

THE BEACON OUTLOOK CALIFORNIA

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GROWING ECONOMY, SHRINKING JOB MARKET

Amidst the endless noise about California's economic health, a significant structural divergence has reached new heights, creating an underlying fragility that will complicate the state's stability.

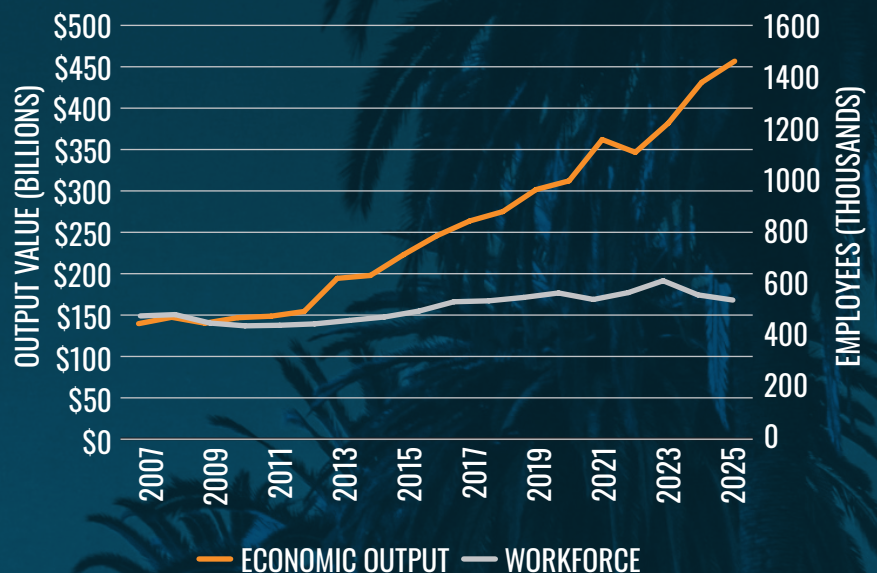
On one hand, California's economy is in good health. While the official figures for the last quarter are still being tallied, the state's economic growth comfortably outpaced the national average of 2.5% in 2025, tracking toward an annual growth rate near 3%. California's share of national GDP has inched up slightly from 14% at the beginning of 2023 to 14.2% at the end of 2025, and consumer spending has been rising at an annual rate of roughly 5%.

At the same time, the job market is sagging. California now has the highest unemployment rate of all fifty states in the Union, stubbornly hovering at 5.5%, and its job market appears to be going in the wrong direction. The total number of jobs in California actually shrank by 0.6% since the beginning of this year, making it the 17th worst-performing state in the nation in terms of job creation.

What explains this divergence between a healthy, growing economy and an unhealthy, shrinking job market? A large part of the answer lies in the underlying structural dynamics of the industries generating the state's wealth.

The U.S Census classifies the economy into 20 high-level categories.¹ Historically, "Government" has been the largest industry in California, but that changed a couple years ago, when the "Information" industry overtook it.

CALIFORNIA INFORMATION INDUSTRY GROWING ECONOMY, SHRINKING JOB MARKET



¹ The NAICS (North American Industry Classification System) is a standardized numbering system used by government agencies to classify businesses based on their primary economic activity.

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

The Information industry is composed of Tech, Entertainment and Telecommunications companies, although Tech comprises the majority of its output, and is most responsible for its growth. Over the past fifteen years, Information has expanded more rapidly than any other industry in California, with real output surging from \$147 billion to roughly \$450 billion last year.

However, the sector’s labor force has remained effectively stagnant over this same period, hovering around 500,000 workers. As a result, Information stands as the undisputed leader in economic output yet ranks a lowly twelfth in total employment. To put this divergence into perspective: the Healthcare sector employs six times as many workers as the Information industry but generates only 65% of California’s economic output.

