



# CALIFORNIA Economic Indicators

May–June 2007

## Real Estate Woes Persist

The real estate slump is a serious drag on California job growth.

### REVIEW OF RECENT ECONOMIC DEVELOPMENTS

The effects of the housing sector downturn on the California economy continued at midyear. Job gains slowed to a trickle in June as home sales and construction continued to slump.

### EMPLOYMENT

#### Construction continued to hold down job gains

June was a disappointing month for California labor markets. Nonfarm payroll employment grew by only 400 jobs and the housing sector downturn continued to take a toll, with additional weakness appearing in other sectors, nearly all of them tied to real estate.

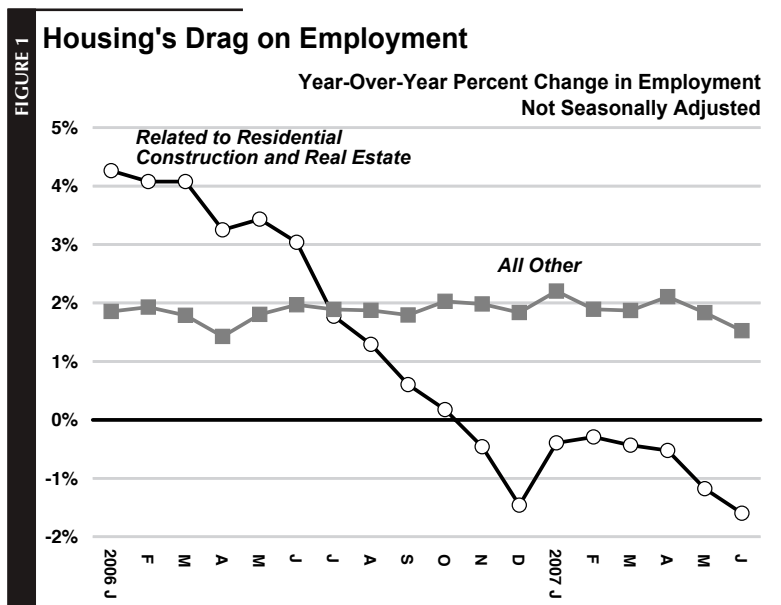
The gain in May was revised upwards by 5,400 jobs for a total gain of 16,200. Over the 12 months from June 2006 to June 2007, California nonfarm payroll employment grew by 204,700, or 1.4 percent, while nationally, nonfarm payrolls grew by 1.5 percent.

Only five of the 11 major industry sectors posted job gains in June. Education and health services added the most with 8,600 additional jobs. This gain, however, was likely the result of a statistical anomaly from the seasonal adjustment process. Government added 4,600 jobs, with local education and county government accounting for the lion's share. Six major industry sectors lost jobs, with the biggest losses coming in housing-related sectors including financial activities, which lost 5,700 jobs, and construction losing 5,300. Other sectors that lost jobs include manufacturing which dropped 2,700; information, 2,000; trade, transportation, and utilities, 1,000; and natural resources and mining, 199.

Seven of the major industry sectors gained jobs over the 12 months ending in June 2007, led by large gains in government, educational and health services, professional and business services, and leisure and hospitality. The leading job losers were construction and financial activities, the latter suffering its largest loss since December 1995. Employment over the year rose by 50,000 in government; 49,600 in educational and health services; 46,599 in professional and business

### INSIDE

- Building Activity . . . . . 2
- The Subprime Crisis and California . . . . . 4
- Economic Indicator Tables . . . . . 10
- Economic Indicator Charts . . . . . 14
- Chronology . . . . . 18



Employment weakness is focused in industries most dependent on real estate and home building.

services; 41,200 in leisure and hospitality; 32,099 in trade, transportation, and utilities; 9,399 in other services; and 800 in information. Employment fell by 12,000 in construction, 7,000 in financial activities, 5,900 in manufacturing; and 100 in natural resources and mining.

### **Housing woes take a toll**

The official not-seasonally-adjusted estimates of industry subsector employment show the full impact of the housing slump on California's labor markets. Employment in those subsectors most closely affected by home construction, real estate, and home-related consumption fell by 0.7 percent during the first half of 2007 compared to the same months of 2006. This is a dramatic change from the 3.7-percent growth achieved during the first half of 2006. In the remaining industries, job growth actually accelerated to 1.9 percent compared to 1.8 percent during the first half of 2006.

