



CALIFORNIA Economic Indicators

July–August 2006

A Cooling Trend

The housing market slowdown is making itself felt.

REVIEW OF RECENT ECONOMIC DEVELOPMENTS

Cooling real estate markets continued to challenge California's economy. Construction was the only major industry to lose jobs in August. Real estate markets softened as home sales fell for the fifth consecutive month. Despite reaching new highs, home prices made negligible gains over the year ending in August. Nonresidential building, though, remained a bright spot, led by healthy gains in office construction.

EMPLOYMENT

Better Job Gains in August

California gained 36,900 jobs in August, and the gain in July, initially estimated at a meager 900, was revised up to 6,600. Along with the July revision, the August gain pushed California nonfarm payroll employment above 15 million for the first time (15,026,300). Nationally, nonfarm payroll employment increased by 128,000 jobs in August. Thus, California contributed a whopping 29 percent of the nation's total.

Job growth in August was broad-based as 10 of the 11 major industry sectors gained jobs. Government led the way again with a gain of 10,300 jobs. Professional and business services added 7,900. Education and health services contributed 5,900, as did information, leisure and hospitality added 4,100, manufacturing, 3,200, financial activities, 2,000, trade, transportation and utilities, 600, other services, 600, and natural resources and mining, 200. The only declining industry, construction, lost another 3,800 jobs—its fifth monthly loss of the year—which brought its year-to-date losses up to 17,100 jobs.

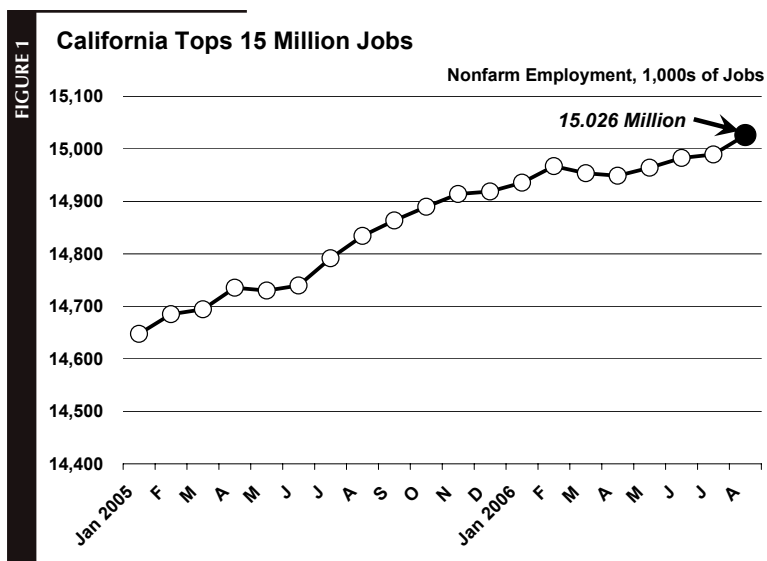
Over the 12 months from August 2005 to August 2006, California nonfarm payroll employment grew by 192,000 jobs, or 1.3 percent, the same pace as the nation as a whole. Ten of 11 major industry sectors gained jobs. Professional and business services added 48,800, leisure and hospitality, 42,200, government, 33,600, education and health services, 30,800, financial activities, 13,400, trade, transportation, and utilities, 11,800, other services, 11,200, construction, 6,800, manufacturing, 1,800, and natural resources and mining, 900. Information was the only declining sector, losing 9,300 jobs.

Unemployment rate rises

The state's unemployment rate rose by 0.1 percentage point to 4.9 percent in August. The national unemployment rate fell by 0.1 percentage point to 4.7 percent. The state's unemployment rate was 5.2 percent a year ago in August 2005.

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BUILDING ACTIVITY

Single-family sector leads home construction slowdown

Home building stabilized in August following a dramatic fall in July—when it dropped over 33 percent. The pace of residential permitting rose to 158,000 units (seasonally-adjusted annual rate) based on a strong pickup (31 percent) in multi-family permitting. Single family construction declined for the second consecutive month.

In the first eight months of 2006 as a whole, the pace of homebuilding was down nearly 16 percent from the same months of 2005. Single-family permitting was down over 24 percent, while multifamily was up 7.4 percent. Construction slowed in nearly all major metropolitan areas of California, with the Sacramento, San Diego, and Stockton regions experiencing the sharpest declines of 42, 39, and 42 percent, respectively. Orange County was the only area which permitted more units.

Business construction growth moderates

In contrast, nonresidential construction ran much stronger during the first eight months of 2006 compared to a year earlier. The value of nonresidential construction permits issued was up 20 percent, led by strong gains in office, hotel/motel, and parking garage construction. Permitting accelerated in most major metropolitan areas. The strongest gains occurred in Orange County and the Riverside-San Bernardino, San Francisco, and San Diego regions. Activity slowed only in the Los Angeles and Stockton areas, down 2 percent and 26 percent respectively.

REAL ESTATE

Homes sales continued to slow

Home sales in California slowed in August for the fifth consecutive month. Sales of existing single-family homes slipped to a seasonally adjusted annual rate of 442,200 units. This was 30 percent lower than a year earlier and was the slowest sales pace since June 1997. Overall, existing home sales during the first eight months of 2006 were down 23 percent from the same months of 2005.

California's median single-family home price reached an all-time record in August, \$576,360 according to the California Association of Realtors. This stretches the upper bounds of the \$540,000-\$570,000 range that California home prices have been in since June 2005.

On a year-over-year basis, however, home prices were nearly stagnant. The August statewide median price was up only 1.6 percent from a year earlier. This was the slowest annual increase since March 1997 and was a significant slowdown from the strong gains throughout 2005 and the early months of 2006.

The Effects Of The Housing Slowdown

Since the 1980s the California economy has gone through four phases and is now entering a fifth. From 1990 through 1993, it suffered a severe recession and a major economic reorganization. The "dot.com" and stock market booms and the growth of information technology industries dominated the years 1994 through 2000. Economic growth slowed dramatically during 2001 to 2003, hampered by the fallout from the "dot.com" bust, the stock market meltdown, and another recession. The economy was then boosted by a real estate boom during 2004 and 2005. During 2006, the state has been dealing with the aftermath of that boom.

The Usual Suspects

The pace of job growth slowed steadily throughout the first eight months of 2006. The deceleration, though, came from industries most closely associated with real estate—construction, trade, and finance. The pace of job growth in other sectors actually have shown a modest acceleration. Employment in real estate-related industries grew approximately 3 percent on a year-over-year basis throughout 2005 and into the early months of 2006. By August, that pace had fallen to less than 1 percent.

A number of industries are tied, directly or indirectly, to the fortunes of the housing industry. Residential construction is obviously affected directly, and employment growth in that sector accelerated swiftly during the real estate boom. Rising construction employment accounted for 27 percent of all industry jobs created during 2004 and 2005. Rising home equity also fueled robust consumer spending, which benefited retailers—especially appliance, electronics, and department

stores. These developments contrasted with the earlier dot.com boom when business development industries flourished, such as information and business services.

In the early months of 2006, California's housing markets had clearly flattened. Mortgage rates were rising. The inventory of homes for sale increased and the time needed to sell a home lengthened. Existing home price gains slowed dramatically. The pace of home sales during the first eight months of 2006 was down 23 percent from a year earlier. Consequently, home building fell far below its 2005 pace. The seasonally adjusted rate of single-family home construction permits issued during the first eight months of 2006 was off more than 24 percent from the same months of 2005.

The falloff in real estate activity in 2006 had the most pointed effect on construction employment. After averaging 6.4 percent annual growth in 2004 and 2005, construction jobs expanded only 3.7 percent during the first eight months of 2006 compared to the same months of 2005. While growth slowed in all but one construction sub-sector, residential building slowed the most dramatically, decelerating from over 10 percent annual growth in 2005 to only 5 percent. While this was a sharp slowdown, employment was still expanding. During the 1990-1993 recession, construction employment actually fell more than 10 percent per year on average.

The retail trade sector encountered alternating fortunes over the years. Job losses during the 1990-1993 recession were followed by steady growth during the 1994-2000 boom. Job growth faltered after the dot.com bubble burst, but accelerated during 2004 and 2005. This boom-bust cycle was most dramatic in auto parts, home furnishing, electronic, appliance, and department store sub-sectors.

