

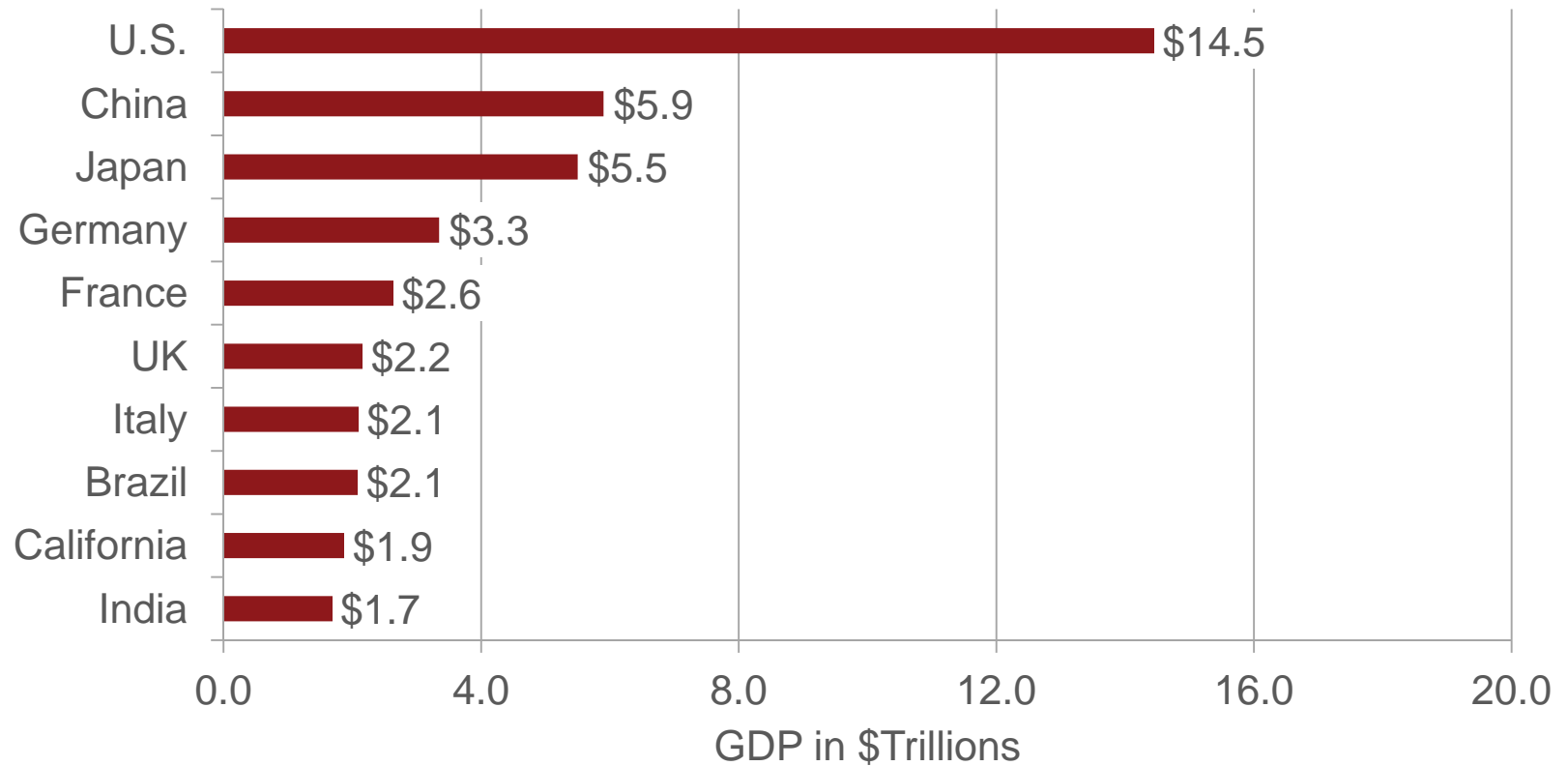
The California Economy: Challenges of Growth and Competitiveness

Stephen Levy, Director
Center for Continuing Study of the California Economy
Cisco China City Leaders Program

June 6, 2012

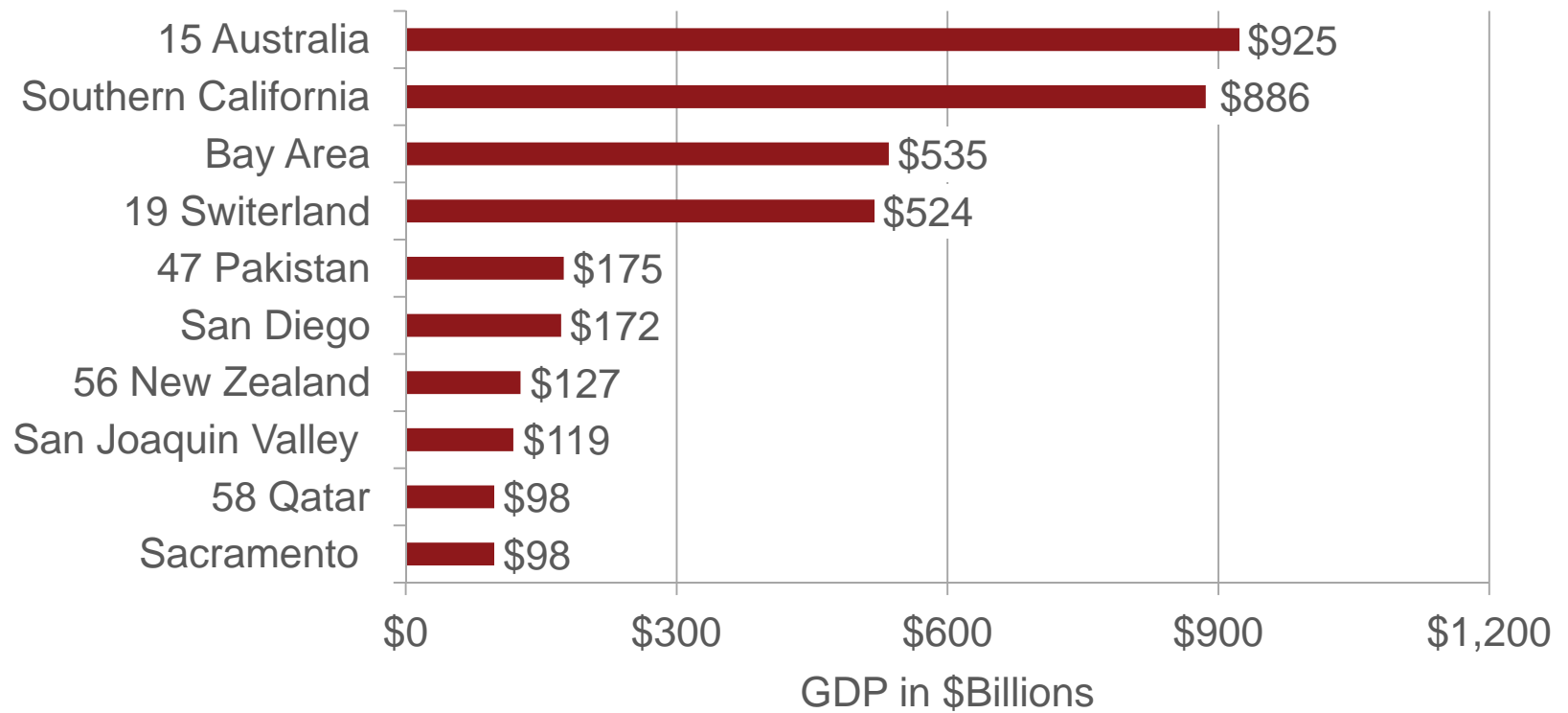
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California 9th Largest World Economy