Within the construction sector, those components most closely associated with residential construction decelerated the most. Employment in residential building construction swung from an 8.3-percent gain in the first six months of 2006 to a 0.8-percent loss in 2007. The much smaller land subdivision sector changed directions even more dramatically, from a 12.4-percent gain to a 6.5-percent loss. In contrast, job growth in the nonresidential building subsector only decelerated slightly and remained positive.

Manufacturing employment losses slowed during the first half of 2007, but the improvement would have been much better except for the drag from building-related subsectors. Manufacturing employment in wood products, architectural & structural metals, and furniture & related products decelerated from a 0.9-percent drop in the first half 2006 to 4.4 percent losses in 2007. Employment gains in the other manufacturing components, while still small, actually accelerated, from 0.1 percent to 0.8 over the same period.

A similar pattern emerged in retail trade. Retailing sectors most sensitive to home equity and home sales saw a dramatic deceleration in 2007. Employment at automobile dealers, furniture and home furnishings stores, electronics & appliance stores, building material and garden equipment stores, and general merchandise stores declined just 0.1 percent during the first six months of 2006, but dropped 3.5 percent during the first half of 2007. Retail employment in other sectors accelerated from a 0.3-percent growth rate in 2006 to 1.2 percent in 2007.

Housing troubles also took a predictable bite out of the financial sector. Employment in credit intermediation went from a gain of 3.1 percent in the first six months of 2006 to a loss of 1.0 percent in 2007. The principal contributors to this dramatic swing were the components related to mortgage brokering, mortgage pooling and repackaging, and related activities. Real estate employment grew 4.8 percent in the first half of 2006, but only 0.3 percent in the first half of 2007. Overall, employment in financial sectors closely related to real estate swung from a 3.8-percent gain in 2006 to a loss of 0.5 percent in 2007. Employment gains in other financial sectors fell only modestly, from 0.8 percent to 0.6 percent.

### **Steady unemployment**

The state's unemployment rate held steady at 5.2 percent in June, following a 0.4 percentage point increase over the prior two months. The national unemployment rate was unchanged at 4.5 percent. In June 2006, California's unemployment rate was 4.9 percent.

## **BUILDING ACTIVITY**

### **Homebuilding slowed in first half of 2007**

The fallout from the housing slump and the subprime crisis weighed heavily on new home construction during the first half of 2007. June was the 16th consecutive month of declining year-over-year residential permitting and the weakest month for home construction permitting since March 2000. Permitting during the first six months of 2007—127,000 units on a seasonally adjusted annual rate basis, including multi-family units—was down nearly 32 percent from the 187,000-unit pace in the same months of 2006.

## Nonresidential construction growth moderated

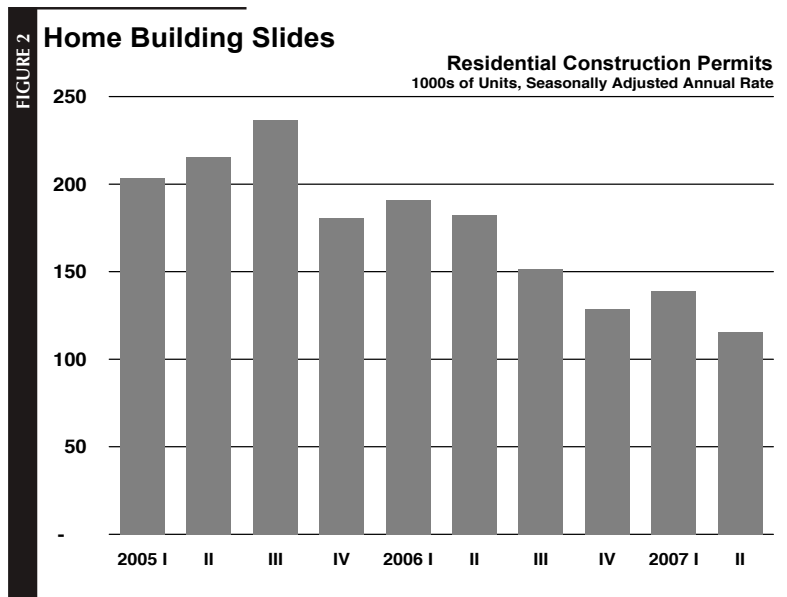
Nonresidential permitting sustained a healthy level during the first half of 2007, but its growth trend flattened considerably. During most of the slide in California's home building, expanding business construction helped fill in the gap, with permitting growing at or near a double-digit annual pace through 2006. This building lost some of its steam during the first half of 2007 when the value of nonresidential construction permits issued was up 4.5 percent from the same period in 2006. During the first half of 2006, construction expanded over 22 percent from a year earlier.