In 2006, it was evident that weakening real estate markets had stricken the retailing sector. A Goldman Sachs economist estimates that homeowners spend about half of the money gained through mortgage refinancing. It is not surprising then that retail employment growth slowed when home prices flattened. In addition to anecdotal reports of pallid retail sales growth, the pace of retail job expansion slowed to 0.9 percent during the first eight months of 2006—less than half its 2005 pace. This slowdown was most pronounced at traditional department stores and building materials and supply stores. Building material store employment was essentially stagnant during the first eight months of 2006 after growing 5.0 percent in 2005. Department store employment growth slowed from a robust 6.5 percent during 2004-2005 to only 0.2 percent in 2006. The absolute level of retail employment did not fall, though, as it did during the 1990-1993 recession.

Credit industries also suffered from rising long-term interest rates, just as housing markets had. A major driver of the housing boom was a long period of historically low mortgage rates, which helped boost home prices, increased home equity, and stimulated refinancing activity. The mortgage banking industry—part of the nondepository credit intermediation sector—exploded during 2001-2003, as long term interest rates declined steadily. Employment grew at a double-digit pace, over 11 percent per year on average. When interest rates bottomed out between 2004 and 2005, growth slowed to about 4 percent annually. It slowed further in 2006, expanding only 3.2 percent on a year-over-year basis during the first eight months of the year.

Surprisingly, as of the middle of 2006, the employment of real estate agents hadn't suffered as much as might have been expected. Employment at offices of real estate agents and brokers was up 7.6 percent year-over-year during the first eight months of 2006. This was comparable to 2004-2005.

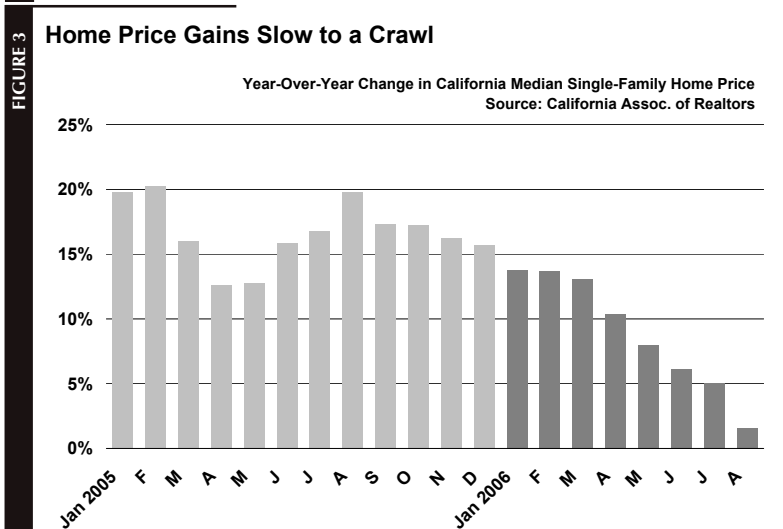
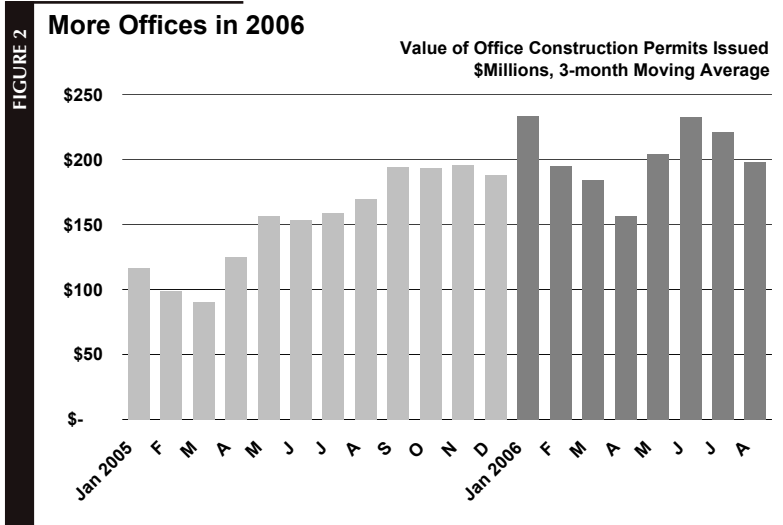
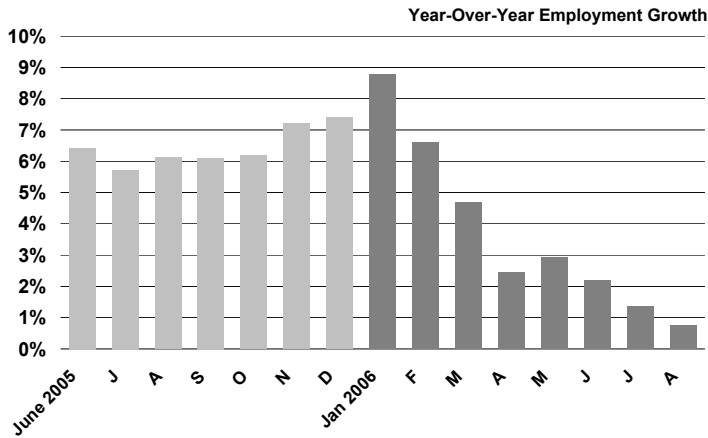


FIGURE 4

Construction



However, the pace of growth started the year out strong and then faded quickly—not a good portent for the rest of the year.

Information was the only other major industry sector that cooled significantly from the 2004-2005 period. This, though, was not attributable to slowing real estate markets. The volatile motion picture and video production industries were largely responsible. Employment in this area grew a robust 12.3 percent in 2004, only to fall 2.8 percent in 2005—for a two-year average gain of 4.8 percent. Employment was essentially flat during the first eight months of 2006. Fierce competition and restructuring amongst telecommunication resellers also hurt the information sector. Employment losses by resellers accelerated during 2006—falling 10.4 percent.

Better Business Building

Robust nonresidential construction was a countervailing force to the housing downturn. Buoyant business conditions, characterized by strong corporate profits and expanding business investment, generated a substantial increase in business construction. Employment in professional and business services during the first eight months of 2006 was up 2.8 percent from the same time in 2005. The total value of nonresidential construction permits issued during the first eight months of 2006, \$21 billion at an annual pace, was 20 percent faster than during the same months of 2005. The growth was led by office construction, which was up over 44 percent and accounted for almost 23 percent of the overall increase in nonresidential permitting. This is reflective of strong fundamental business growth, not just a delayed effect of the real estate boom. It is also reminiscent of the healthy business growth that occurred during the late 1990s.

Overall, the economy’s reaction to cooling housing markets during the first half of 2006 followed a predictable course, affecting the obvious suspects. For the most part, only those industries most closely tied to home building suffered. The slowing housing sector did not trigger a broader economic slowdown. As was expected though, it did let some steam out of California’s economic engine.

Nonfarm payroll employment rebounded in California in May after falling in March and April. Heavy rains in early March and early April likely hampered construction activity and played a role in the job declines in those two months. May brought better weather and a boost

in construction employment. The rebound, though, was not enough to pin the blame for the earlier declines solely on rainy weather. Rather, it looks like the general slowing in the state’s housing sector that has been going on for almost a year is now affecting job growth.