California Is an Economy of Regions

California Regional Economies Ranking in the World



Key Sectors Differ by Region

Southern California

- Foreign trade
- Tourism
- Entertainment
- Design
- Manufacturing

Bay Area

- Technology in goods and services
- Foreign Trade
- Tourism

San Diego

- Technology
- Tourism
- Defense

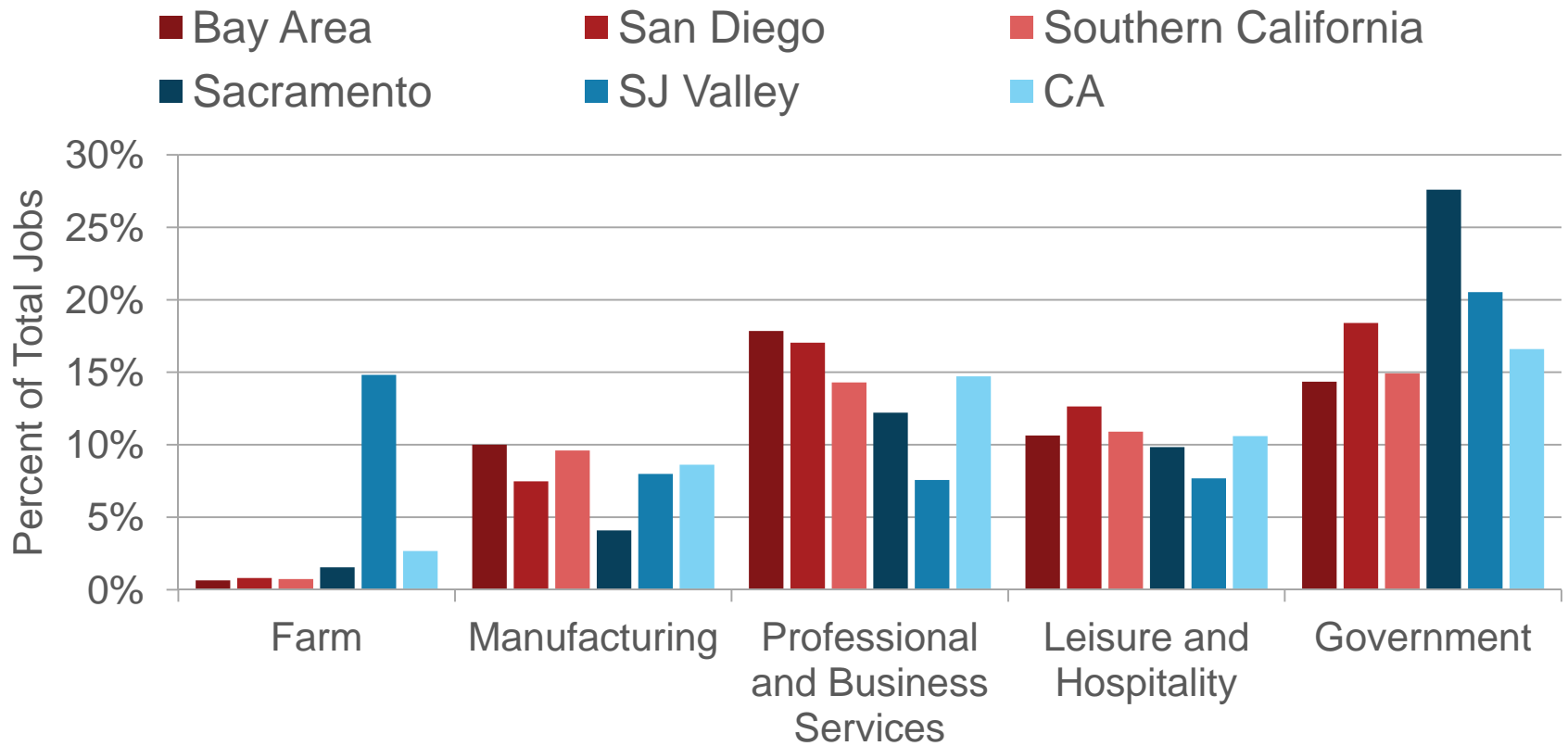
Sacramento

- Government and related sectors

San Joaquin Valley

- Agriculture
- Food manufacturing

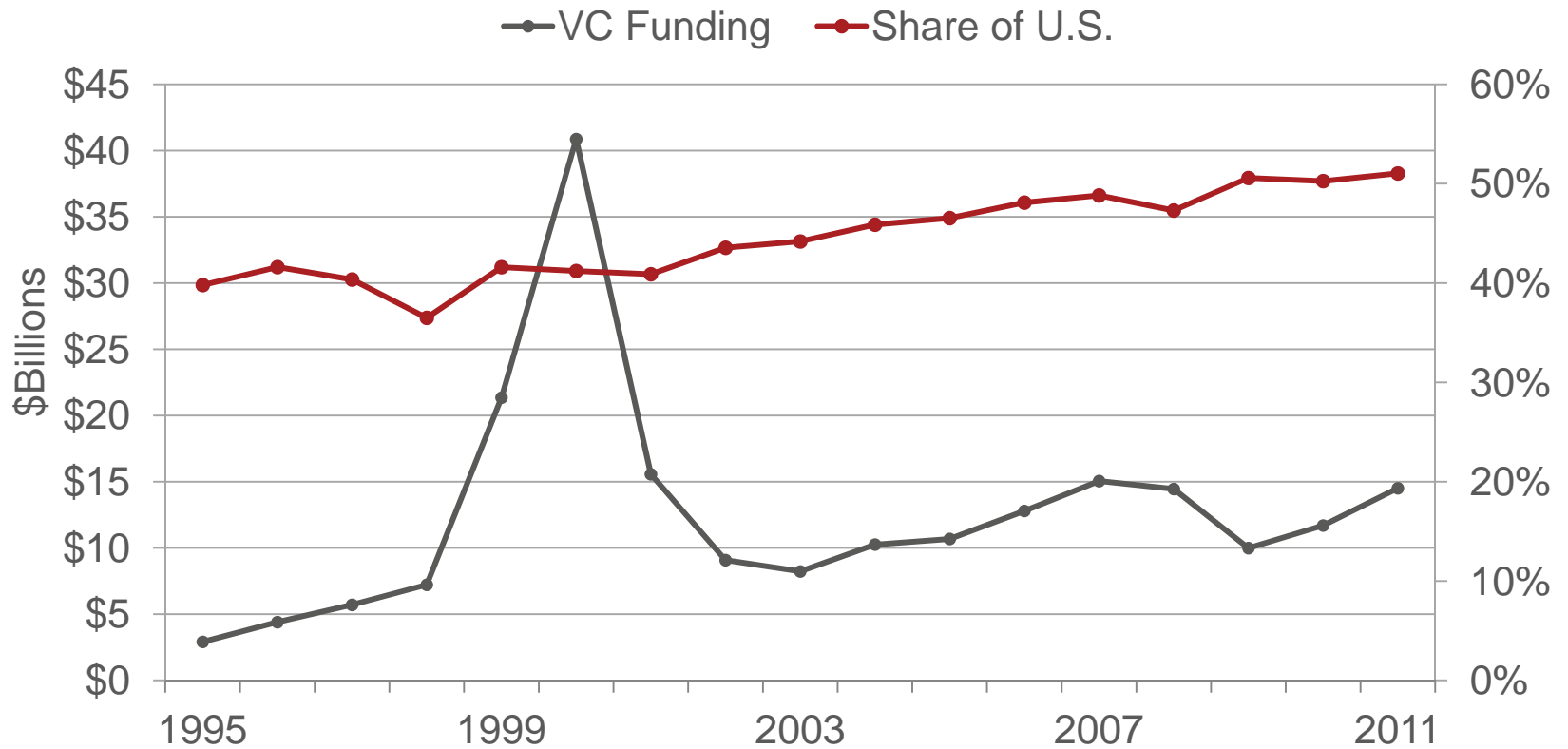
Industry Concentrations Differ by Region



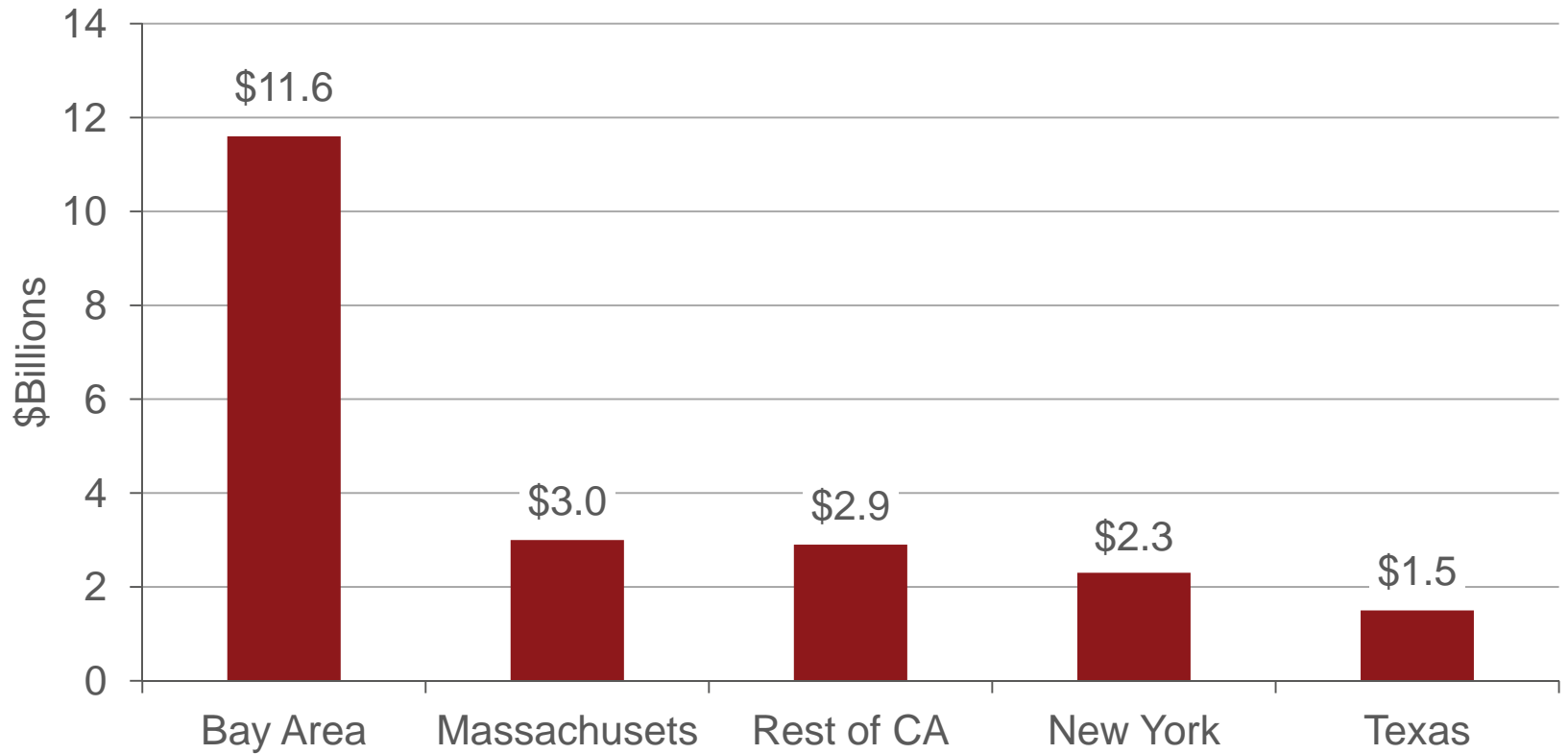
A Strong Economic Base

- Venture capital leader
- Concentration in technology—research, development, and manufacturing
- Export and foreign trade leader for Pacific Rim
- Entertainment and tourism strength
- Leader in agricultural production and exports