MAKEUP OF THE CALIFORNIA ECONOMY

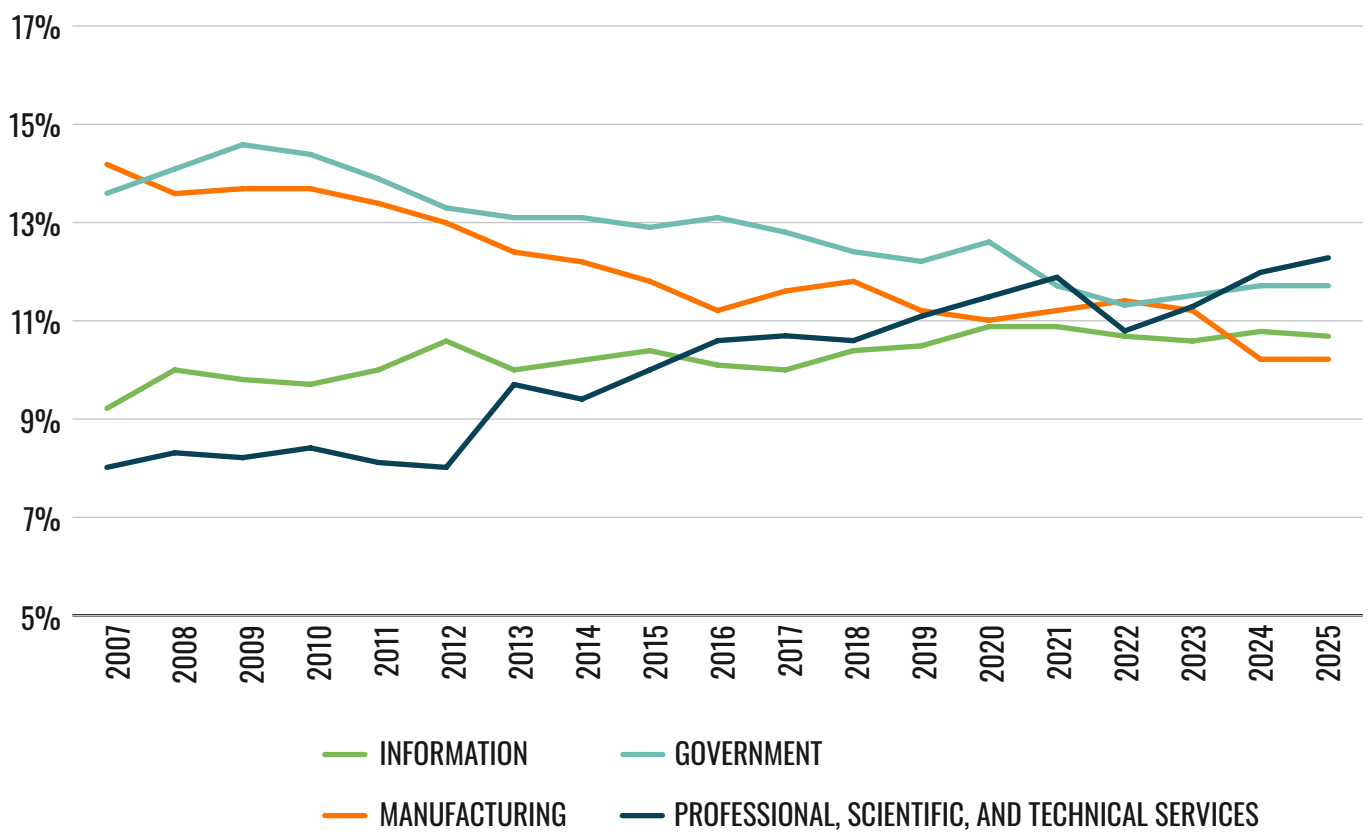
Industry (2-Digit NAICS Code) ²	2025 GDP	% of CA GDP	Employment	% of CA Employment	Average Earnings
Information	\$458.1	12.3%	573,480	2.8%	\$324,998
Government	\$434.7	11.7%	2,970,022	14.3%	\$122,171
Professional, Scientific, and Technical Services	\$398.1	10.7%	1,625,005	7.9%	\$180,171
Manufacturing	\$379.8	10.2%	1,275,258	6.2%	\$148,262
Health Care and Social Assistance	\$298.7	8.0%	3,078,252	14.9%	\$78,971
Finance and Insurance	\$253.7	6.8%	568,327	2.7%	\$199,023
Retail Trade	\$224.5	6.0%	1,671,288	8.1%	\$59,943
Wholesale Trade	\$199.6	5.4%	670,472	3.2%	\$122,740
Real Estate and Rental and Leasing	\$166.5	4.5%	394,817	1.9%	\$97,361
Construction	\$154.9	4.2%	1,134,816	5.5%	\$97,214
Accommodation and Food Services	\$128.2	3.4%	1,721,109	8.3%	\$40,837
Transportation and Warehousing	\$123.4	3.3%	872,940	4.2%	\$88,994
Administrative and Support and Waste Management and Remediation Services	\$122.0	3.3%	1,250,606	6.0%	\$70,679
Management of Companies and Enterprises	\$85.4	2.3%	286,823	1.4%	\$263,128
Other Services (except Public Administration)	\$72.0	1.9%	1,099,421	5.3%	\$47,120
Arts, Entertainment, and Recreation	\$63.9	1.7%	446,844	2.2%	\$75,181
Utilities	\$57.4	1.5%	68,381	0.3%	\$219,087
Educational Services	\$43.8	1.2%	542,646	2.6%	\$67,938
Agriculture, Forestry, Fishing and Hunting	\$40.4	1.1%	432,047	2.1%	\$59,655
Mining, Quarrying, and Oil and Gas Extraction	\$12.8	0.3%	16,561	0.1%	\$183,893