## REAL ESTATE

### Home sales continued to suffer

California's existing home market continued to weaken through mid-year. Sales of existing single-family homes fell for the fourth consecutive month in June, to 366,370 units on a seasonally adjusted annual rate basis, nearly 25 percent below the year-ago pace. Home sales during the second quarter of 2007 were the lowest since the third quarter of 1995. The inventory of unsold homes remained high in June, just over a 10-month supply, as estimated by the California Association of Realtors.

Home prices have held their ground, though, except for regions that experienced unsupportable price gains up to 2005. The median price of existing single-family homes sold in June was \$594,260, slightly higher than the median in May and just 3.2 percent higher than a year earlier. This price stability, however, was likely the result of a change in the composition of home sales. The subprime collapse has principally affected sales at the low end of the housing market, which has the effect of boosting the median price.



## ■ THE SUBPRIME CRISIS AND CALIFORNIA

The subprime mortgage crisis has raised concern that a second leg has been kicked out from under the national and California economies. Between 2002 and 2006, residential construction and related industries accounted for a disproportionate share of economic growth in both economies. When the bubble began deflating in the middle of 2005, attention turned to the fallout. By the end of 2006, it appeared that the most disastrous potential consequences had been avoided and that the only price to be paid for the exuberance in the housing sector would be an extended period of mediocre home price appreciation while the market worked off its excesses. However, the subprime lending crisis that is now roiling real estate markets has cast serious doubt on these expectations.

The ultimate economic risks posed by subprime mortgage problems are similar to, but potentially worse than, those associated with the collapsing housing bubble. Subprime difficulties could spark further losses of real estate value that would negatively impact household finances, leading to a serious slowdown in consumer spending and a drop in construction activity. These developments could dampen job growth and weaken the state's economy. The unraveling of the subprime lending industry could also hamper real estate markets farther into the future than a mere market correction would. Already, mortgage lending standards are being tightened. If secondary mortgage markets recede, mortgages will be harder to get and more expensive down the road, which would make California housing even less affordable. More stringent lending standards could also diminish the amount of credit available to small businesses.

### **Subprime primer**

Subprime mortgages are a class of loans made to borrowers who are deemed to present a level of credit risk that is too high for them to be given a prime mortgage. To make up for the greater risk that the borrower will not fully repay the lender, interest rates are generally higher on subprime mortgages than on prime mortgages. There may be a short introductory period during which the interest rate on a subprime mortgage is fixed at a rate that is well below going rates on equivalent prime mortgages. But after the introductory period, the mortgage may become an adjustable rate mortgage with a rate tied to a market rate, but at higher levels. Many variations of subprime mortgages have been developed.

The popularity of subprime loans exploded over the past decade. Nationally, the subprime home loan market grew from \$35 billion in 1994 to \$665 billion in 2005, according to the Center for Responsible Lending. In 2006, 23 percent of all mortgage originations were in the subprime category.

This explosion was made possible by significant capital infusions from Wall Street. Subprime lending was largely supported by a growing mortgage-backed securities market that is now estimated to be worth \$6.5 trillion. At least \$1.8 trillion worth of securities backed by subprime mortgages have been created since 2000, according to *Inside Mortgage Finance*. This investment appetite was satisfied by a variety of new lending practices that made loans easier to get.

This new environment changed the incentives facing traditional real estate players. As opposed to straight commissions, real-estate agents, mortgage brokers, and initial lenders came to depend on fees for executing real estate transactions and awarding loans. This gave them strong incentives to close new loans while charging the highest fees and interest rates possible. Securitizing mortgages effectively transferred the risks of foreclosures to investors. The heightened risk, though, was compensated by higher interest rates. In the process, traditional standards of creditworthiness were often left by the wayside.

### **ARMs and Subprime Loans**

Normally, high interest rates would lead to higher monthly payments that would disqualify, or at least dissuade, all but the most credit-worthy home buyers. A critical component of the subprime phenomenon was the use of unconventional mortgage instruments. Hundreds of billions of dollars were lent through a vast array of adjustable rate mortgages that offered low introductory teaser rates, no money down, and interest-only payments options. In 2006, subprime loans accounted for 20 percent of the national loan flow and 15 percent of the stock of the \$8 trillion mortgage securities

market. Large production builders became very dependent on subprime financing.