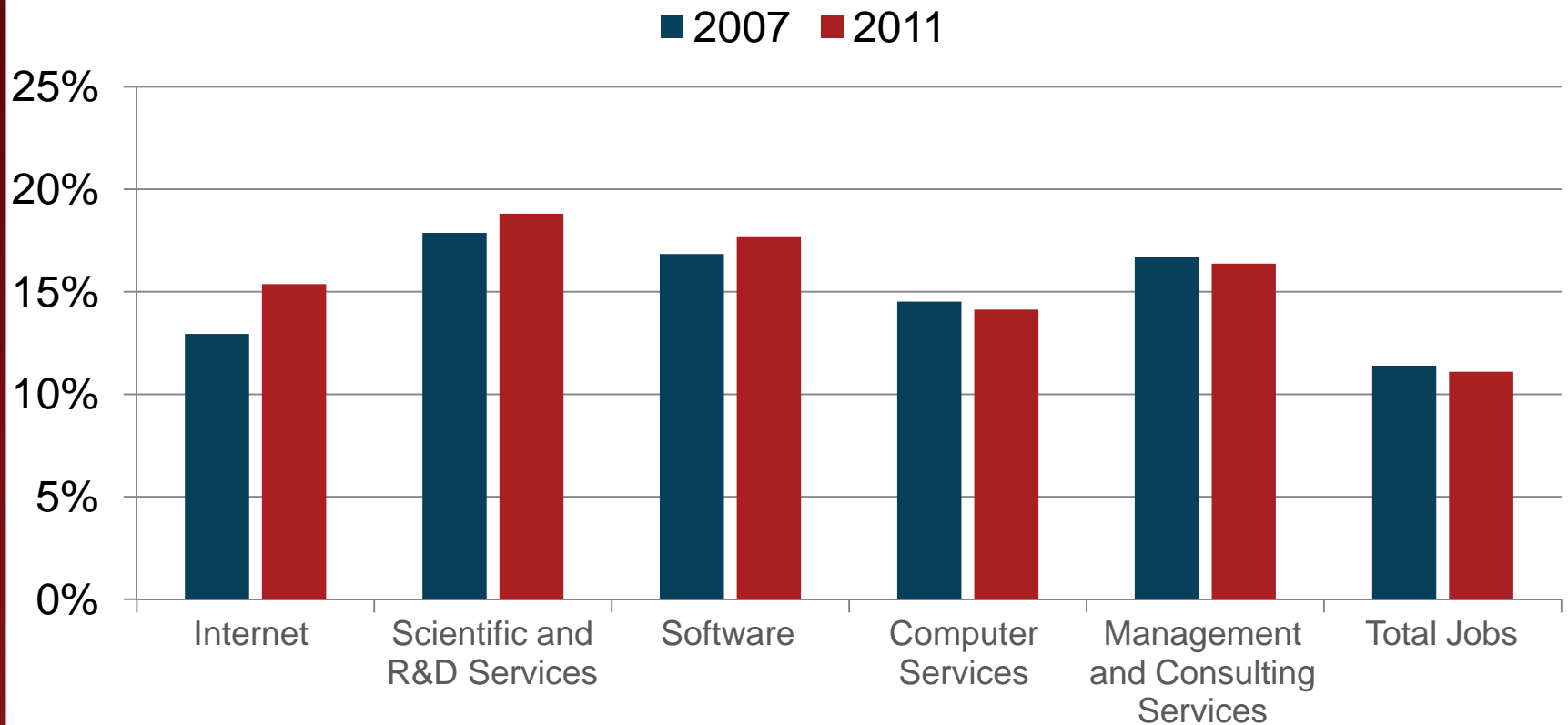
California Venture Capital Funding



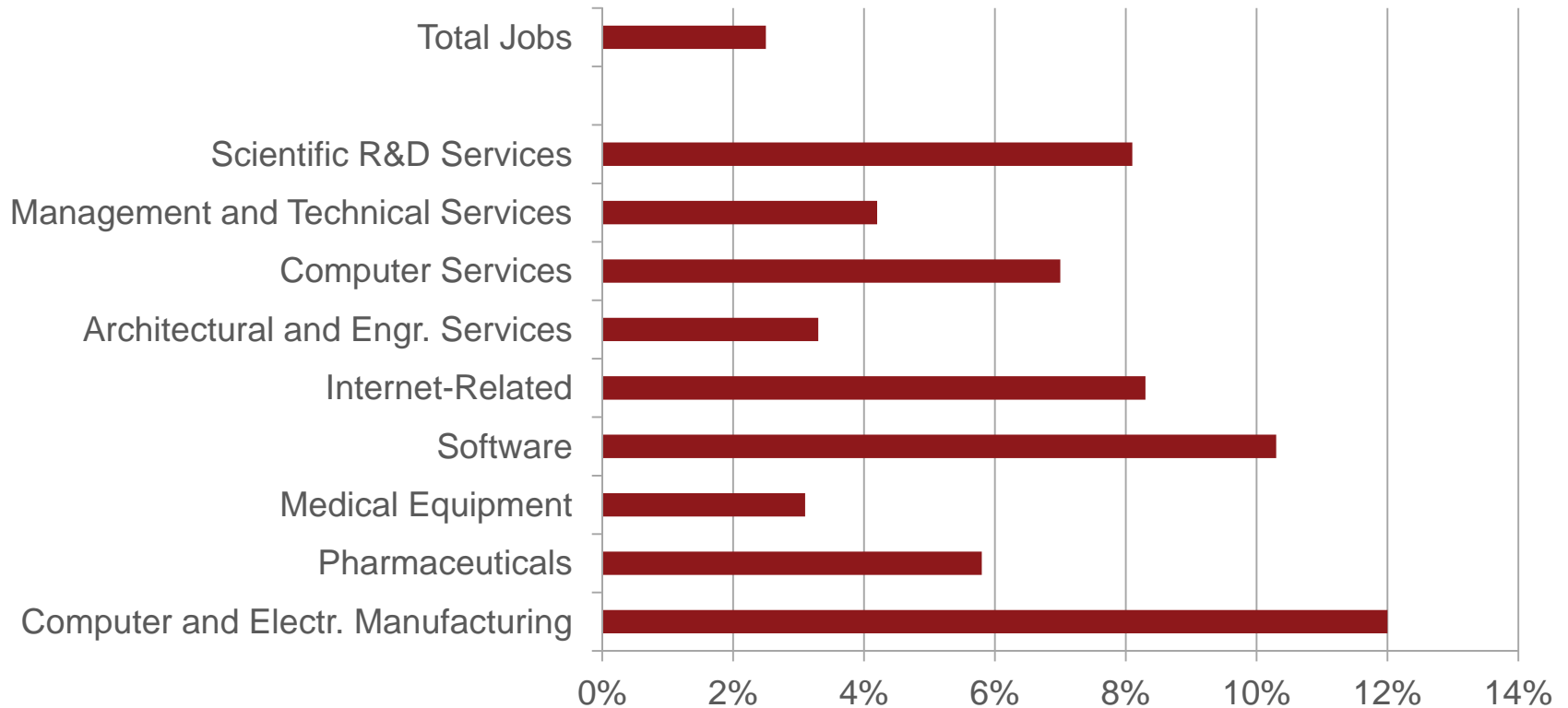
Venture Capital Funding in 2011



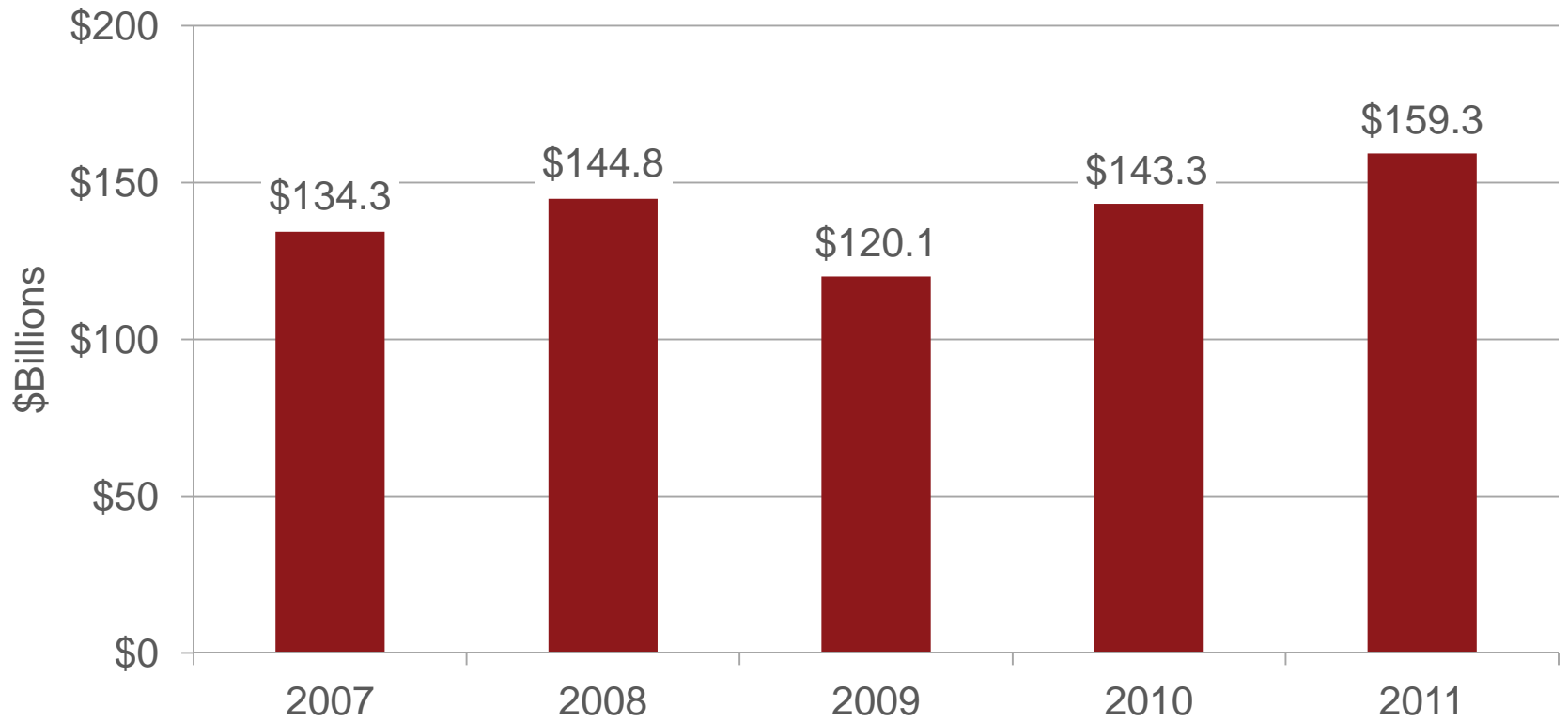
California Has Above Average Share of High Wage U.S. Technology Jobs