² Not all of “Tech” resides in the Information Industry, but a large portion does, including many of the largest players such as Google, Microsoft, and Meta.

Given the frenzy surrounding Silicon Valley and Artificial Intelligence, an understandable response could be to shrug and dismiss this as nothing more than a familiar pattern. However, the scale has reached new heights. The Information industry only became California's largest Industry in the last couple of years, even though it's been making headlines and spinning out billion-dollar companies for decades. Consider the early years of the iPhone and the ascent of social media 15 years ago. Silicon Valley was the leader of tech innovation and growth then as it is today. The difference is that the Information industry represented only 8% of California's GDP back then; today it's grown past 12%.

The state's four largest industries are shown in the graph below. At quick glance it appears that Manufacturing (in which California is an often unacknowledged powerhouse) has been hollowed out. But that's not the case. Manufacturing is doing fine. Its overall output grew from \$238 billion in 2010 to roughly \$380 billion in 2025, a 60% increase in total output. However, the Information industry increased 220% over the same period. The issue is that traditional, physical industries are struggling to keep up with the exponential scaling of the digital economy. As the processing power of semiconductors and data centers continues to compound, so does the commercial value of Tech companies. Manufacturing is progressing at a steady, more linear pace, and this divergence is fundamentally altering the state's economic center of gravity.