Aggressive lenders and mortgage brokers also exacerbated the problem by adopting questionable, or at least unconventional, loan qualification practices. Traditional standards for documentation were often abandoned. Subprime borrowers are typically first-time homebuyers with low credit scores and little or no assets or cash for a down payment. It is estimated that in 2006, nearly half of all subprime loans were made based on stated income—meaning that lenders didn't verify the income that buyers said they had. In many cases lenders encouraged borrowers to exaggerate income, assets, and other loan qualification criteria. The result of these changes is that the average subprime borrower's credit score is 620 or below, which reflects a very poor credit history. About a fifth of all U.S. consumers have a credit rating of 620 or below.

The safety of this new financial market was totally dependent on rising home prices. The typical subprime mortgage is a "2/28" adjustable rate mortgage with an initial low 2-year fixed rate that is then adjusted based on an interest rate index and an added margin. In many cases, borrowers were qualified for loans based on monthly payments under the initial "teaser" rate even though they likely wouldn't qualify for, nor likely could afford, payments due when the mortgages "reset" to higher interest rates. However, it was these higher, unaffordable interest rates that attracted investors seeking high returns from mortgage-backed securities.

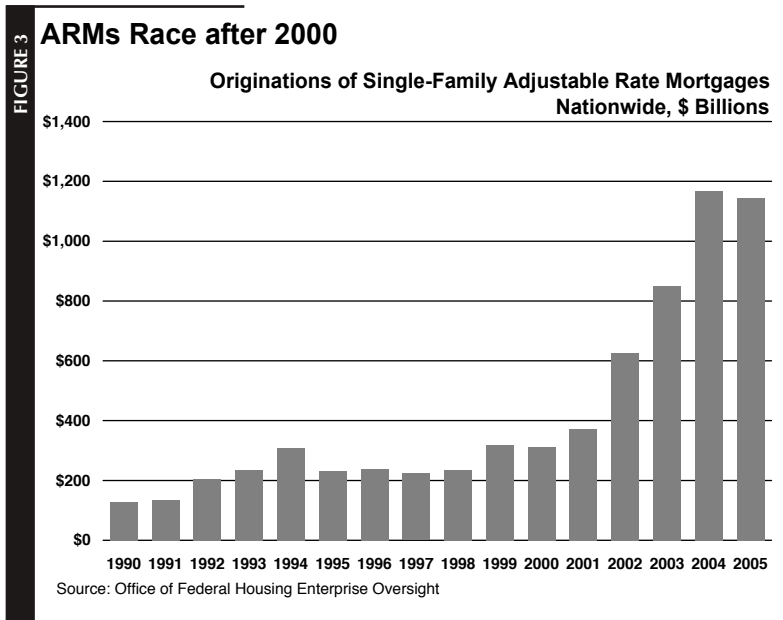
All bets were riding on rising home prices. The popularity of adjustable rate mortgages was based on the assumption that the borrower wouldn't have to live with the higher payments for long. Given strong home price appreciation in the early 2000s, especially in California, it was often taken for granted that by the time interest rate resets were triggered, borrowers would qualify for a better mortgage based on their newly acquired home equity or they could sell the property and buy something else. Even if this didn't work out, the lenders and investors could foreclose on properties potentially worth more than the balance of the loan. As long as home prices continued to spiral upward, subprime lending appeared to pose minimal risks to investors or borrowers.

### When Prices Flatten, The Party's Over

The end of the real estate bubble sparked the collapse of the subprime market. National home prices soared at a double-digit annual pace consistently from the middle of 2004 through mid-2006. Price gains slowed dramatically thereafter and advanced only about 4 percent during the first quarter of 2007. The pattern in California was similar. Double-digit gains began in early 2002 but slowed quickly in the second quarter of 2006. The annual rise in the median sales price of an existing single-family detached home in California's dropped to from 16.6 percent in 2005 to 6.4 percent in 2006—a startling slowdown. The median price rose only 4.1 percent during the first five months of 2007 compared to the same months of 2006.