FIGURE 5

Building Material & Garden Equip. Stores

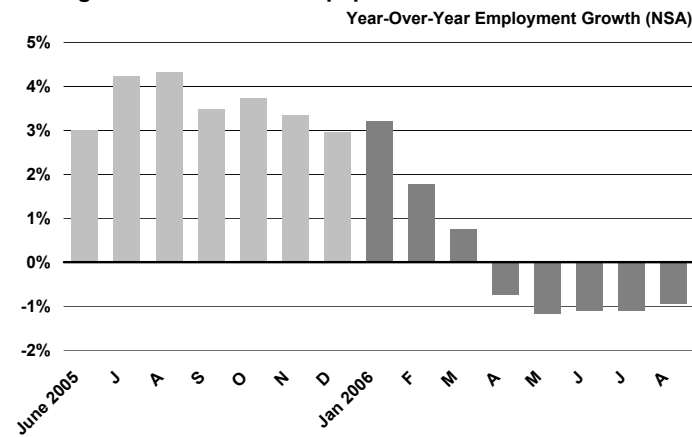
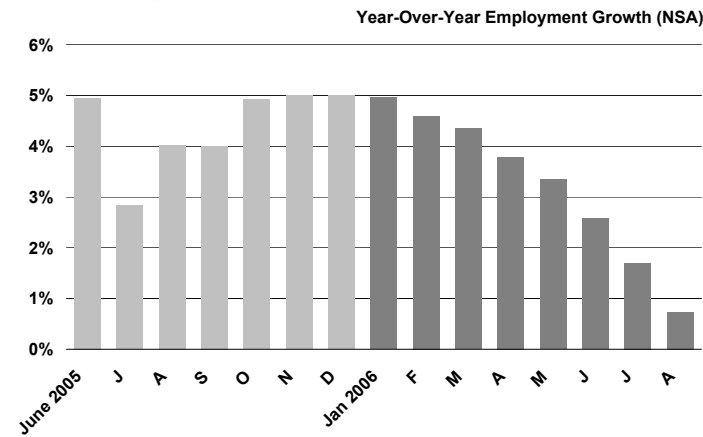


FIGURE 6

Nondepository Credit Institutions



Select Indicators

	2005		2006			Year-Over % Change
	Jul	Apr	May	Jun	Jul	
EMPLOYMENT (Seasonally adjusted)						
Civilian employment (000)	16,761	16,865	16,908	16,869	16,916	0.9%
Unemployment (000)	932	870	886	875	860	-7.8%
Unemployment rate	5.3	4.9	5.0	4.9	4.8	--
Nonagricultural wage and salary employment (000) a/	14,791.7	14,948.9	14,964.2	14,982.8	14,983.7	1.3%
Goods-producing industries	2,443.4	2,449.0	2,454.4	2,454.7	2,451.5	0.3%
Natural resources and mining	23.4	24.1	23.8	24.2	24.4	4.3%
Construction	907.7	918.2	922.4	922.5	920.4	1.4%
Manufacturing	1,512.3	1,506.7	1,508.2	1,508.0	1,506.7	-0.4%
Service-providing industries	12,348.3	12,499.9	12,509.8	12,528.1	12,532.2	1.5%
Trade, transportation, and utilities	2,819.6	2,832.9	2,833.6	2,835.3	2,838.5	0.7%
Information	469.8	465.3	467.3	471.3	465.7	-0.9%
Financial activities	929.4	941.3	942.3	942.0	942.5	1.4%
Professional and business services	2,151.3	2,197.2	2,195.8	2,197.9	2,196.8	2.1%
Educational and health services	1,579.1	1,606.4	1,611.4	1,614.0	1,607.1	1.8%
Leisure and hospitality	1,474.2	1,511.5	1,510.9	1,511.6	1,514.2	2.7%
Other services	511.3	517.0	518.6	520.1	523.2	2.3%
Government	2,413.6	2,428.3	2,429.9	2,435.9	2,444.2	1.3%
High-technology industries b/	870.5	870.3	870.2	871.5	872.0	0.2%
Computer and electronic products manufacturing	321.8	319.2	318.8	319.7	319.7	-0.7%
Aerospace products and parts manufacturing	72.5	72.6	72.6	72.6	72.4	-0.1%
Software publishers	41.6	41.5	41.3	41.6	41.6	0.0%
Telecommunications	114.0	110.6	110.1	109.1	109.1	-4.3%
Internet service providers	49.6	50.9	51.2	51.5	51.4	3.6%
Computer systems design	173.3	177.0	177.9	178.2	178.5	3.0%
Scientific research and development	97.7	98.5	98.3	98.8	99.3	1.6%
HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)						
Average weekly hours	39.6	40.1	40.2	40.6	40.3	1.8%
Average weekly earnings	\$624.10	\$635.59	\$637.97	\$645.95	\$641.17	2.7%
Average hourly earnings	\$15.76	\$15.85	\$15.87	\$15.91	\$15.91	1.0%
CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)						
All Urban Consumers Series						
California Average	n.a.	210.5	n.a.	210.9	n.a.	--
San Francisco CMSA	n.a.	208.9	n.a.	209.1	n.a.	--
Los Angeles CMSA	201.4	210.5	212.4	211.1	211.4	5.0%
Urban Wage Earners and Clerical Workers Series						
California Average	n.a.	203.2	n.a.	204.2	n.a.	--
San Francisco CMSA	n.a.	204.9	n.a.	205.2	n.a.	--
Los Angeles CMSA	194.6	202.9	205.0	204.2	204.5	5.1%
CONSTRUCTION						
Private residential housing units authorized (000) c/	227	171	175	213	135	-40.6%
Single units	161	123	129	130	93	-42.4%
Multiple units	66	48	46	83	42	-36.1%
Residential building authorized valuation (millions) d/	49,429	\$39,665	\$41,949	\$46,600	\$32,414	-34.4%
Nonresidential building authorized valuation (millions) d/	18,402	\$16,398	\$21,989	\$20,855	\$18,931	2.9%
Nonresidential building authorized valuation (millions) e/	1,561	1,517	1,959	2,103	1,612	3.3%
Commercial	512	592	781	703	567	10.7%
Industrial	156	75	204	286	111	-28.7%
Other	298	273	319	373	308	3.3%
Alterations and additions	594	577	655	741	626	5.3%
AUTO SALES (Seasonally adjusted)						
New auto registrations (number)	139,959	144,861	157,456	155,008	n.a.	--

a/ The wage and salary employment information is based on the new North American Industry Classification System (NAICS).

b/ Not seasonally adjusted

c/ Seasonally adjusted at annual rate

d/ Seasonally adjusted

e/ Not seasonally adjusted

n.a. Not available

Select Indicators *Continued*

VACANCY RATES FOR SECOND QUARTER 2006 (Percent)

	Office Downtown		Office Suburban		Office Metropolitan		Industrial	
	2Q06	2Q05	2Q06	2Q05	2Q06	2Q05	2Q06	2Q05
	Northern and Central California:							
Oakland	14.6	13.8	13.1	15.6	13.4	15.2	n.a.	n.a.
Sacramento	12.6	13.4	13.8	12.8	13.6	12.9	11.7	13.8
San Francisco	10.7	12.6	15.9	20.8	12.3	15.1	11.5	13.3
San Jose	20.4	21.8	12.5	15.3	14.3	16.8	n.a.	n.a.
Southern California:								
Los Angeles Metro	13.7	15.5	10.4	11.3	10.9	12.0	7.5	6.7
Orange County	n.a.	n.a.	7.3	7.9	7.3	7.9	7.4	8.2
San Diego	10.6	8.3	9.1	9.5	9.4	9.3	8.4	10.2
Ventura County	n.a.	n.a.	10.1	8.7	10.1	8.7	n.a.	n.a.
National Average	12.2	13.4	14.6	15.7	13.7	14.8	9.6	10.2

