foreign migration has become increasingly sensitive to federal immigration policy. At the same time, natural population growth has slowed as birth rates have fallen. Overall, these trends point to fewer people entering the workforce than aging out of it.

This is not a quarter-to-quarter risk, but it has real implications over time. An aging population puts increasing pressure on Health Care and Public Services, while gradually shrinking the pool of available workers. For California, this makes expanding the housing supply and adopting economically sound policies that support both housing and labor-market growth even more critical. Without progress on housing production, cost containment, and policy alignment, these demographic challenges will become harder to manage.

FIGURE 14. POPULATION BY AGE, CALIFORNIA: 2014 VS. 2024



SOURCE: U.S. CENSUS AMERICAN COMMUNITY SURVEY (ACS). ANALYSIS BY BEACON ECONOMICS.

CONCLUSION

California enters 2026 with an economy that is neither falling apart nor firing on all cylinders. Instead, it is constrained by uncertainty, high costs, and long-standing structural imbalances that current policy choices and negative narratives have only reinforced. The labor market has softened, not because demand has collapsed, but because population growth has slowed and businesses seem to be operating more cautiously. Housing remains expensive and in short supply, limiting labor force growth and hindering the state's efforts to attract and retain workers. Meanwhile, consumer spending has stabilized following the stimulus-driven surge.

In the near term, the outlook hinges on whether uncertainty begins to ease in the first half of the year. If federal policies stabilize, proposed state policies move in a more predictable and investment-supportive direction, and businesses receive clearer signals, some of the hiring and investment decisions that have been delayed over the past year could finally move forward. At the same time, the state's budget remains highly exposed to financial market swings, adding another layer of risk if conditions deteriorate.

Over the longer run, the outlook is fundamentally structural. California's ability to sustain growth will depend on expanding housing supply and restoring population growth. Without progress on these fronts, demographic aging and labor force constraints will continue to weigh on the state's economic potential, even as conditions nationwide are favorable.

CALIFORNIA FORECAST

CALIFORNIA INDICATOR	ACTUAL			FORECAST			
	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26
NONFARM PAYROLLS (000S, SA)	18,010.10	17,998.50	18,014.53	18,019.23	18,017.63	18,019.53	18,030.13
UNEMPLOYMENT RATE (%, SA)	5.3	5.5	5.5	5.6	5.6	5.5	5.4
REAL GDP (MILLIONS 2012$, SAAR)	3,377,264.00	3,421,088.20	3,427,367.00	3,461,702.00	3,484,788.00	3,505,557.00	3,525,449.00
HOME PRICES ($, SA)	736,702.60	737,538.90	739,501.80	741,145.50	742,348.30	742,223.50	742,368.40

FORECASTS BY BEACON ECONOMICS.