Rising interest rates and mounting home inventories exacerbated the impact of flattening home prices. Mortgage interest rates drifted upward from the beginning of 2005 through the middle of 2006. By the second quarter of 2006, the average 30-year mortgage rate had climbed to 6.60 percent, a full percentage point above where it stood at the beginning of 2004. Thus, many subprime mortgage holders were faced with traumatic increases in their monthly payments when resets were triggered in 2006. A doubling or even tripling of payments was not unheard of.

At the same time, the inventory of homes available for sale increased dramatically. California's existing single-family unsold home inventory index rose to 10.7 months in May 2007, as calculated by the California Association of Realtors. The index had been as low as 2.2 months in March 2005.



*The popularity of adjustable rate mortgages soared after 2000, just as the housing market heated up.*

## THE ROLE OF SPECULATION

Real estate speculation played a role in the growth and collapse of California's real estate bubble. Unusually strong speculative investments in real estate during the bubble helped stimulate home prices through 2004, and thereafter, a pull back on the part of investors likely aggravated the deceleration in prices.

It is difficult to differentiate fundamental demand for homes from speculative demand. One method is to look at the share of home purchases in which a home's property tax bill is sent to different address than the home itself as this implies that the home is not the principal residence of the buyer. Assuming that the demand for second or vacation homes is relatively stable over time, an increase in the share of home purchases by "absentee buyers" is a good indication that investment demand is playing a greater role.

Based on information from DataQuick, a real estate information firm, it appears that speculative demand for homes impacted California residential housing markets. From the year 2000 through the first nine months of 2007, absentee buyers accounted for just under 16 percent of all home purchases, on average. The rate rose sharply at the beginning of 2004 and averaged 17.2 percent over the year. At the same time the state's median existing single-family home price made its strongest annual gain on record, 21.4 percent. In 2005 absentee purchases slid back to a normal level and home price gains slowed to 16.6 percent. The following year, the absentee rate fell to a below-average 13.8-percent, the median price rose only 6.9 percent and the pace of existing home sales dropped nearly 24 percent. The absentee buyer rate would not return to its long run average until September 2007.

While investor speculation does not entirely explain the gyrations of California's real estate market, it did appear to add fuel to the upswing through 2004 and had a dampening effect in 2005 and 2006.

Not surprisingly, mortgage foreclosures rose to unprecedented levels. The share of mortgages that went into foreclosure in 2006 rose to 0.5 percent, the highest rate since 1979, when these statistics were first collected. This may be only the beginning. This wave of foreclosures most likely reflects the first resets of loans awarded in 2004. Loans made in 2005 and 2006, for homes purchased or refinanced near the peak of the market, will face their first resets in 2007 and 2008.

## California's Exposure

How will California weather the subprime storm? California's low home affordability rate led to an unusually high use of subprime loans. According to the *Wall Street Journal*, 28 percent of all subprime mortgage loans originated nationally in 2006 were in California. Over \$100 billion of subprime mortgages have been originated in the state since 2005. The risks are especially high in places such as Merced and Bakersfield, where subprime mortgages accounted for 21.6 percent and 20.2 percent, respectively, of all mortgages. In the Los Angeles-Long Beach area, 12.4% are subprime mortgages, one of the highest among large metropolitan areas.

The impact of the subprime fallout on California should essentially mimic that on the nation as a whole. An abnormal level of loan defaults and foreclosures will adversely impact real estate markets. An increase in below-market supply will reduce the sales of new houses and related real estate development. More stringent lending practices will reduce the availability of financing for individuals with limited or poor credit history. Weaker housing prices may result in lower property valuations, and re-valuations, leading to reduced property tax payments. The drop-off in home sales will reduce home-related retail spending, particularly for appliances and improvements. Retail spending has already been impacted, as evidenced by disappointing automobile sales. Increased loan defaults will result in more personal bankruptcies, which typically make credit more costly and less available for all consumers and small businesses.

## Defaults and Foreclosures

The prevalence of subprime loans is directly associated with greater foreclosure activity. National foreclosure filings surged 90 percent in May 2007 from a year earlier. There were 176,137 notices of default, scheduled auctions and bank repossessions, led by California, Florida, and Ohio according to RealtyTrac Inc, a real estate information company. California topped the list of foreclosure filings in May with 39,659. Florida was second with 21,704. Taking into account the number of homes in each state, Nevada was first with one filing for every 166 households. California was third.

