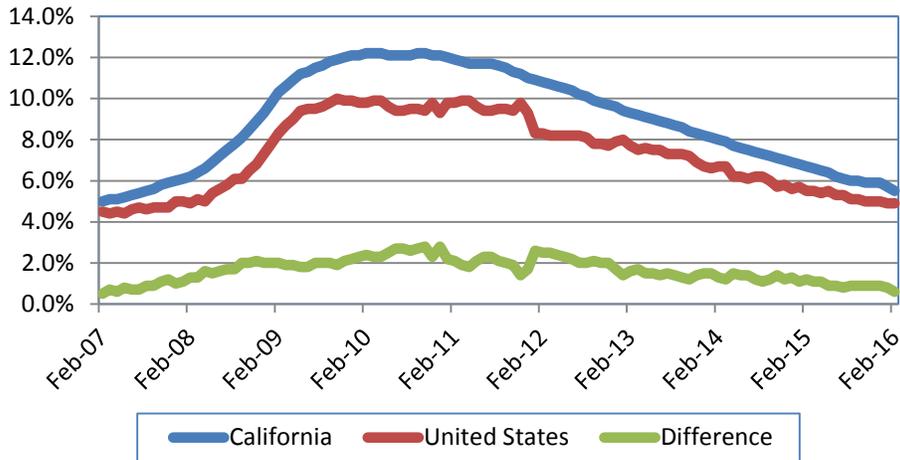


The February Jobs Report—A Mostly Positive Month

February saw a decline in the state unemployment rate to 5.5%, the lowest since August 2007. At the same time the gap between the state and national rate declined to 0.6%, the closest the state and nation have been since April 2007. During the past 12 months the state labor force increased by 124,000 while the unemployment rate declined from 6.7% to 5.5%.

Unemployment Rate Trends



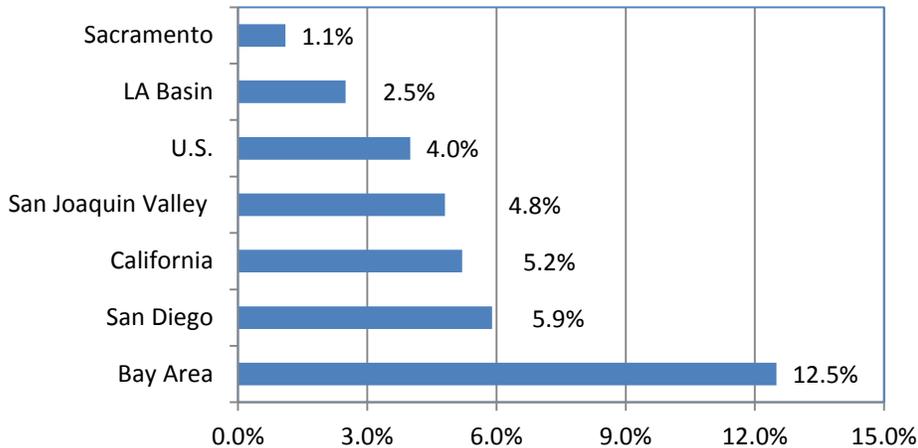
While not everyone has been helped by the recovery, the job gains, reduction in unemployment combined with increases in the minimum wage at the state and many local levels have improved the economic situation for many Californians.

And while we all hope for continued broad economic gains, it remains true that the recovery is broadening by geography and sector and also that California's performance compares well to the national average.

California added 39,900 jobs in February and 451,600 for the past 12 months for an increase of 2.8% compared to the national job gain of 1.9%. The pattern of industry job growth was not as widespread as in recent months. On the positive side the construction sector added 12,300 jobs and is up 7.6% for the past 12 months while Information added 7,300 jobs and is up 4.6% for the same period. The other large gains were in health care and eating and drinking places. Manufacturing, Retail Trade, Finance and Government jobs were largely unchanged. Professional and Business Services saw small seasonally adjusted job losses in February but has added more than 65,000 jobs (+2.7%) over the past 12 months.