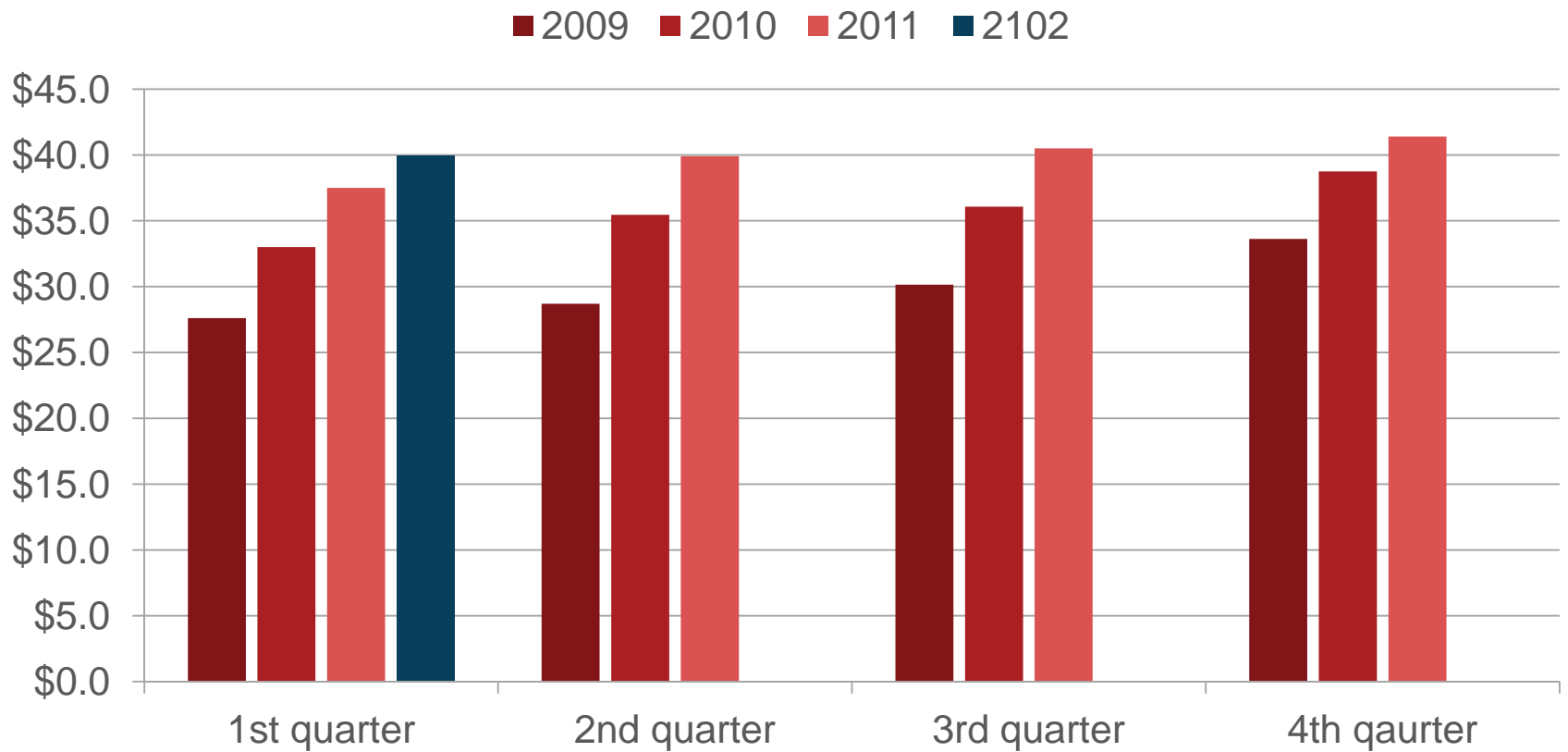
Bay Area Has Far Above Average Share of U.S. High Wage Technology Jobs