FOREIGN TRADE THROUGH CALIFORNIA

SALES OF EXISTING SINGLE-FAMILY HOMES

		Median	Units	PORTS		DOD PRIME CONTRACTS a/		
		Price	(SAAR)	Exports	Imports	\$ millions	% of U.S.	
2002	Jan	\$287,076	584,251	\$8,688	\$15,517	1993-94	22,573	20.5%
	Feb	294,865	610,379	8,429	15,768	1994-95	18,277	16.8%
	Mar	305,838	586,225	9,945	16,318	1995-96	18,230	16.7%
	Apr	317,121	643,026	9,274	17,807	1996-97	18,477	17.3%
	May	319,591	620,301	9,814	17,568	1997-98	17,401	15.9%
	Jun	324,638	533,840	9,984	18,988	1998-99	17,372	15.1%
	Jul	321,903	540,797	9,335	18,998	1999-00	18,100	14.7%
	Aug	334,273	562,783	9,948	19,686	2000-01	19,939	14.7%
	Sep	322,452	493,803	9,286	19,478	2001-02	23,816	15.0%
	Oct	324,672	579,240	8,794	18,753	2002-03	28,681	15.0%
	Nov	328,440	542,121	9,046	20,522	2003-04	27,875	13.7%
	Dec	338,836	573,786	8,797	19,060	2004-05	31,065	13.1%
2003	Jan	\$336,212	584,600	\$8,408	\$17,588			
	Feb	326,645	566,890	8,423	16,359			
	Mar	351,134	567,609	9,784	18,789			
	Apr	364,040	583,333	9,158	19,151			
	May	367,627	572,265	9,090	18,537			
	Jun	374,535	572,128	9,743	19,774			
	Jul	381,938	595,858	9,604	20,743			
	Aug	406,142	645,721	9,626	19,846			
	Sep	384,686	631,881	8,968	21,060			
	Oct	379,119	636,688	10,341	23,021			
	Nov	384,472	627,190	9,969	21,320			
	Dec	401,724	637,078	10,437	20,528			
2004	Jan	\$404,463	615,659	\$9,062	\$19,996			
	Feb	391,550	589,220	9,536	18,011			
	Mar	428,060	590,220	11,420	22,589			
	Apr	452,680	640,710	10,249	21,722			
	May	463,320	632,380	10,460	21,760			
	Jun	468,050	633,660	10,481	23,971			
	Jul	462,145	639,910	10,388	24,162			
	Aug	473,520	591,150	10,118	24,127			
	Sep	463,630	626,210	10,446	23,974			
	Oct	459,530	639,571	10,460	25,279			
	Nov	471,980	652,340	9,792	25,769			
	Dec	474,270	645,860	10,628	22,863			
2005	Jan	\$484,580	659,410	\$9,405	\$22,776			
	Feb	470,920	608,160	9,756	21,738			
	Mar	496,550	634,700	11,390	23,735			
	Apr	509,630	658,060	10,356	24,337			
	May	522,590	618,920	10,882	24,774			
	Jun	542,330	656,310	11,108	26,153			
	Jul	540,900	647,910	10,828	26,452			
	Aug	568,890	632,240	11,166	26,452			
	Sep	543,980	650,780	10,825	28,012			
	Oct	538,770	621,530	11,371	28,847			
	Nov	548,680	579,560	11,194	27,030			
	Dec	548,640	531,910	11,709	26,024			
2006	Jan	\$551,300	500,470	\$10,848	\$25,555			
	Feb	535,470	513,745	10,791	23,004			
	Mar	561,350	539,170	13,336	27,722			
	Apr	562,380	516,960	11,991	27,005			
	May	564,430	488,260	12,306	28,090			
	Jun	575,800	483,690	12,664	29,621			

a/ U.S. fiscal year: October through September

n.a. Not available

Leading Indicators/^a

		Manufacturing		Unemployment Insurance Initial Claims	New Business Incorporations	Housing Unit Authorizations (Thousands)
		Overtime Hours	Average Weekly Hours			
2001	Jan	4.1	39.9	47,433	7,529	205.3
	Feb	4.2	40.2	51,754	6,424	136.7
	Mar	4.0	39.9	53,976	6,552	143.7
	Apr	3.5	39.5	52,045	6,227	153.3
	May	3.8	39.6	56,344	6,759	152.1
	Jun	3.8	39.3	54,585	6,423	147.4
	Jul	3.7	39.5	55,086	6,536	129.3
	Aug	3.9	39.6	57,220	7,277	162.6
	Sep	3.9	39.7	59,321	5,928	113.5
	Oct	3.8	39.4	62,955	7,048	141.2
	Nov	3.6	39.0	58,250	7,299	139.3
	Dec	3.7	39.4	49,212	6,900	161.4
2002	Jan	3.8	39.0	67,463	7,284	160.6
	Feb	3.9	39.4	56,462	6,846	163.3
	Mar	4.1	39.9	61,127	7,329	143.1
	Apr	4.1	39.9	62,452	7,320	163.4
	May	4.1	39.6	61,029	8,550	157.0
	Jun	4.1	39.9	58,896	6,972	149.1
	Jul	3.9	39.3	61,909	7,279	179.3
	Aug	4.0	39.8	61,152	7,595	169.3
	Sep	3.9	39.9	60,528	7,348	182.1
	Oct	3.9	39.6	61,567	8,192	206.0
	Nov	3.8	39.6	59,053	7,516	187.2
	Dec	3.9	39.8	60,417	7,682	150.2
2003	Jan	3.9	39.6	61,430	7,475	198.2
	Feb	4.0	39.8	59,637	8,658	253.2
	Mar	3.7	39.7	59,723	7,138	180.1
	Apr	3.7	39.7	63,614	7,813	189.7
	May	3.7	39.8	61,106	7,769	210.0
	Jun	3.7	39.9	60,771	7,834	175.8
	Jul	3.8	39.5	60,213	8,087	196.8
	Aug	3.8	39.5	57,664	7,094	183.3
	Sep	3.9	39.5	57,320	8,353	189.4
	Oct	3.9	39.6	58,650	8,197	213.2
	Nov	4.0	40.1	54,900	7,465	185.4
	Dec	3.9	39.6	52,281	8,288	192.2
2004	Jan	4.1	40.0	51,052	8,216	204.0
	Feb	4.1	40.2	51,195	8,678	209.6
	Mar	4.2	40.2	49,142	8,397	223.2
	Apr	4.4	40.0	49,413	8,333	208.6
	May	4.5	40.3	46,621	8,135	201.5
	Jun	4.2	39.9	49,874	8,807	219.9
	Jul	4.4	40.2	48,251	8,473	200.1
	Aug	4.2	40.1	47,573	8,391	216.8
	Sep	4.0	39.3	46,799	8,648	221.2
	Oct	4.3	39.8	44,947	8,087	178.4
	Nov	4.3	39.8	47,368	9,054	250.0
	Dec	4.4	39.8	49,438	9,020	221.1
2005	Jan	4.5	40.3	50,966	6,002	192.9
	Feb	4.5	40.0	46,024	9,073	204.6
	Mar	4.4	40.0	45,384	9,204	227.3
	Apr	4.5	40.1	44,498	9,300	209.5
	May	4.4	39.9	43,494	9,641	218.9
	Jun	4.3	39.6	42,711	9,263	231.6
	Jul	4.3	39.9	40,706	8,877	227.1
	Aug	4.6	39.9	40,975	9,374	208.6
	Sep	4.4	40.0	40,597	8,995	277.2
	Oct	4.6	40.5	37,628	8,621	156.9
	Nov	4.2	39.7	39,949	9,174	201.5
	Dec	4.2	39.3	42,641	9,104	162.1
2006	Jan	4.2	40.5	42,846	9,211	175.1
	Feb	4.4	40.4	38,238	8,771	223.0
	Mar	4.2	40.2	42,667	9,490	192.5
	Apr	4.2	40.4	43,675	8,194	171.3
	May	4.3	40.2	42,994	9,650	174.6
	Jun	4.3	40.5	40,915	8,573	213.0
	Jul	4.2	40.6	42,105	n.a.	134.9

^{a/} Seasonally adjusted by the California Department of Finance.
n.a. Not available

Coincident Indicators/^a

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
2003	Jan	14,437	1,590	6.9	520
	Feb	14,421	1,580	6.9	522
	Mar	14,398	1,572	6.8	521
	Apr	14,392	1,564	6.9	567
	May	14,387	1,556	6.9	543
	Jun	14,381	1,549	6.9	550
	Jul	14,359	1,538	6.9	552
	Aug	14,380	1,540	6.9	528
	Sep	14,368	1,540	6.8	525
	Oct	14,407	1,537	6.9	517
	Nov	14,390	1,535	6.8	509
	Dec	14,391	1,535	6.7	503
2004	Jan	14,426	1,537	6.6	457
	Feb	14,444	1,535	6.5	453
	Mar	14,461	1,534	6.5	444
	Apr	14,473	1,537	6.4	438
	May	14,494	1,537	6.4	416
	Jun	14,496	1,533	6.3	449
	Jul	14,569	1,545	6.2	404
	Aug	14,554	1,535	6.1	420
	Sep	14,552	1,530	6.1	416
	Oct	14,619	1,528	6.0	390
	Nov	14,641	1,526	5.9	402
	Dec	14,631	1,520	5.9	398
2005	Jan	14,648	1,524	5.8	406
	Feb	14,685	1,521	5.6	395
	Mar	14,694	1,516	5.5	388
	Apr	14,735	1,516	5.4	368
	May	14,730	1,511	5.4	362
	Jun	14,740	1,508	5.4	386
	Jul	14,792	1,512	5.3	349
	Aug	14,834	1,509	5.2	366
	Sep	14,864	1,507	5.2	332
	Oct	14,890	1,510	5.2	334
	Nov	14,914	1,510	5.1	340
	Dec	14,919	1,511	5.1	317
2006	Jan	14,936	1,505	4.8	349
	Feb	14,967	1,506	5.0	338
	Mar	14,954	1,504	4.8	345
	Apr	14,949	1,507	4.9	351
	May	14,964	1,508	5.0	336
	Jun	14,983	1,508	4.9	345
	Jul	14,984	1,507	4.8	332