Foreclosure activity in California began heating up in late 2005 as home sales started to cool. Foreclosures escalated rapidly in 2006 when they reached the highest rate in at least 14 years. Lenders sent 20,752 default notices to California homeowners in the second quarter of 2006, up 10.5 percent from the prior quarter and up 67.2 percent from the same period in 2005. As of November 2006, about 5 to 7 percent of California subprime mortgages were in default for 60-plus days.

The trend continued into 2007. During the first quarter of 2007, foreclosures were started on 2.51 percent of subprime mortgages, compared with 2.03 percent in the last quarter of 2006. California recorded more foreclosure actions than any other state. Of the 18 major metropolitan areas that posted the largest increases in delinquency rates, 12 were in California. Foreclosures in the state reached 17,408 in the second quarter of 2007, an eight-fold increase from the same period last year, according to DataQuick, another widely referenced real estate information company.

For some perspective, consider that conditions could be, and have been, worse. The state's last severe housing slump was in 1996 when the state economy was

still reeling from massive job losses sparked by major defense budget cutbacks and the downsizing of the aerospace industry. Foreclosure activity at that time depressed home values about 25 percent in some areas. By some estimates, nearly a third of Southern California homes were subject to foreclosure actions. The proportion currently is less than 10%. The state economy is fundamentally sound today and is not dealing with a traumatic restructuring as it was in the early 1990s.

The 17,408 foreclosures recorded in the second quarter of 2007 exceeded the previous peak of 15,418 reached in the third quarter of 1996. However, the housing stock is much larger now, and when this is taken into account the level of foreclosures is roughly equal to the 1996 peak. In fact, in Southern California, there were 9,504 foreclosures in the second quarter of 2007, which while up significantly from 2006, was well below the previous peak of 11,494 in the third quarter of 1996.

## **Quantifying the Problem**

Estimating the actual risks posed by the subprime fallout is difficult because of a lack of reliable statistics. Logic dictates that rising defaults and foreclosures should both increase the supply of homes available for sale and diminish the amount of credit available in the future. A general lack of universally accepted foreclosure data, however, means that getting a handle on the magnitude of these impacts is not easy. Prognostications, as a result, vary widely.

Rising foreclosures are a persuasive sign of distress in the real estate market. It is unclear, though, what the ultimate impact will be on the supply of homes for sale. Only about 7 percent of homeowners who fall into default lose their homes through foreclosure, according to DataQuick. Most are able to catch up on their payments or sell their home and pay off the loan.

Even estimating the level of foreclosures is difficult. Recent estimates vary wildly. DataQuick estimated that there were 12,670 foreclosure filings in 2006 in the state. RealtyTrac estimated the level at 142,000 filings, one for every 86 households in California.

The problem is that foreclosure is a process with many steps that can stretch out over a considerable length of time. A foreclosure can be defined by each data source as a different step, or even by each step, in the process. The first sign of trouble is when the lender files a notice of default. Potential buyers are usually then solicited. It is also possible that the lender will restructure the mortgage. If a buyer cannot be found or the loan refinanced within a few months, the house will be scheduled for a public auction and often end up as the property of the lender. Many auctions, though, are postponed or cancelled. According to some estimates as few as half of initial filings proceed to an auction in which the owner loses title. If a home is securing more than one loan, there will be filings for each loan. So each foreclosure action does not inevitably mean that a house will wind up on the market.

## **More Trouble in the Pipeline**

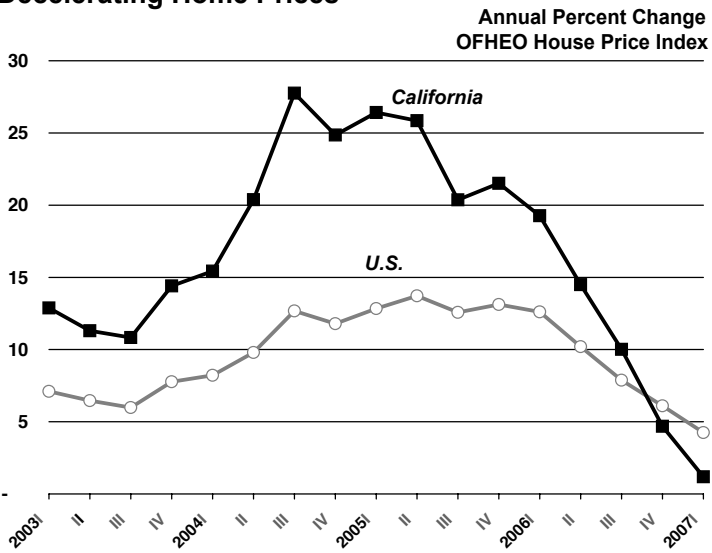
The length and depth of the subprime collapse will depend, to a large extent, on the performance of adjustable rate mortgages as they reset over time. Nationally, more than \$100 billion worth of adjustable-rate mortgages are scheduled to reset between June and October of 2007. During the next five years, about \$1 trillion in adjustable-rate mortgages will reset, with much of it subprime.