TOP 4 INDUSTRIES SHARE OF CALIFORNIA'S GRP



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

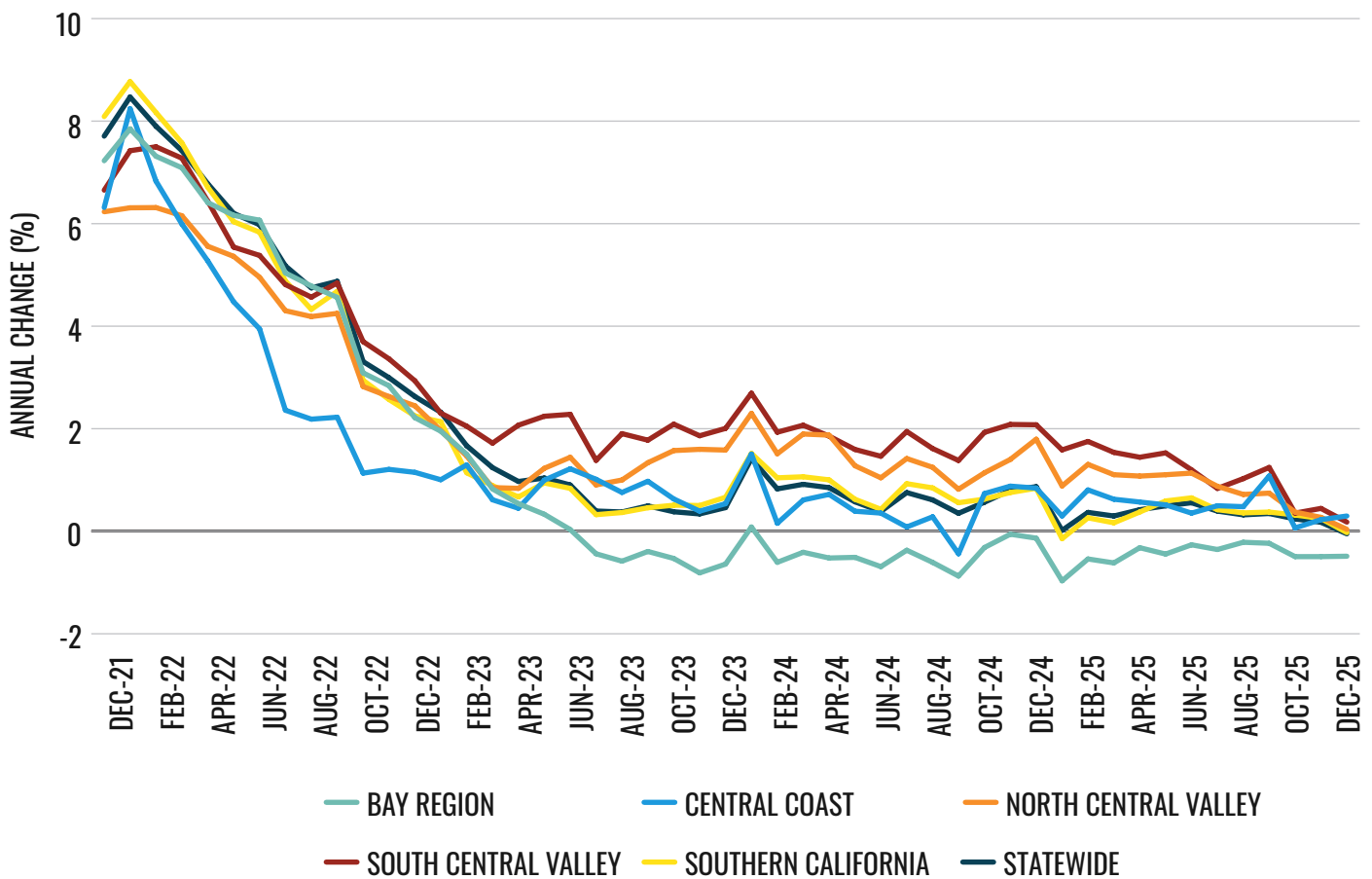


This trend is likely to continue for the foreseeable future, as A.I. attracts record amounts of capital investment. Several highly valued companies such as OpenAI, Anthropic, Databricks, and others are expected to IPO later this year, which will accelerate the astronomical wave of liquidity funneling into Silicon Valley.

There is no doubt that California is fortunate to be the home of this world-changing industry. The positive spillover effects are undeniable, attracting the world’s brightest minds, raking in oceans of global capital, and generating the kind of extreme wealth that ultimately funds the state’s massive public sector. However, for all their economic glory, Tech companies simply do not create many jobs... at least, not in California. One of the tactics employed by the industry is to offshore the more labor-intensive parts of the supply chain to cheaper geographies.

In the last 20 years, the output of the Information industry has increased 230%, yet its California workforce has only grown 13%. In 2007, each Information worker produced about \$292,000 worth of economic output. Now, each information worker produces over \$800,000 worth of output. This hyper-productive, low-headcount reality explains why the San Francisco Bay Area - the epicenter of this global wealth creation - has been shedding jobs over the last couple of years, while the rest of California has been generating them.