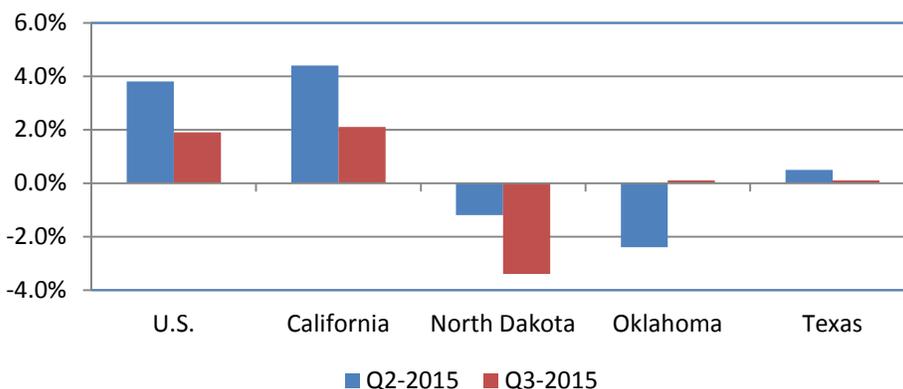
All regions of the state, now including the Sacramento region, have regained all the jobs lost during the recovery and moved into positive territory. Bay Area job levels are now 12.5% above pre-recession peaks and San Diego County has a 5.9% gain. Southern California job levels are 2.5% above pre-recession levels and the San Joaquin Valley, despite the drought, has also surpassed pre-recession job levels by 4.8%. California has a gain of 5.2% compared to the nation's 4.0% despite our deeper recession.

Job Growth Since Pre-Recession Peak



In 2015 California passed Brazil to once again have the world's 7th largest economy and will in 2016 move closer to 6th ranked France. In the debate over whether "business climate" or industry structure is the best predictor of state growth, 2015 is clearly in the industry structure matters camp.

Real Annualized GDP Growth

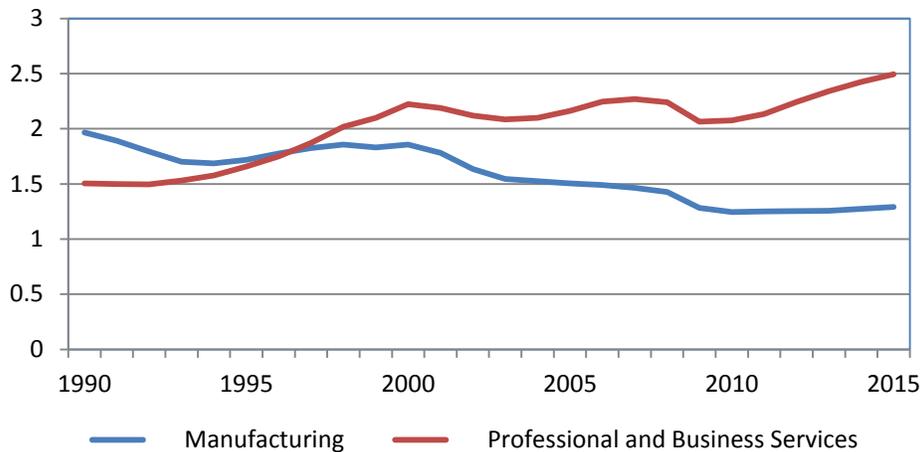


The graph above, which only goes through Q3-2015 before the full impact of falling oil prices was felt, show the impact of declines in drilling and related activities on three states normally considered "business friendly" although there is debate over exactly what policies actually welcome businesses.

The large long-term changes in the state industry structure are important to note and draw implications for the future. The structural changes shown below are present in nearly all large regions of the state.

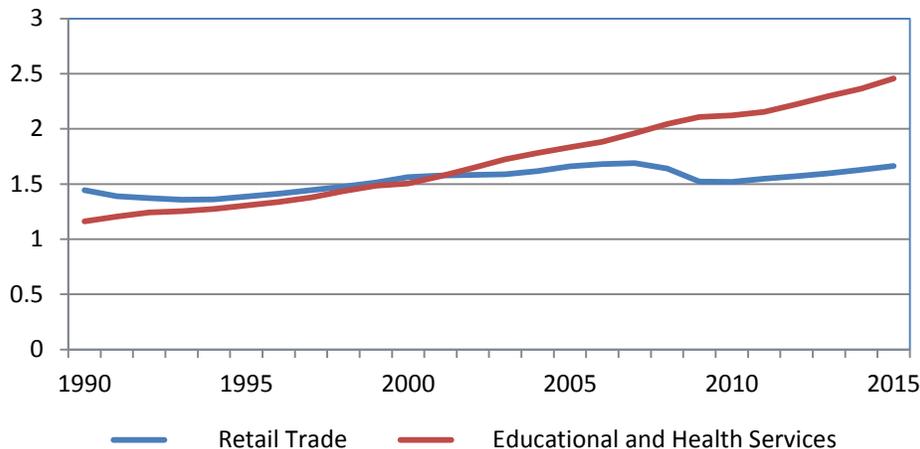
The number of manufacturing jobs has declined since 1990 even as output increased as productivity gains allowed companies to produce more with fewer workers. In 1990 manufacturing had 500,000 more jobs than Professional and Business Services while 25 years later the sector had 1.2 million jobs fewer. While Manufacturing remains a high wage sector in California, the growth in high wage jobs has shifted to Information and Professional, Scientific and Technical Services. The decline in manufacturing jobs is worldwide shared by other states and countries including China. This trend will continue.

