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*September 21, 2009*

As I discussed in the other essays, California's economic fundamentals are not good. Domestic migration trends and the state budget crisis are just two of the symptoms of the State's underlying economic issues. Given its weak fundamentals, it's not surprising that our forecast for California's economy is negative. We expect that California's economy will continue to perform poorly in relation to the United States economy for some time, certainly throughout the forecast horizon. For example, while we expect the United States 2009 third-quarter to come in positive, we expect California's economy to continue its decline.

Our forecast for California is that the state will continue to lose jobs throughout the forecast horizon. We expect the State's gross product to continue to decline at rates exceeding the US gross product declines, and we expect the decline to persist in California beyond the time that the United States enters recovery. Unemployment in California will continue to rise. Ultimately the State's unemployment is likely to exceed 13 percent. The unemployment rate would be higher were it not for discouraged workers and negative domestic migration.

Along with the decline in jobs, we expect to see California's workers incomes to continue to fall. California's retail sales will continue to decline. The combination of lower-income workers and declining sales implies that California's budget problem is likely to get worse before it gets better. This will pose severe challenges to state and local governments. After years of declining retail sales, declining property values, and falling income taxes, California governments, while failing to make the necessary fundamental changes, have picked the low-lying fruit. Dealing with the State and local budget issues will now involve difficult and controversial decisions. More local governments may file bankruptcy.

While Kirk discusses real estate in another essay, it's worth noting here that home prices will continue to be weak throughout the forecast horizon. Residential defaults and foreclosures will remain high. Commercial real estate markets will likely continue to decline, exacerbating problems associated with declining property taxes.

Our forecast for California is sobering. We hope actual outcomes are significantly better than our forecast. However, when examining the fundamentals we see no reason for economic outcomes to exceed our forecast, except hope. It appears that California is in a more serious crisis than is generally accepted. It is unfortunate that California's economy is where it is today. It is even more unfortunate that the weakness is not accepted. Until acceptance, recover

efforts will be inadequate. We believe it is time that California recognizes that jobs and opportunity are fundamental to quality-of-life and to embark on policy changes designed to improve economic activity and economic outcomes.