CALIFORNIA JOB GROWTH BY MAJOR REGION



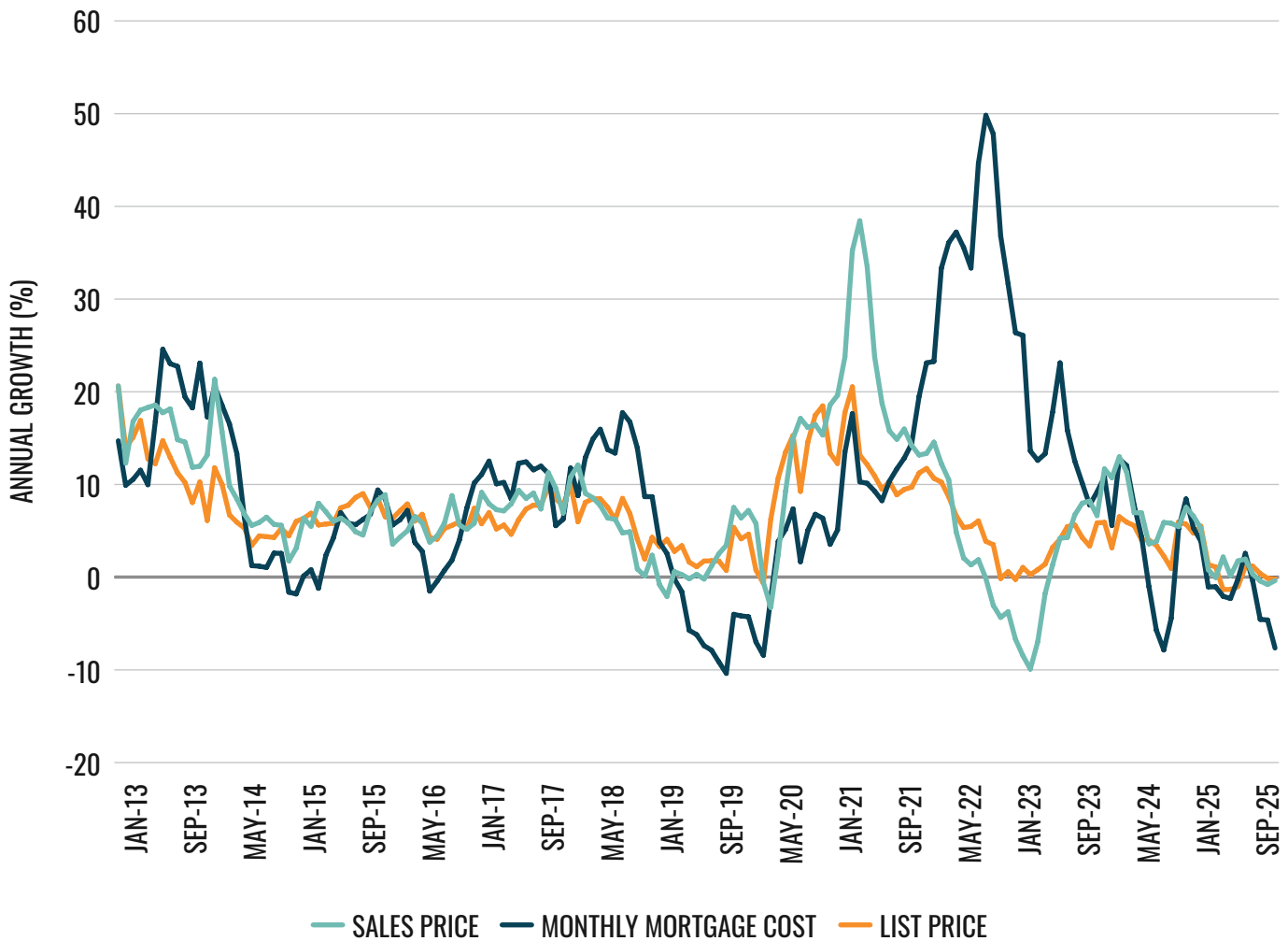
SOURCE: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT. ANALYSIS BY BEACON ECONOMICS.

In fact, most job creation has occurred in the Sacramento area and in the Central Valley, away from the Information Industry regions. Coastal markets have become mature, saturated, and prohibitively expensive, so economic growth in traditional and service-based sectors is naturally migrating eastward to locations with more available land and slightly lower operating costs.