Millions of Jobs



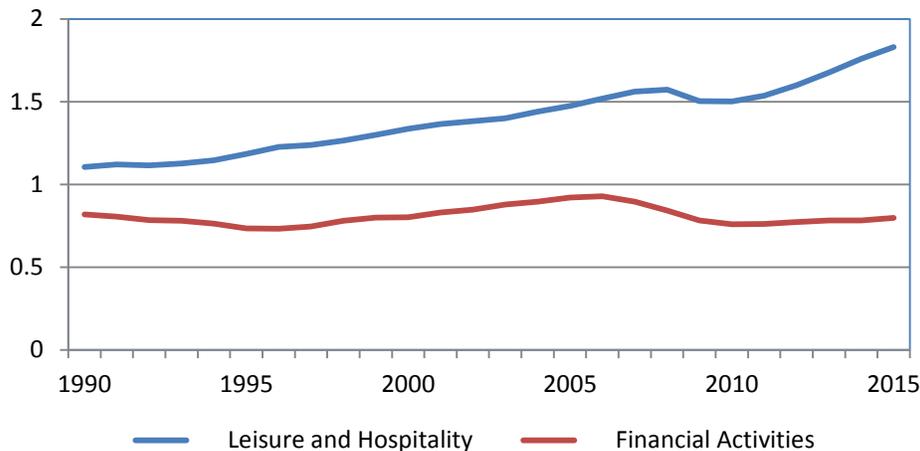
In 1990 there were more state jobs in Retail Trade than in Educational and Health Services. By 2015 the roles had reversed as retail jobs are shifting from stores to online and the demand for health and social services is growing.

Millions of Jobs



Finance is another sector where technology is replacing some jobs even as output and the number of transactions is increasing. On the other hand Leisure and Hospitality, including hotels, restaurants and amusement parks, has surging employment. This trend is likely to continue as well.

Millions of Jobs



Economic growth recently has not been as strong or broad as in previous recoveries and growth periods. Yet California has done well compared to the nation and many states as well as most countries.

While state and local fiscal situations are improving as sales taxes, property taxes and the sometimes volatile income taxes are growing, we like other states and countries face unfunded retirement obligations. With revenues up we still face tough choices among investing versus current spending, choices as to where best to spend and how to fund retirement obligations.

In terms of workforce, poverty and the increasing number of low wage jobs, research done by CCSCE and others is crystal clear. A three-pronged approach is required:

- Education and training informed by continuous employer input
- Strong economic growth without which progress is virtually impossible
- And policies to support the millions of workers who will spend long periods of time in low wage jobs no matter how successful the first two priorities are

The recovery has increased longstanding challenges with regard to housing and transportation investments and policies. The state faces a housing shortage and rent and home price increases that far outpace income growth. There are signs

of increased plans to build new housing but they are still below the level needed to match current population growth much less to reduce the existing shortages.

Infrastructure needs in transportation, water and other areas remain far above current funding levels. Additional housing and infrastructure construction are the most immediate and effective ways to increase middle wage jobs.

The Governor has addressed infrastructure, retirement obligations and preparing for the next recession as well as other issues in his State of the State address and budget and the legislature will now weigh in on these issues and potential solutions.

The future of California depends on our children, their education and opportunities. The state budget has made progress in funding education with an emphasis on at risk students and the state is exploring ways to reduce the cost of higher education. But these children's success will determine our future and we need to keep them uppermost in our minds.

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