		Personal Income (\$ millions)	Total Wages & Salaries (\$ millions)	Taxable Sales (\$ millions)
2001	Qtr I	\$1,142,025	\$652,950	\$111,989
	Qtr II	1,134,846	647,680	111,275
	Qtr III	1,132,057	641,413	108,517
	Qtr IV	1,132,288	640,383	109,442
2002	Qtr I	\$1,141,415	\$642,170	\$108,528
	Qtr II	1,148,916	642,227	109,986
	Qtr III	1,147,076	639,686	111,384
	Qtr IV	1,153,456	643,855	110,449
2003	Qtr I	\$1,160,041	\$646,153	\$112,286
	Qtr II	1,176,748	655,808	113,415
	Qtr III	1,190,917	664,879	117,636
	Qtr IV	1,209,356	671,184	116,023
2004	Qtr I	\$1,229,219	\$682,125	\$122,428
	Qtr II	1,248,078	690,233	123,851
	Qtr III	1,262,692	700,387	125,590
	Qtr IV	1,309,235	723,323	127,372
2005	Qtr I	\$1,313,380	\$728,138	\$128,341
	Qtr II	1,329,055	734,113	133,482
	Qtr III	1,352,624	753,518	n.a.
	Qtr IV	1,371,766	762,869	n.a.

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.
n.a. Not available

ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

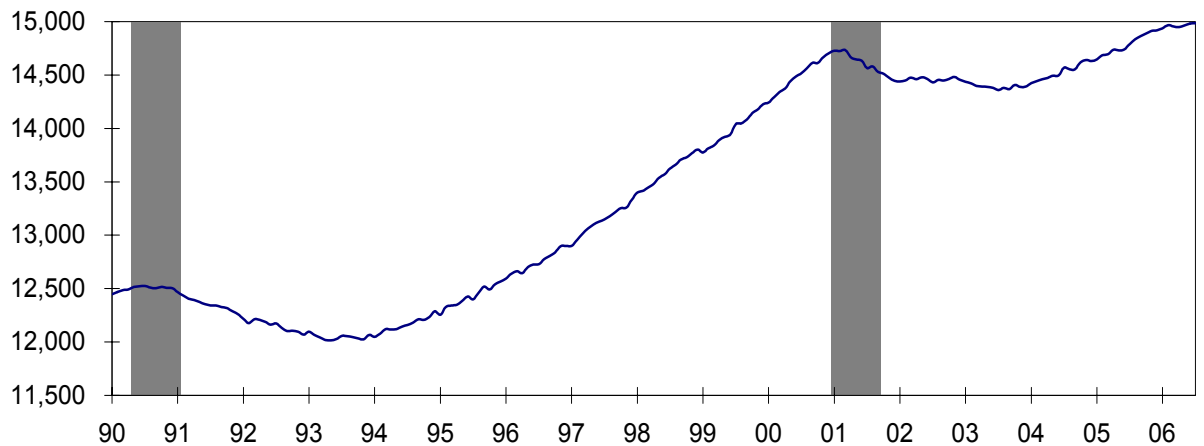
Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

