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With this release of our first California *Economic Forecast* at California Lutheran University, we also release our quarterly California GDP estimates. We display recent history and our forecast here:

Economic Growth Rates: California vs. United States

2009 Quarter 1 - 2010 quarter 4

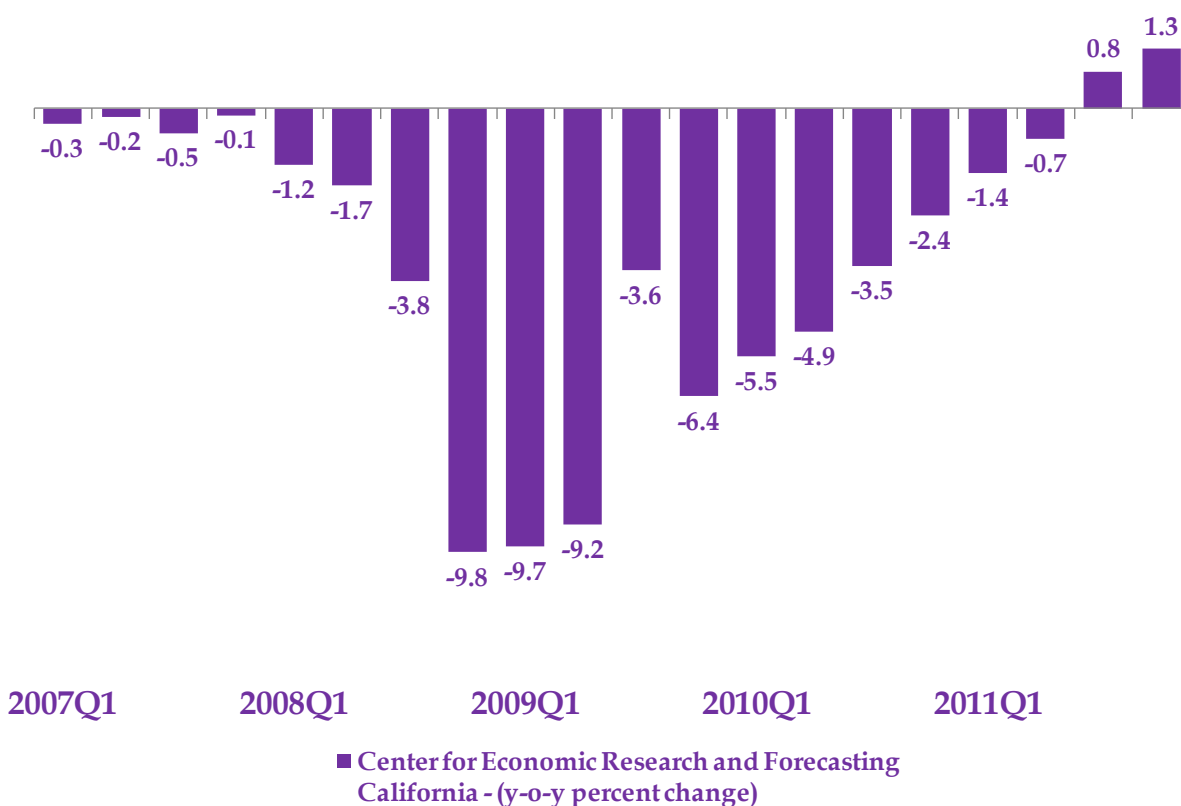
2009	Qtr 1	Qtr 2	Qtr 3	Qtr 4
U.S.	-5.8	-1.0	0.6	-3.4
CA	-5.9	-1.7	-3.1	-5.2
2010	Qtr 1	Qtr 2	Qtr 3	Qtr 4
U.S.	-2.9	-1.7	-1.5	-1.1
CA	-4.5	-4.0	-2.9	-2.0

*Units: seasonally-adjusted annualized growth rates
CERF: Center for Economic Research & Forecasting, CLU*

There are two key differences between the California and United States forecasts. The first is with respect to the third quarter of 2009. United States economic growth rebounds in quarter 3, enough to reach a level of positive growth, while California does not. This is due to a couple of factors. First, one of the key drivers of the rebound is *Cash for Clunkers*. Motor vehicle purchases are a large component of retail sales. California retail sales growth has been very weak, and while the forecast has it improving in the third quarter, it started from such a weak decline that it does not reach positive growth. See the nearby Real Retail Sales chart. Retail sales are an important driver of GDP.