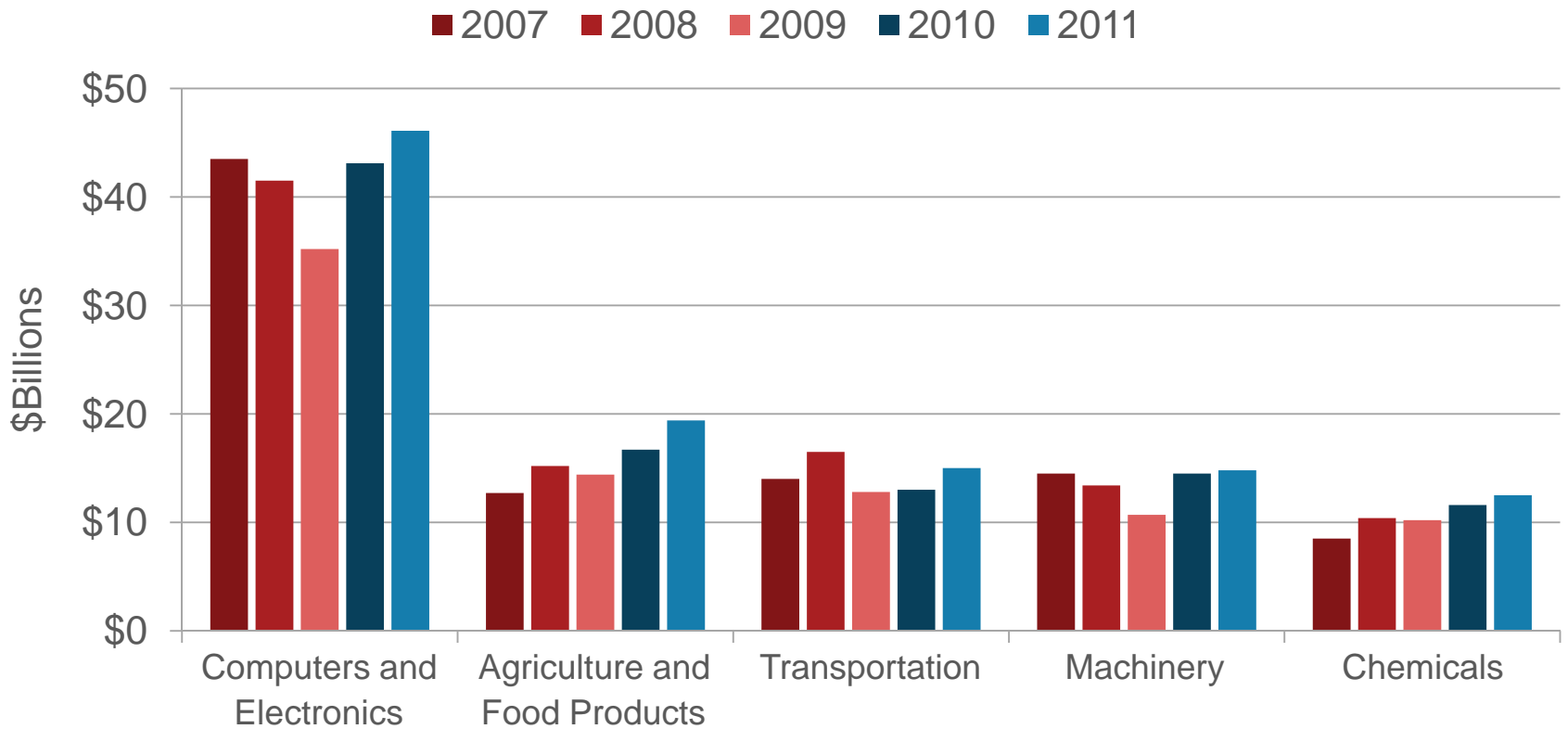
California Exports



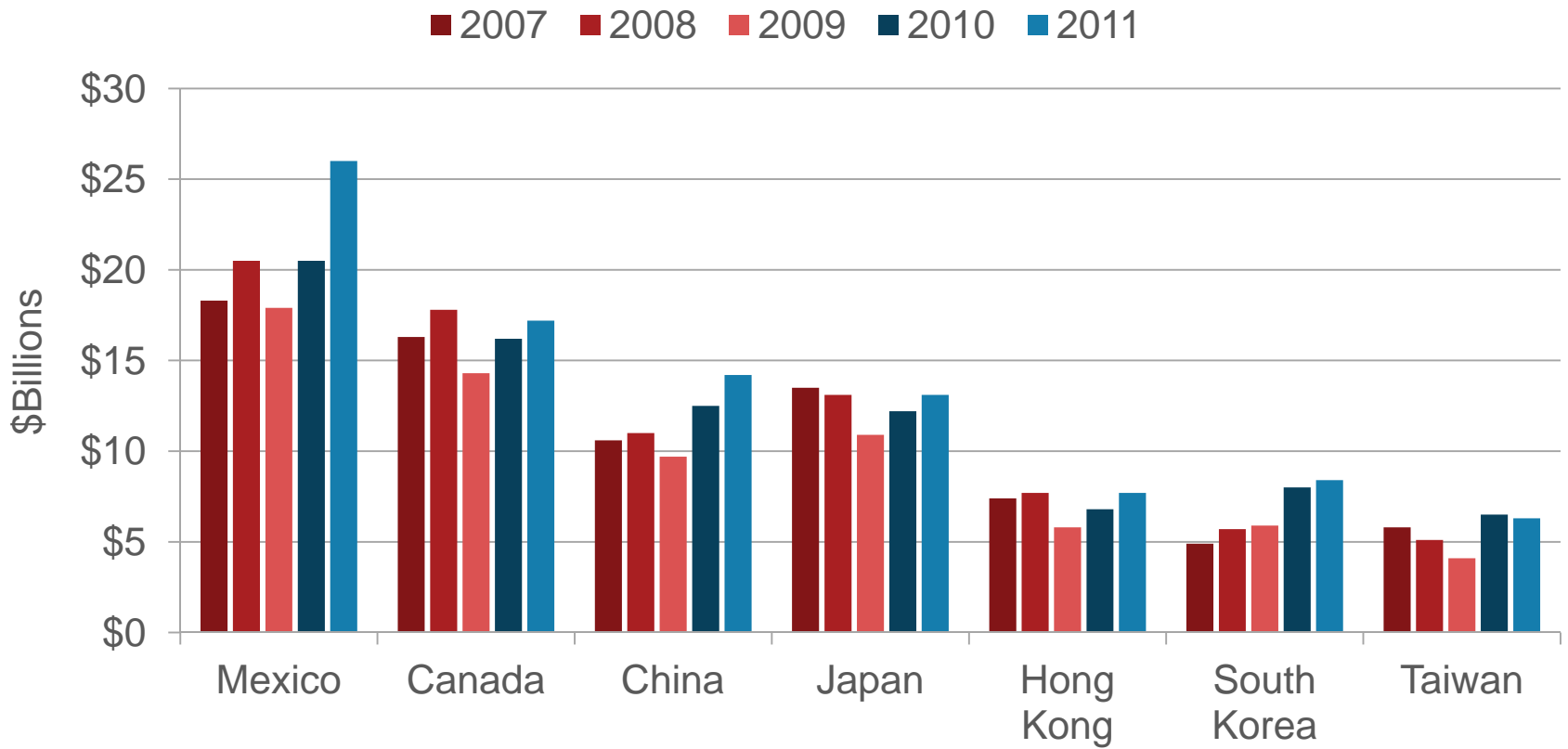
Quarterly Exports on the Rise



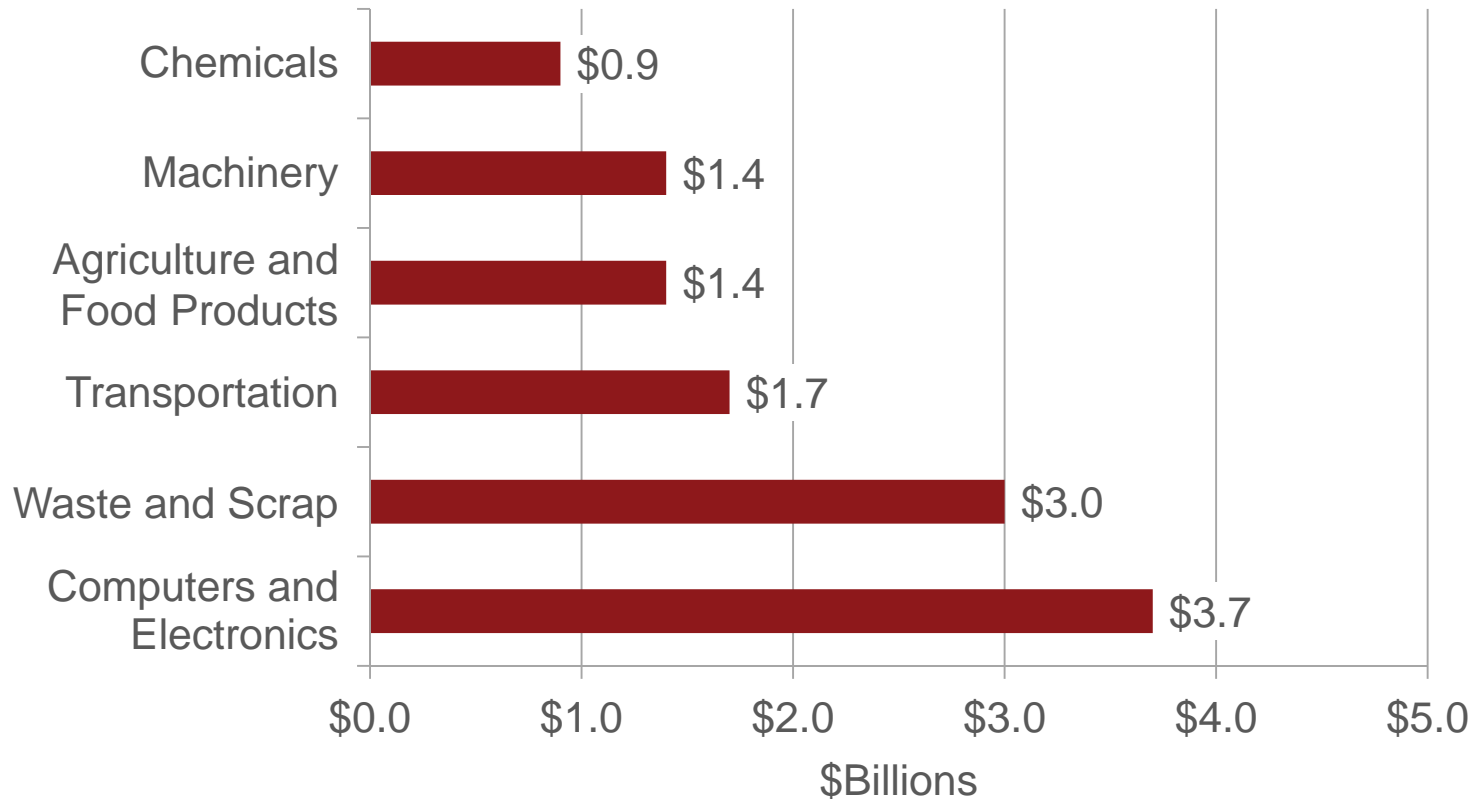
Major Industry Exports



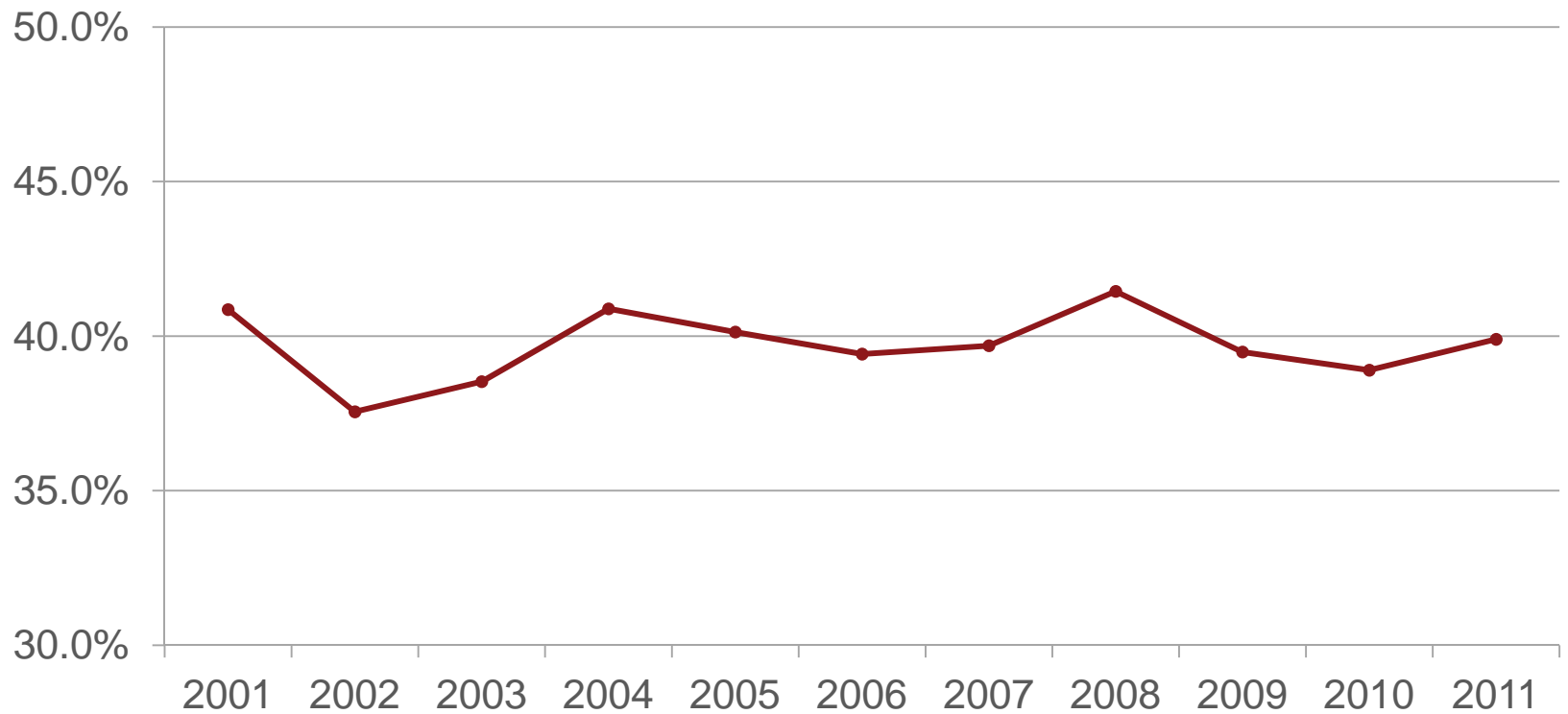
China Now 3rd Largest California Export Market