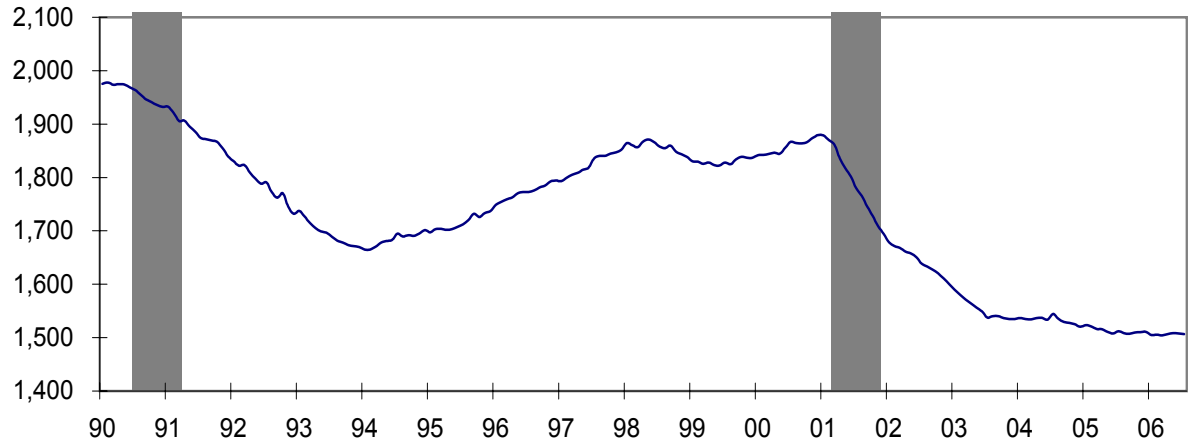
Nonagricultural Employment

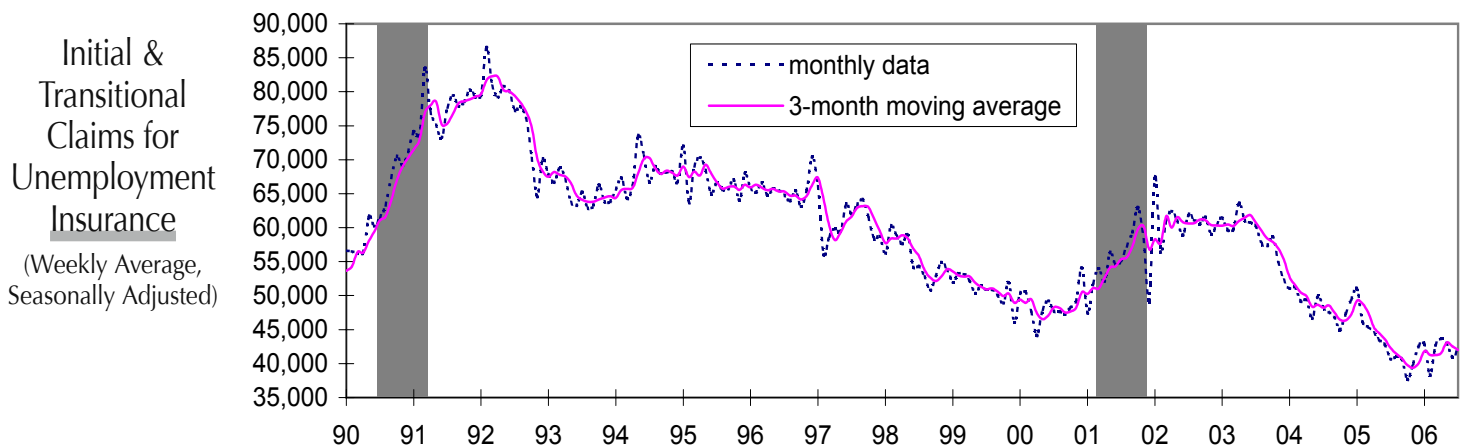
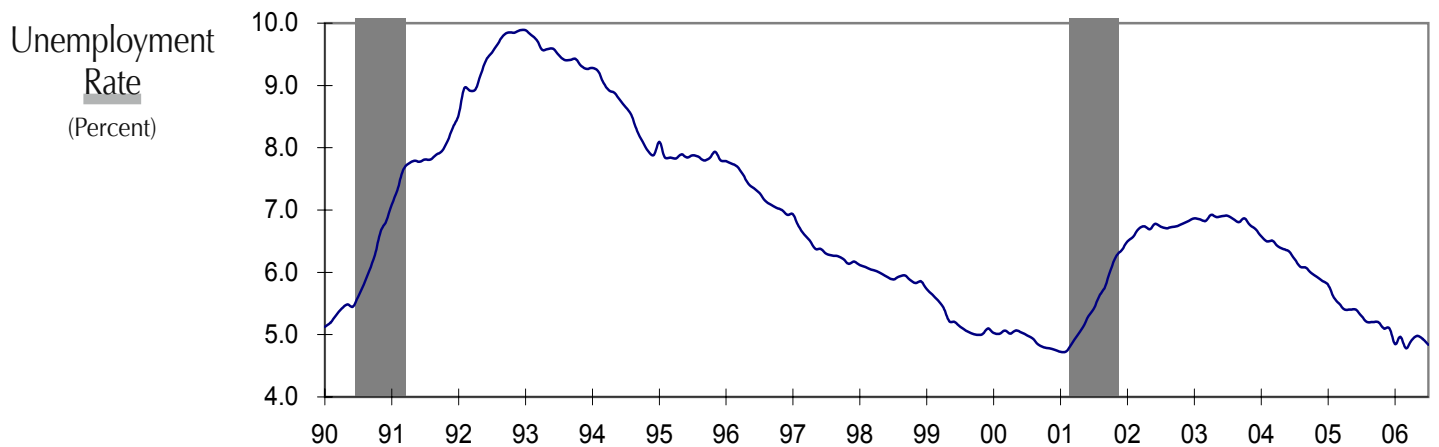
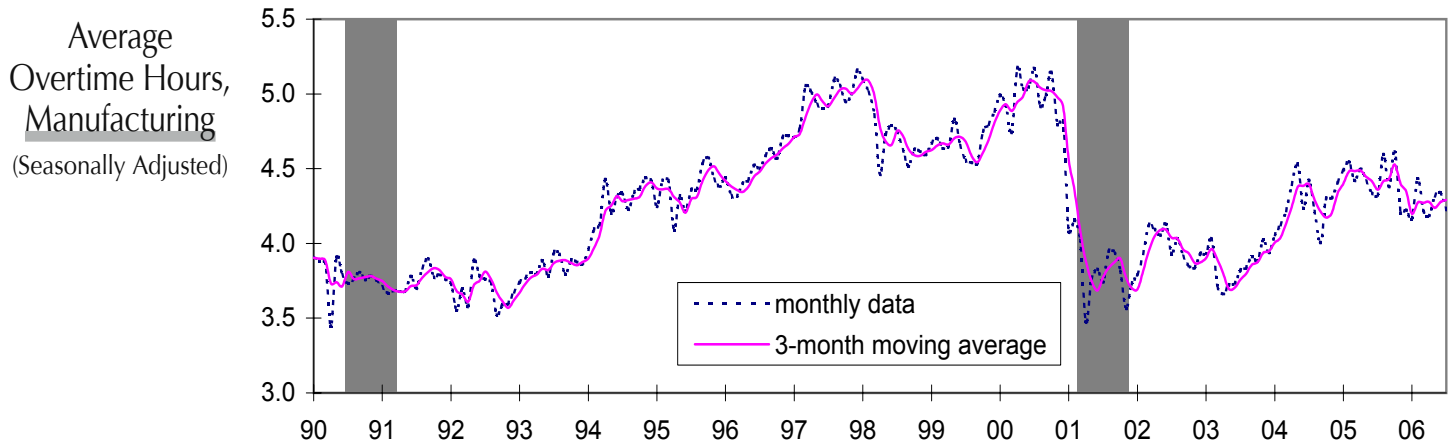
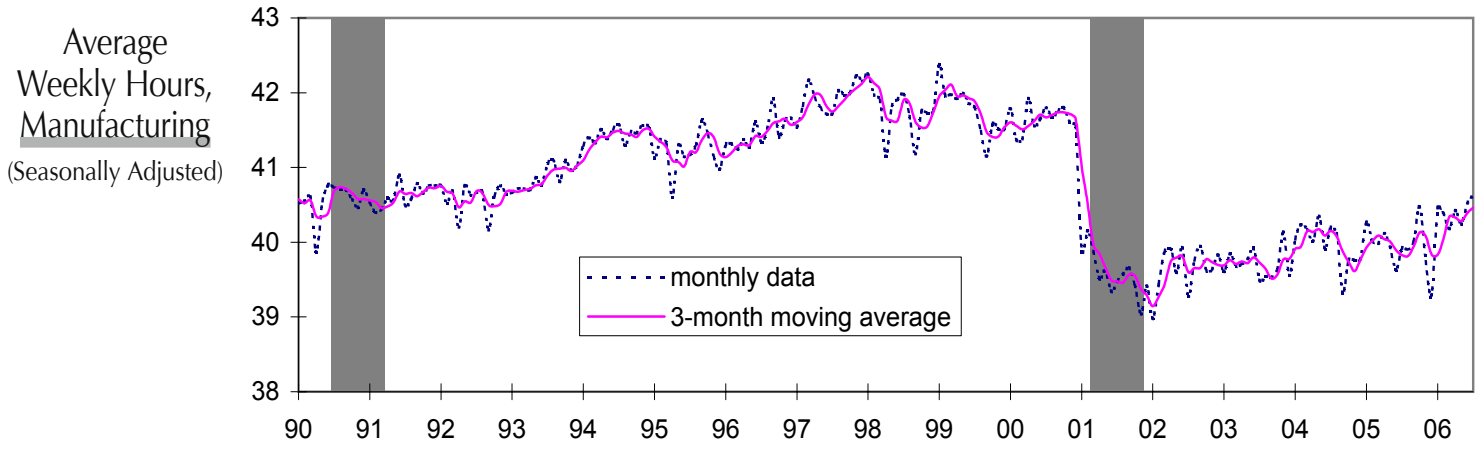
(Thousands, Seasonally Adjusted)



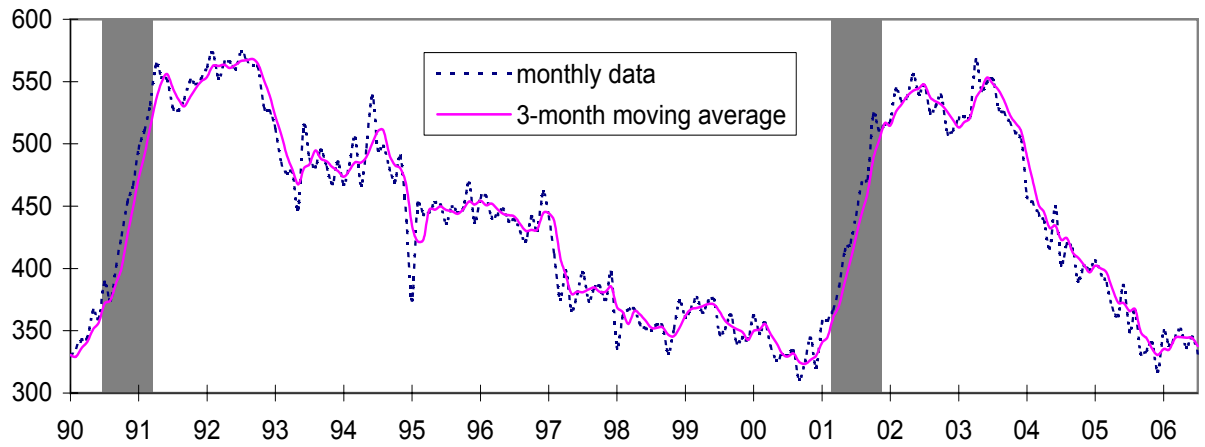
Manufacturing Employment

(Thousands, Seasonally Adjusted)

