

State’s Economic Headwinds Intensify After Modest Growth in 2022

California’s economy is projected to weaken in 2023, after a decline in GDP in the first half of 2022 was followed by a recovery in the second half of the year. Spillovers from the tech sector’s correction, the failure of Silicon Valley Bank, a pullback in the state’s housing market, and ongoing headwinds from high inflation and rising interest rates underpin expectations for a tough year for the Golden State’s economy.

The state’s recent population losses are likely to partially reverse in 2023, as immigration flows resume post-pandemic, jobs become less plentiful out of state, and higher mortgage rates make it harder to cash out of California’s housing market. Payroll growth is projected to slow markedly to 1.1% in 2023 from 5.6% in 2022. The Golden State’s job market is under pressure from the technology and housing corrections, which are pushing the state’s unemployment rate higher. As the labor market cools, total personal income is expected to rise at a modest pace of around 2.0% in 2023, lagging inflation.

2023 will be a down year for housing in California, where affordability is more strained than most parts of the country. Single-family housing starts are expected to decline again this year and be down around 25% from 2022. Multi-family housing starts are expected to rise, but not by enough to offset the single-family decline. A big increase in multifamily housing supply should contribute to slower rent increases in 2023.

As is true nationally, personal and business bankruptcies have been very low since the pandemic began as stimulus dollars cushioned business and household finances, but are normalizing higher in 2023, as slack in the labor market, lower business incomes, and higher interest rates squeeze the finances of more vulnerable parts of the state’s economy.

California Economic Outlook											
	1Q'22a	2Q'22a	3Q'22a	4Q'22p	1Q'23f	2Q'23f	3Q'23f	4Q'23f	2021a	2022p	2023f
State GDP											
Real GDP (Chained 2009 Billions \$)	2,870	2,867	2,894	2,911	2,882	2,849	2,823	2,844	2,875	2,886	2,849
Percent Change Annualized	-10.8	-1.9	4.6	4.3	-4.0	-4.4	-3.7	3.1	7.8	0.4	-1.3
Labor and Demographics											
Payroll Jobs (Millions)	17.5	17.7	17.8	17.9	17.9	17.9	17.9	17.9	16.7	17.7	17.9
Percent Change Annualized	4.6	4.5	2.9	2.2	0.4	-0.5	-0.1	0.7	3.5	5.6	1.1
Unemployment Rate (Percent)	4.8	4.0	3.9	4.1	4.4	4.9	5.4	5.9	7.3	4.2	5.1
Population (Millions)	39.0	39.0	39.1	39.3	39.4	39.5	39.6	39.7	39.1	39.1	39.5
Percent Change Annualized	-0.1	0.5	0.6	2.5	0.8	0.8	0.9	0.9	-0.9	0.0	1.1
Net Migration (Thousands)	-41.0	16.6	18.6	19.4	20.4	26.5	31.3	34.7	-430.9	13.5	112.8
Personal Income											
Total Personal Income (Nominal Billions \$)	2,964	2,980	3,025	3,064	3,072	3,069	3,064	3,065	3,006	3,008	3,068
Percent Change Annualized	-2.6	2.3	6.1	5.3	1.1	-0.4	-0.6	0.1	7.7	0.1	2.0
Housing											
Housing Starts (Thousands, Annual Rate)	113.8	108.8	107.0	102.3	100.1	97.7	100.0	106.8	112.4	108.0	101.1
Percent Change Annualized	1.6	-16.3	-6.3	-16.5	-8.4	-9.3	9.8	29.9	11.4	-4.0	-6.3
SF Housing Starts (1,000s Units, Annual Rate)	78.1	69.4	61.1	51.1	49.1	48.4	48.1	48.5	70.0	64.9	48.5
MF Housing Starts (1,000s Units, Annual Rate)	35.6	39.4	45.9	51.2	51.0	49.2	51.9	58.3	42.4	43.0	52.6
House Prices, FHFA (1991 Q1=100, SA)	408	416	405	394	382	363	353	366	367	406	366
Year/Year Percent Change	19.9	15.8	7.6	0.8	-6.4	-12.7	-13.1	-7.2	18.9	10.7	-9.9

a = actual p = preliminary f = forecast

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