A SLUGGISH HOUSING MARKET

The soft job market partially explains the sluggish housing market. Housing is a frequent topic at Beacon Economics because it's the largest single line-item in a household budget, meaning its fluctuations ripple through the entire consumer economy. Interestingly, despite mortgage rates dropping to roughly 6.0% recently, both listing and sale prices have fallen slightly over the last two months.

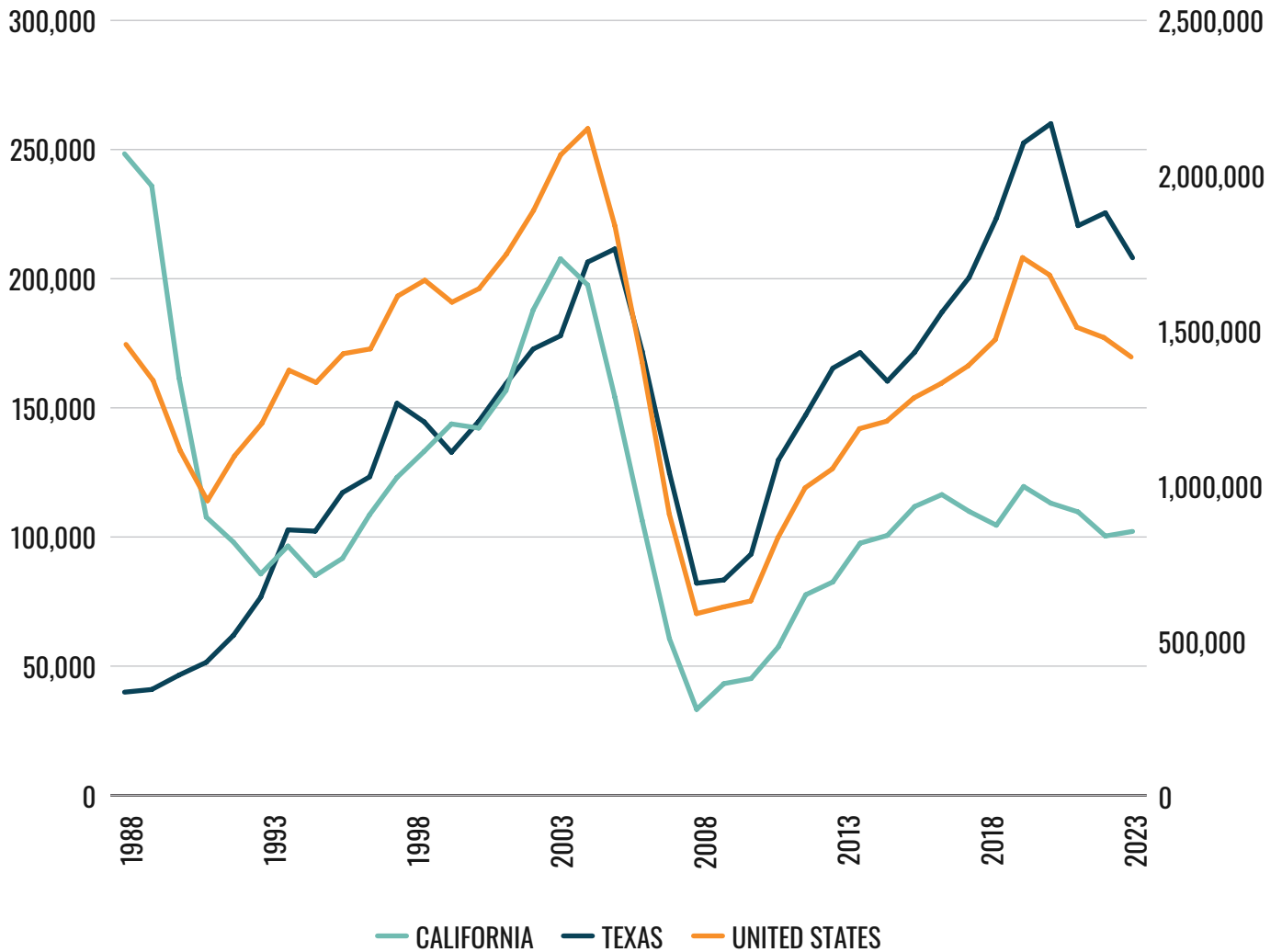
CALIFORNIA HOUSING DYNAMICS



SOURCE: REDFIN, FREDDIE MAC. ANALYSIS BY BEACON ECONOMICS.