California Exports to China 2011



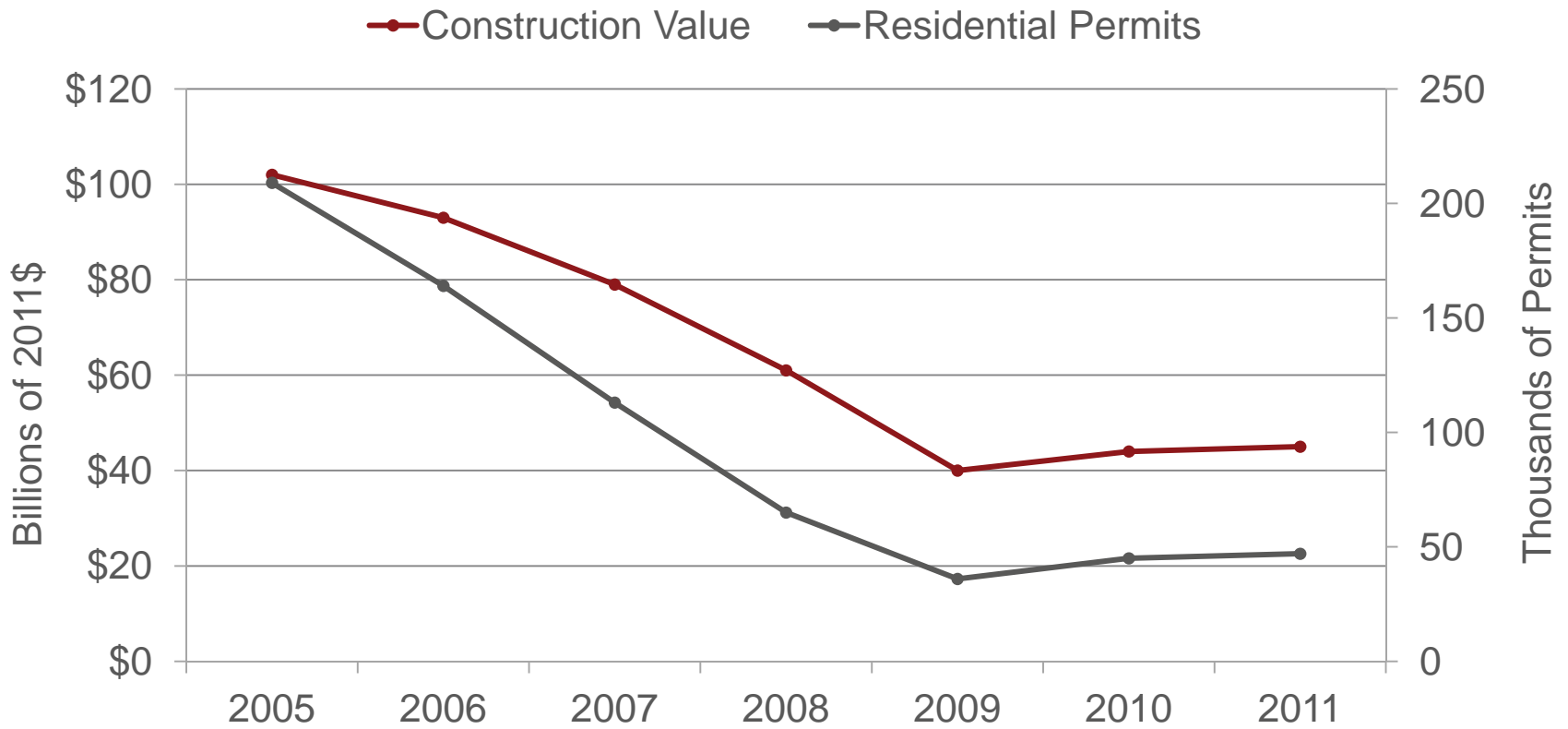
California Has 40% of U.S. Filming Jobs



Recent Economic Trends

- California's recession was deeper than the nation in terms of job loss and unemployment
- The primary reason was the sharp drop in construction accounting for more than 600,000 job losses
- California job growth slightly faster than nation in the past year led by technology and the Bay Area

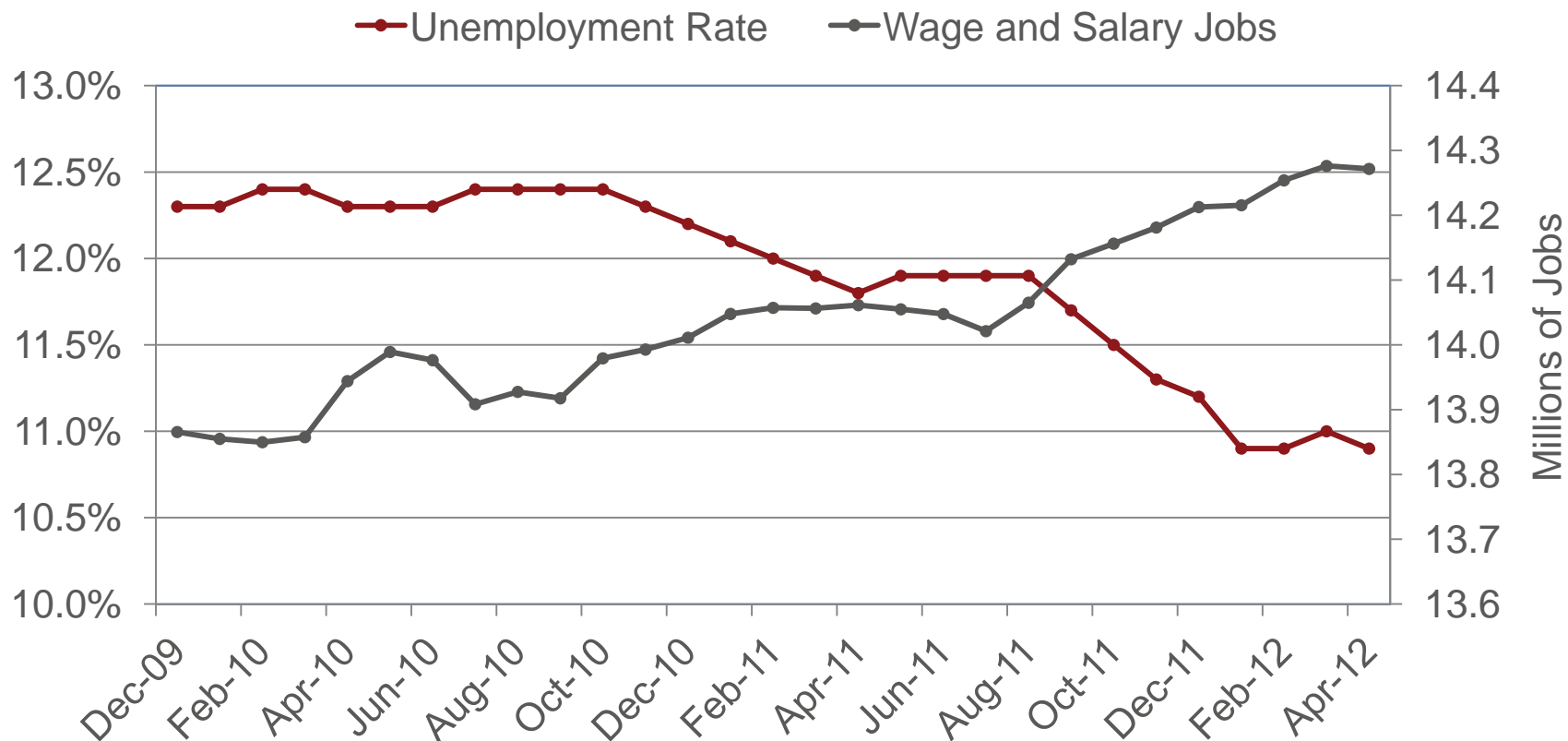
California Construction Decline: No Recovery Yet