Another important driver is current investment. Current fixed investment expenditures are not available for California, but we have data on residential building activity and commercial building activity, and they are both forecasted to decline in quarter 3 as well as during our forecast horizon.

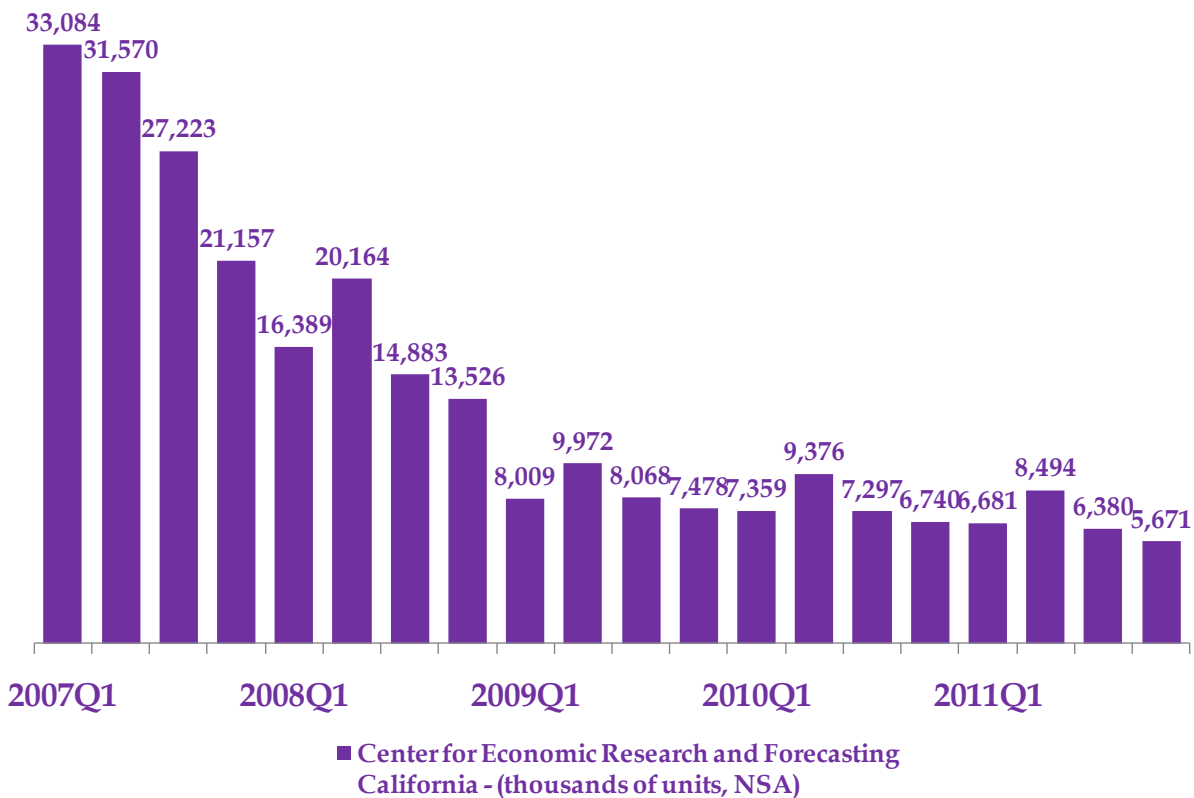
Real Retail Sales Growth



The other key difference between the United States and California is that from 2009 quarter 3 to 2010 quarter 3, California’s economic growth is noticeably weaker than that for the United States. Recent data supports this. California’s year-on-year job growth rate has been in the range of five percent declines while the United States’ growth has been near four percent. The California unemployment rate is 250 basis points higher than the United States value. Foreclosures are a much higher percent of housing sales in California.

In addition, there is a big shoe that has yet to drop for California. Surprisingly, government sector jobs have yet to decline much in this cycle. This is despite a large structural budget deficit. The state is expected to start the budget process this fall with at least a \$10 billion dollar deficit. At some point public sector jobs will be cut. Our forecast takes this into account, and this is a drag on California economic growth relative to the United States.

New Home Building Permits



New Commercial Building Permit Value