It is also important to note that this slight cooling in home prices is entirely disconnected from any meaningful expansion in California’s housing supply. The state’s government has passed a slate of housing bills over the last few legislative sessions designed to spur development (such as AB 130 and SB 9), but so far, these measures have failed to generate a noticeable acceleration in new residential permits.

NEW PRIVATE HOUSING UNITS AUTHORIZED BY BUILDING PERMITS



SOURCE: REDFIN, FREDDIE MAC. ANALYSIS BY BEACON ECONOMICS.

POLICY AND THE FUTURE

In the near term, Beacon Economics expects the current trajectory to hold firm. The Information sector will continue to drive immense gains in economic output, supercharged by the advancement of A.I. and influxes of capital. However, it will do so without creating a meaningful number of new jobs. While state revenues and global investors will benefit from Tech's success, it will not offer any relief to the average California worker.

Furthermore, relying heavily on this single sector creates profound state budget volatility. California's tax revenue is directly tethered to the capital gains and high-income earners of the Tech sector, so the state ledger is highly susceptible to the industry's boom-and-bust cycles. Even when the state's broader GDP is growing steadily, a brief cooling in tech valuations or the NASDAQ can quickly carve massive deficits into the public budget. This structural issue will persist because rigid budget laws mandate that California spend specific proportions of its tax revenue, preventing the state from storing up surplus during the fat years to survive the lean ones.

This also means the state cannot rely on the next tech boom to solve its employment woes. The structural issue is compounded by California regulatory hurdles, such as aggressive minimum wage increases. Past empirical analysis from Beacon Economics has shown that California's high unemployment rate is partly a result of an increasing minimum wage in various industries and sectors. By rapidly driving up the baseline cost of labor, these policies inadvertently price young people and those on the fringes of employability out of the market, artificially constricting job growth in the service and retail sectors that would traditionally absorb them.

With the gubernatorial elections quickly approaching, the next administration will be forced to confront this bifurcated reality. There is no front-runner in the race currently. No candidate is polling over 20%, so it's unclear what economic messaging or policy platforms will be most popular with voters. Ultimately, if California's main wealth-generating industry does not also generate jobs, policymakers should foster more hospitable business climates for those industries that do. This means meaningfully clearing roadblocks for construction and easing the regulatory burdens that make it difficult for traditional, labor-intensive industries to hire and expand in California. A thriving tech sector is undeniably a tremendous asset, but it will take a balanced, broad-based economy to secure California's future.

CALIFORNIA FORECAST

QUARTER/YEAR	NONFARM PAYROLLS (000S, SA)	UNEMPLOYMENT RATE (%, SA)	REAL GDP (MILLIONS 2012\$, SAAR)	HOME PRICES (\$, SA)
ACTUAL				
Q3-25	17,998.5	5.5	3,414,490.5	737,655.8
Q4-25	18,012.2	5.6	3,456,087.9	741,205.8
FORECAST				
Q1-26	18,030.0	5.5	3,481,465.0	743,240.8
Q2-26	18,041.5	5.5	3,506,985.0	743,933.0
Q3-26	18,051.2	5.4	3,530,984.0	744,419.5
Q4-26	18,060.2	5.3	3,551,676.0	745,656.2
Q1-27	18,066.4	5.2	3,572,249.0	747,955.6
Q2-27	18,071.3	5.2	3,594,006.0	750,956.5
Q3-27	18,076.2	5.1	3,616,094.0	754,304.8
Q4-27	18,081.1	5.1	3,638,250.0	758,040.7

FORECASTS BY BEACON ECONOMICS.