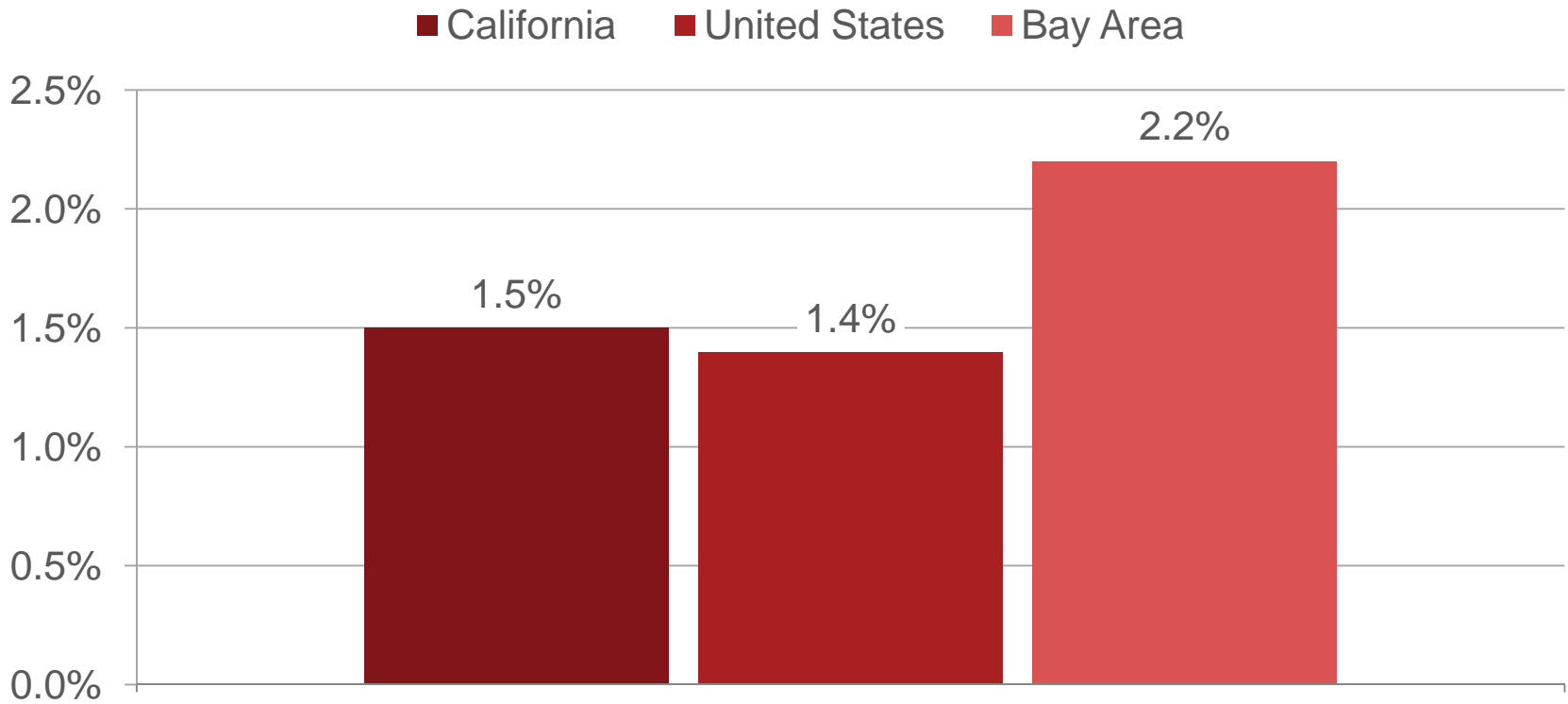
Job Losses 2005–2010

Construction	345,000
Construction-Related Manufacturing	66,000
Construction-Related Retail Trade	44,000
Finance and Real Estate	160,000
Total Construction-Related Job Losses	615,000

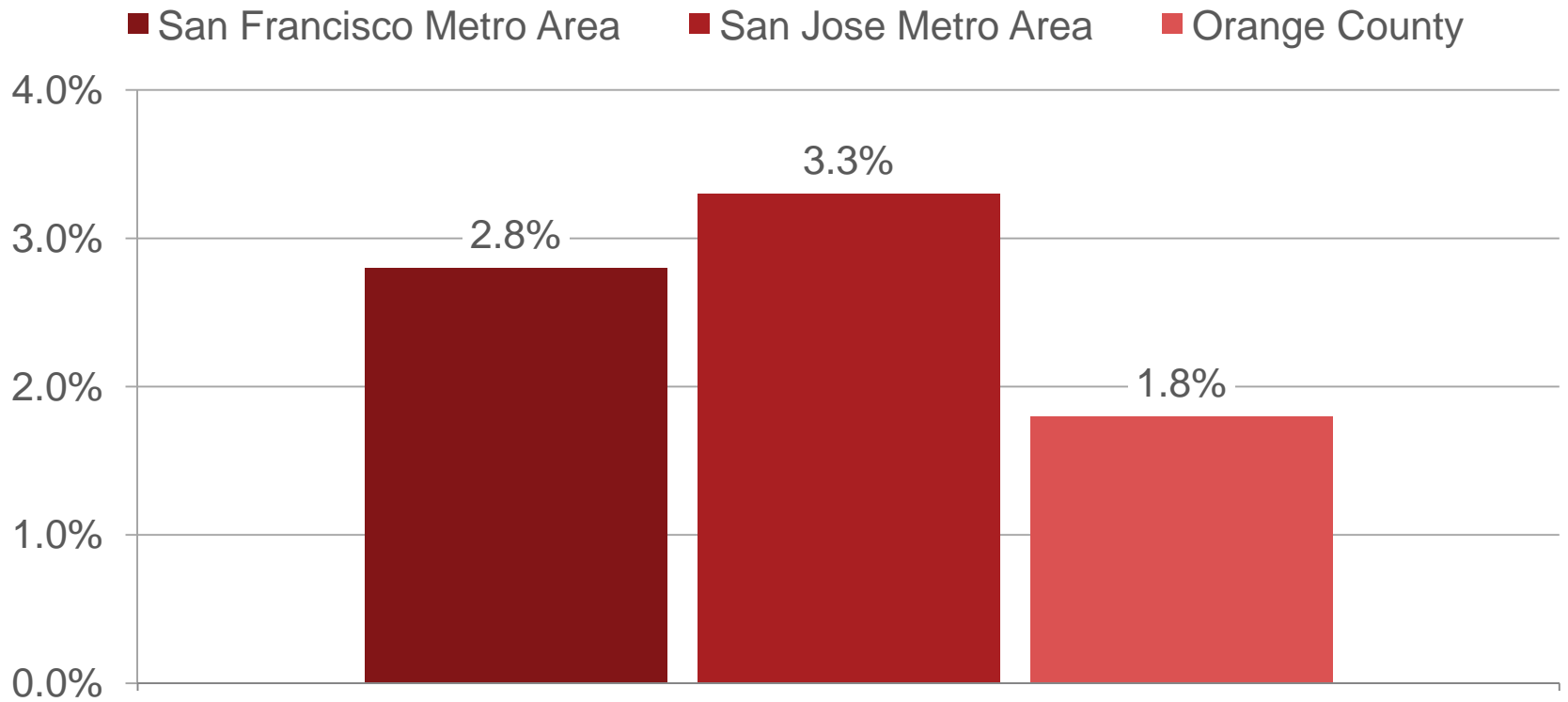
Rising Job Levels, Falling Unemployment: A California Recovery Underway



