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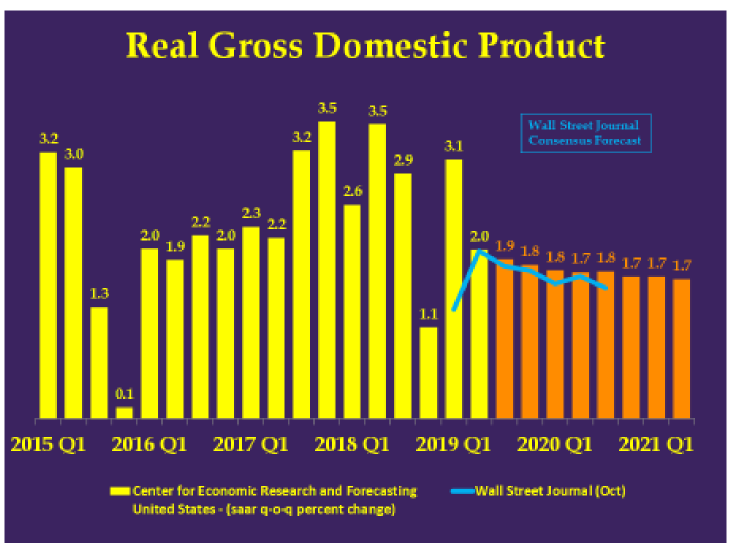
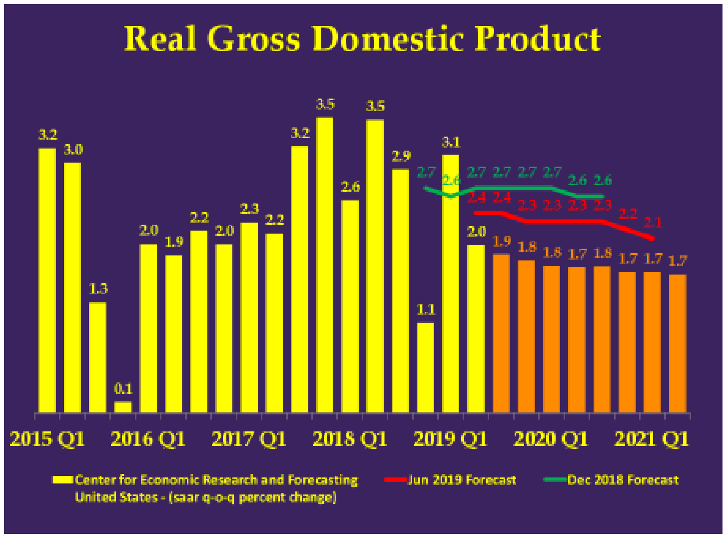
United States

As documented by many commentators, the high frequency measures of the intensity of manufacturing and services sector activity indicate a slowdown. What remains to be seen is if these are indicative of a recession or not. CERF has maintained that a recession will only occur in response to an unforecastable shock. Since there has not been a shock thus far, we do not believe the current downturn necessarily portends recession.

Our updated forecast calls for GDP growth to slow compared with our June forecast. We are currently calling for economic growth of 1.9 percent in the 3rd quarter of 2019, with growth falling to only 1.7 percent by the end of the 2-year forecast horizon. CERF's forecasts of U.S. economic growth have been falling for just under a year now. While the tax cuts raised CERF's optimism and our forecasts back in 2018, other ongoing policies have cut into recent growth, and we expect this to continue going forward. The risks to this forecast are more negative than positive; much of this is due to trade. If the U.S. were to experience a substantial negative economic shock, policy responses would be even more ineffective than usual. With a giant deficit and unguided monetary policy, Washington DC will not be in any position to help matters.





California

CERF economists have been analyzing the growth differences of California versus the United States for about fifteen years. As part of this effort, we have attempted to ascertain if California's historic economic growth premium over the United States would be maintained in the future.

For some years now, we have predicted an eventual convergence of growth, whereby California's growth will eventually slow such that its growth rate would be equal to or less than the nation's. We based these forecasts on Economic Theory and common sense. We have seen the economic impacts of jurisdictions that have experimented with progressive policies, such as France, Italy, and Greece. California's many and significant anti-growth policies will eventually slow the state down relative to the U.S. As it currently stands, when the state's growth exceeds the nation's, this indicates that the benefits of California's location are dominating the costs and disadvantages of its policies.

With recently improving Bay area and California job growth as well as ongoing GDP strength, our current forecast is for state economic growth that remains a bit higher than the nation's for the next eight quarters. This California forecast is against the backdrop of a gradually slowing U.S. economy, whereby U.S. economic growth is forecasted to slow by about 50 basis points to just over two percent by mid-2021.

California's current predominance in the U.S.'s technology and biotechnology sectors is not guaranteed into the future, especially given the state's growth-slowing policies. This, along with those policies, implies that a longer run California forecast would prescribe slower economic growth rates.


Real Gross Domestic Product Growth
5.6
6.2
4.2
4.2
3.5
2.2
3.0
3.2
2.6
3.6
3.5
4.4
3.8
4.0
3.5
2.7
3.2
2.3
2.6
2.6
2.5
2.3
2.3
2.2
2.1
2.1
2015 Q1
2015 Q4
2016 Q3
2017 Q2
2018 Q1
2018 Q4
2019 Q3
2020 Q2
2021 Q1
Center for Economic Research and Forecasting California - (y-o-y percent change)
United States