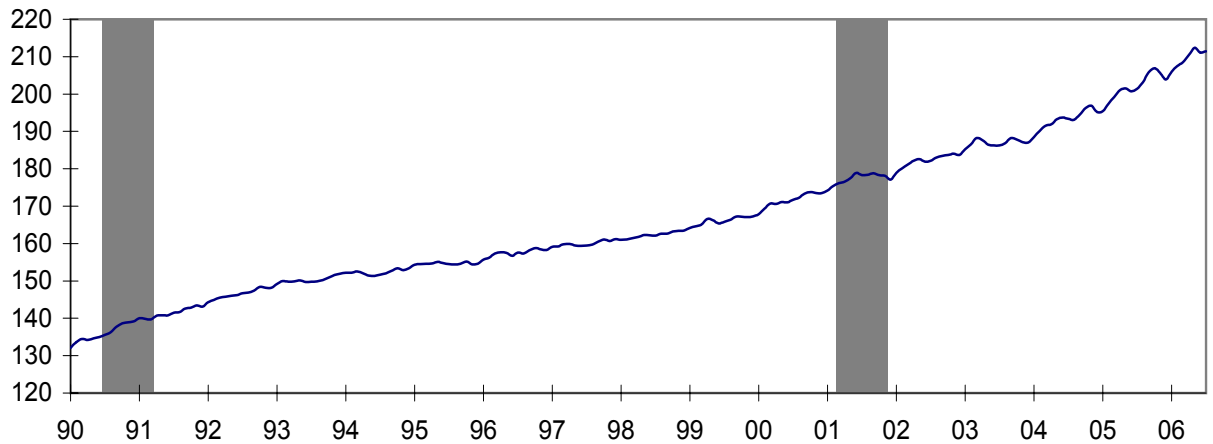




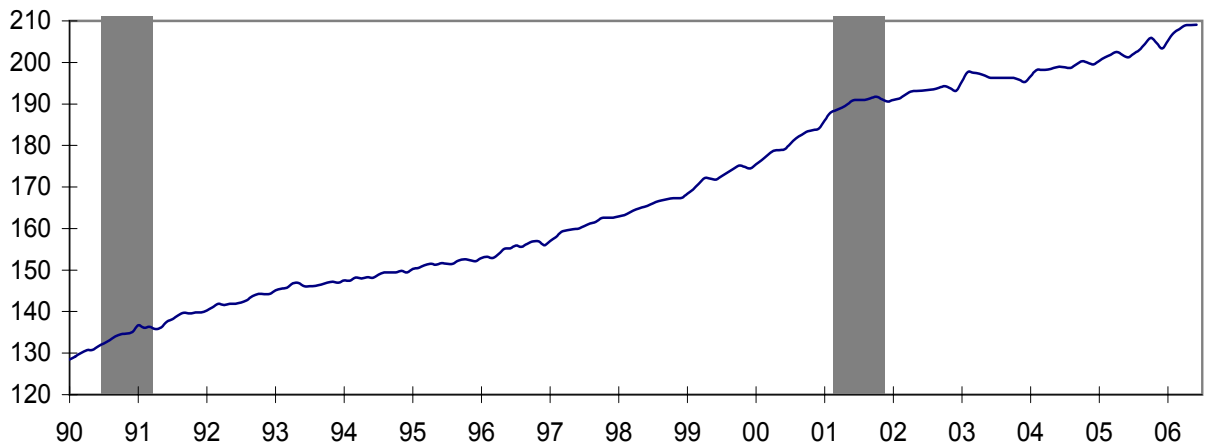
**Unemployment,
Average Weeks
Claimed**
(thousands,
Seasonally Adjusted)



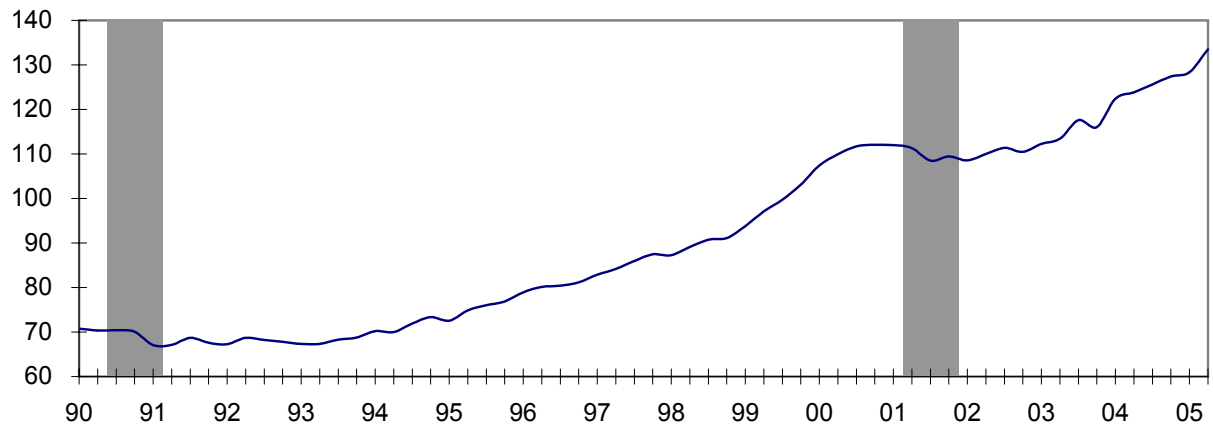
**Consumer
Price Index,
Los Angeles**
(1982-84=100)



**Consumer
Price Index,
San Francisco**
(1982-84=100)

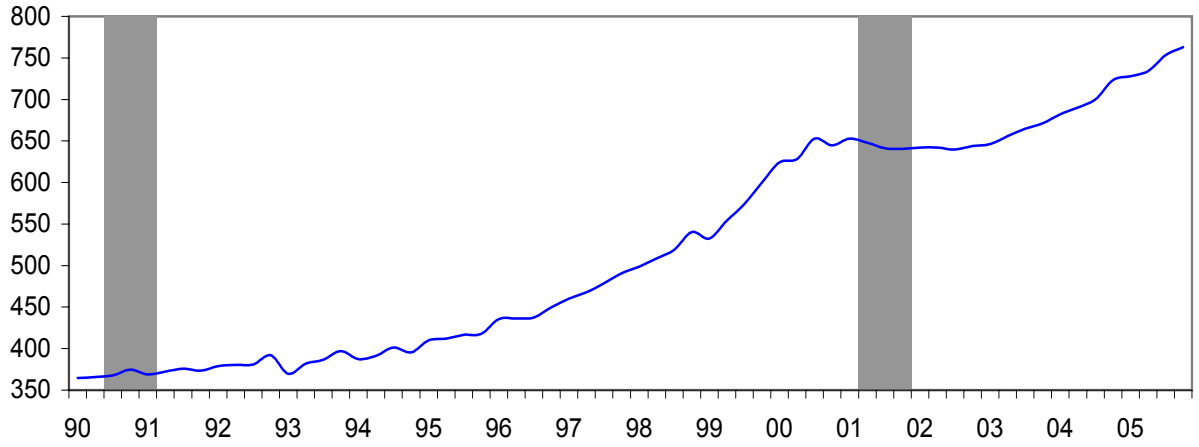


Taxable Sales
(Dollars in billions,
Seasonally Adjusted)



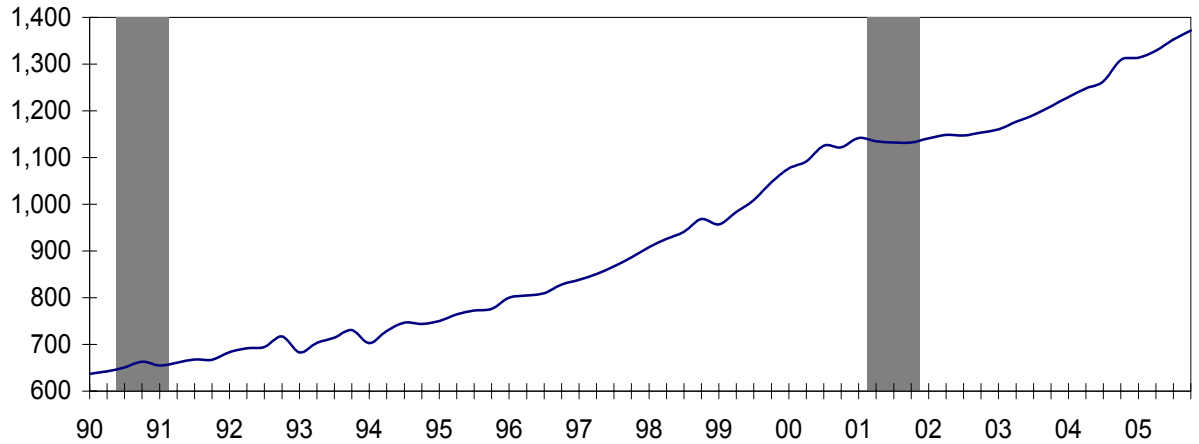
Wages and Salaries

(Dollars in billions, Seasonally Adjusted)