Job Growth: April 2011–April 2012



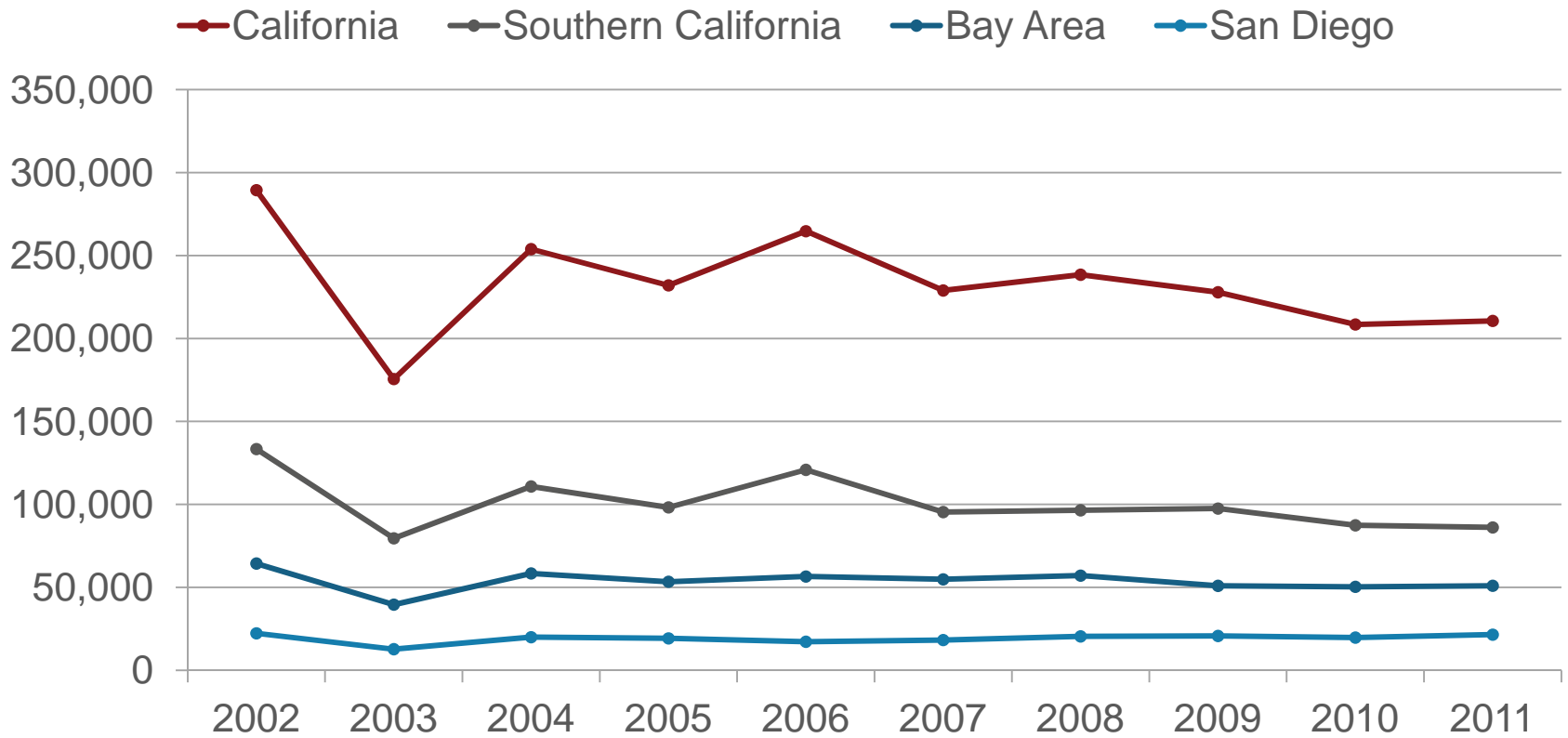
Job Growth: April 2011–April 2012



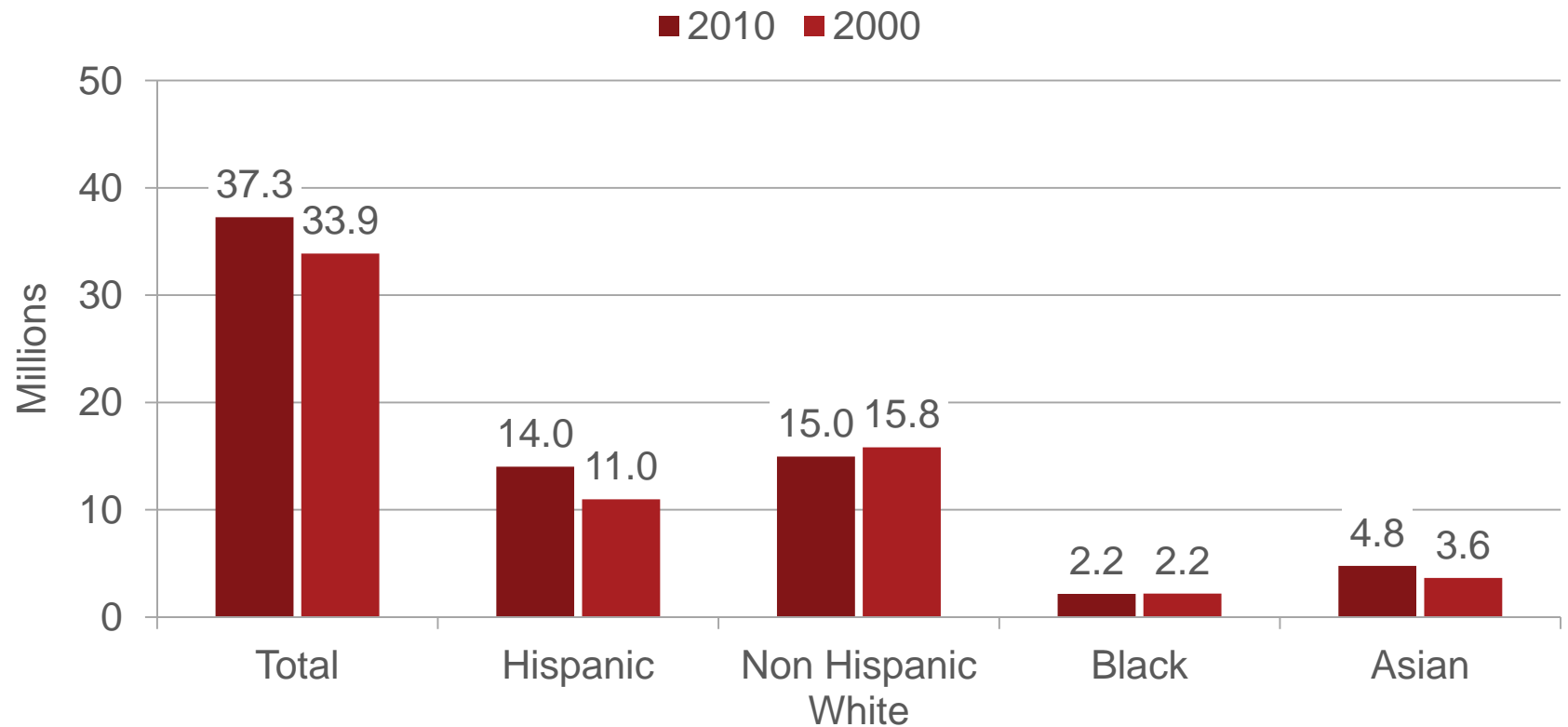
Population Trends

- A large and growing Hispanic and Asian population
- Foreign immigration remains strong and important for the California economy

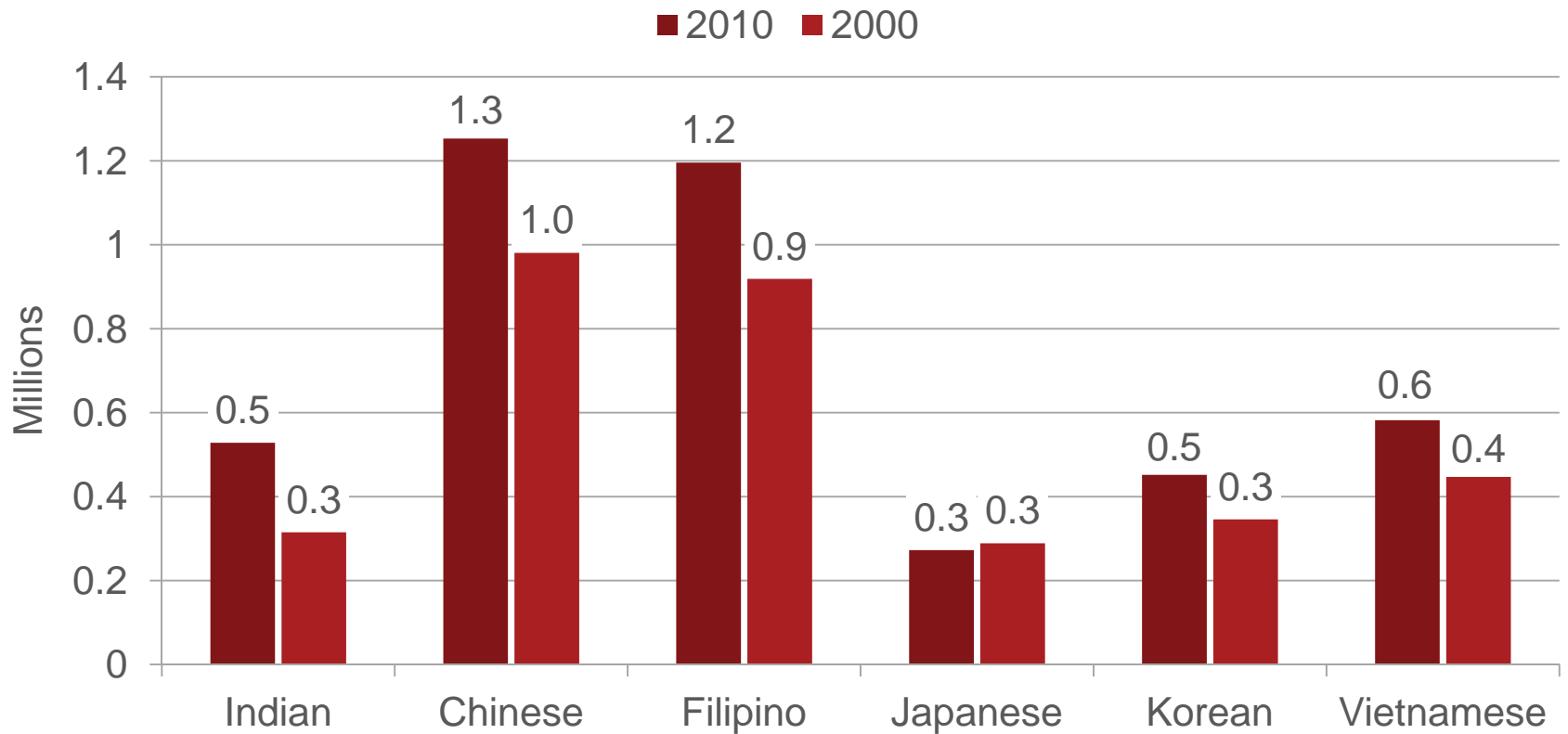
Foreign Immigration



California Population



California Asian Population



Challenges of Growth and Competitiveness

- The focus of growth and competitiveness—
technology, trade, and entertainment/tourism
- California has high land and labor costs, so must
compete on the basis of a skilled workforce and
world class infrastructure
- These investments in education and infrastructure
require additional funding and at this time there is
no consensus to fund these investments

The Budget and the Economy

- The state budget is not in balance; the projected deficit is \$17 billion, which is approximately 1% of the \$2 trillion economy
- While the deficit as a percentage of the economy is very low compared to the nation or to European countries, there is no agreement on how to balance the budget
- Currently funding for education is declining and students are being turned away at public colleges

California Needs More Immigrants and Better Education

- Employers say that a skilled workforce is California's strength but even so they are having trouble finding skilled workers
- California faces the task of replacing millions of retiring baby boomers by 2020
- This will require more access to higher education **and** policies that welcome immigrants and foreign investors

Funding the Investments

- The Governor has proposed tax increases to fund half of the deficit; they will be voted on in November
- It is estimated that the needed infrastructure will cost \$750 billion over the next ten years
- Current proposals are to use more privately financed infrastructure paid for by user fees and to make it easier for local governments to fund infrastructure

The Role of Cities

- Cities contribute to economic competitiveness by providing great places to work and live—a high quality of life and amenities
- Cities do not get much financial help from the state or federal government
- City revenues are growing slowly and they do not tax income or capital gains
- Cities face rising retirement costs for pensions and health care and the need to replace retiring management and other workers

The Bottom Line on California

- A recovering economy with substantial long-term strength in growing sectors
- A political system and voters that have not reached agreement on funding these investments

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