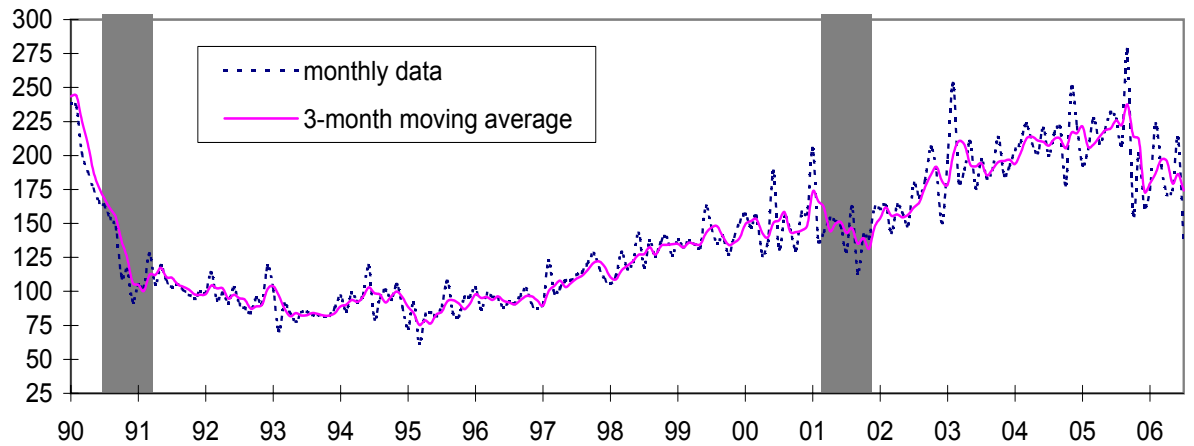
Personal Income

(Dollars in billions, Seasonally Adjusted)



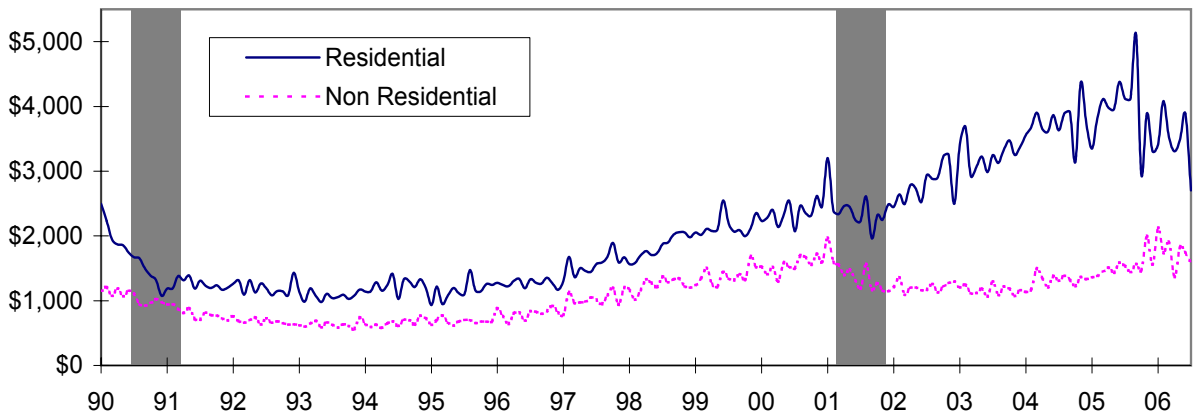
New Housing Units Authorized By Building Permits

(thousands, Seasonally Adjusted at Annual Rate)

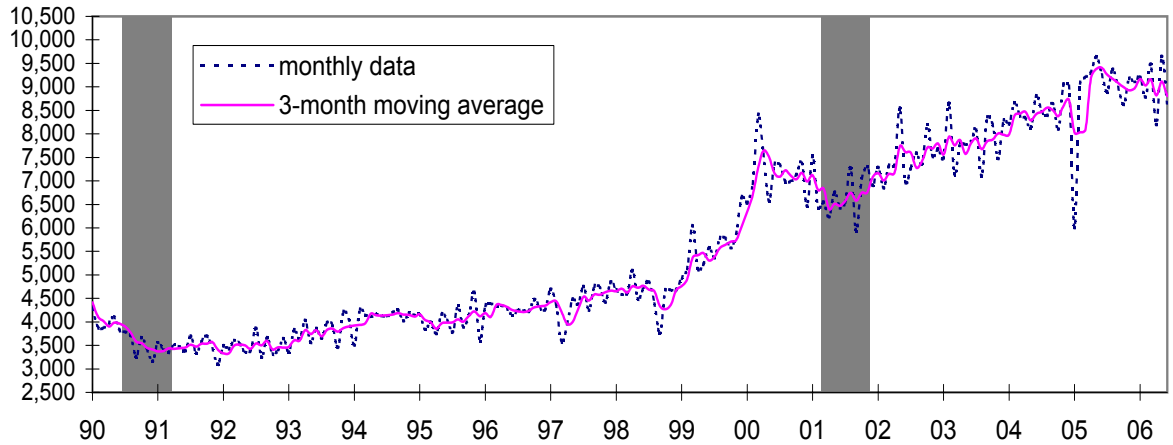


Residential & Nonresidential Building Permit Valuation

(Dollars in millions, Seasonally Adjusted)



**New Business
Incorporations**
(Seasonally Adjusted)



■ CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of events dating back to 1956 is available at the Department's internet home page at: www.dof.ca.gov

2005

- January 22-24** Blizzards blanketed large parts of the Northeast.
- January 30** Iraq held its first free election in half a century.
- February 2** Federal funds rate raised from 2.25 percent to 2.50 percent.
- March 22** Federal funds rate raised from 2.50 to 2.75 percent.
- March 30** GDP grew at an annual rate of 3.8 percent in the fourth quarter of 2004.
- April 28** GDP increased at an annual rate of 3.1 percent in the first quarter of 2005.
- May 3** Federal funds rate raised from 2.75 to 3.00 percent
- June 29** GDP increased at an upwardly revised 3.8 percent in the first quarter of 2005.
- June 30** Federal funds rate raised from 3.00 percent to 3.25 percent.
- July 11** Governor Arnold Schwarzenegger signs the 2005-06 state budget bill.
Moody's Investor Services and Fitch Ratings upgraded the state's bond ratings.
- August 9** Federal funds rate raised from 3.25 percent to 3.50 percent.
- August 29** Hurricane Katrina ripped through Louisiana, Mississippi and Alabama causing billions of dollars in damage.
- August 31** GDP increased at an annual rate of 3.8 percent in the first quarter and 3.3 percent in the second quarter of 2005.
- September 20** Federal funds rate raised from 3.50 percent to 3.75 percent.
- October 14** Overall consumer prices rose at the fastest pace in more than 25 years last month.
- October 17** The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 goes into effect.
- October 24** Hurricane Wilma battered Florida.

- November 1** Federal funds rate raised from 3.75 percent to 4.00 percent.
- December 13** Federal funds rate raised from 4.00 percent to 4.25 percent.
- December 15** CPI posts biggest drop since 1949.
- December 21** GDP increased at an annual rate of 4.1 percent in the third quarter of 2005
In the second quarter, GDP increased 3.3 percent.

2006

- January 31** Federal funds rate raised from 4.25 percent to 4.50 percent.
Alan Greenspan steps down after more than 18 years as chairman of the Federal Reserve.
Ben Bernanke was sworn in as the new chairman of the Federal Reserve.
- February 17** A total of 38,300 new and resale houses and condos were sold in California last month. That's down 27.5 percent from December and down 9.5 percent from January 2005.
Last month's sales count was the lowest since January 2002.
The median price paid for a home last month was \$452,000. That's down 1.3 percent from December and up 13.0 percent from January 2005. Last month's year-over-year increase was the lowest since a 12.4 percent increase in March 2003 when the median reached \$290,000. Prices increased at their fastest rate in June 2004 when the \$382,000 median was up 23.2 percent from the same month a year before.
- February 28** GDP increased at an annual rate of 1.6 percent in the fourth quarter of 2005, posting the smallest gain in three years.
- March 28** Federal funds rate raised from 4.50 percent to 4.75 percent.
This is the fifteenth consecutive increase since June 2004 and the first since Ben Bernanke took over as chairman of the Federal Reserve.
- May 10** Federal funds rate raised from 4.75 percent to 5.00 percent.
- May 17** Standard and Poor's raised California's bond rating to A+ from A.
Moody's upgraded California's bond rating to A1 from A2.
- June 9** Fitch upgraded California's bond rating to A+ from A.
- June 29** GDP increased at an annual rate of 5.6 percent in the first quarter of 2006.
It was the strongest quarterly growth in 2 1/2 years.
Federal funds rate raised from 5.00 percent to 5.25 percent.
- June 30** California Governor Arnold Schwarzenegger signs the 2006-07 state budget bill.
- July 12** Hezbollah attacks Israel.
- July (mid to late)** Heat wave sets records across the United States and caused scattered power outages.
- July 28** GDP increased at an annual rate of 2.5 percent in the second quarter of 2006.
- August 7** BP announces plan to shutdown Prudhoe Bay oil field.
- August 10** U.K. foils plot to bomb U.S.-bound airliners.