According to Morgan Stanley, 8 percent of mortgage loans in pools put together in 2005 were more than 60 days delinquent in May 2007. Further, almost 4 percent of the loans made in the second half of 2006 were more than two months delinquent. That's almost double the delinquency rate for loans made one year earlier. This is not a good omen for loans that will be reset to even higher mortgage payments over the next several years. This worries many lenders holding mortgages for homes with flat or declining values, which limits the refinancing options for borrowers.

## **Affordability Helps and Hurts**

High home prices and low affordability rates are the principal reason for the popularity of subprime loans in California. The percentage of households that could afford to buy an entry-level home in California stood at 25 percent in the first quarter of 2007. The rate for the nation as a whole was 64 percent. The state's high home prices mean that few families could afford to make a 10- to 30-percent down payment for a conventional loan. Subprime borrowers are typically first-time

## Decelerating Home Prices



California home prices appreciated more during the boom, but decelerated more dramatically afterward.

rest of the nation on average. California's home prices appreciated at nearly twice the national average pace during 2003 through 2006. Thus, California homeowners should possess more equity and have more incentive than most homeowners throughout the nation to survive the housing slump.

Alternately, areas that experienced the most severe house price deceleration in 2006 experienced the largest increases in subprime delinquency rates. The deceleration of California's home prices was much more dramatic than the nation as a whole experienced. According to data from the Office of Federal Housing Enterprise Oversight, national home price gains decelerated from 13.1 percent year-over-year in 2005 to 9.2 percent in 2006. California price gains slowed from 23.5 percent in 2005 to 12.1 percent in 2006. Annual price gains during the first quarter of 2007 for the nation and California were 4.3 percent and 1.2 percent, respectively. By this measure, the stress on California is greater than on the nation.

### Less Credit in the Future

The longer-term impact of the crisis could be a dramatic reduction in the amount of credit available for home financing. Scores of subprime lenders have closed up shop since the beginning of 2007. In June 2007, California's financial activity sector lost 5,800 jobs, its largest monthly loss since February 1997. The losses were concentrated in mortgage banking. Respondents to a National Association of Home Builders survey indicated that stricter lending standards may have led to a 10-percent drop in home sales during the first few months of 2007.

The national mortgage industry began tightening credit standards in response to a sharp increase in delinquencies and defaults. Countrywide Financial, the nation's largest mortgage lender, recently announced that increasing numbers of borrowers with good credit were falling behind on their loans. The company suffered a 33-percent drop in its net income in the second quarter of 2007 that was partly a result of losses in its prime home-equity loan portfolio. It said that about 5.4 percent of the home equity loans to borrowers with good credit were past due at the end of June, up from 2.2 percent at the end of June 2006. More than a fifth of its subprime loans were past due at the end of June, up from 13.4 percent a year ago.

Countrywide Financial, Wells Fargo, and Washington Mutual have stopped offering the popular 2/28 and other adjustable rate loans, which accounted for over half of all adjustable subprime loans made in 2006. Several large banks, including Countrywide, are also now offering only "full-income documentation subprime mortgage loans." These changes will mean that fewer borrowers will be able to buy homes.

The fallout could extend beyond finance, construction, and real estate. Mortgages and other bank loans make up a significant share of small business loans, and the Federal Reserve reports that

homebuyers with credit issues and little or no assets or cash for a down payment. This makes them especially vulnerable to rising mortgage payments. If they purchased or refinanced their house within the past 18 months to two years, it's unlikely they've acquired enough home equity to qualify for a more affordable loan. Thus, the fallout from the subprime crisis has mainly been confined to the lower end of the housing market.

But California's high home prices could also be a source of safety. According to analysis by the Federal Reserve, real estate markets that experienced greater recent house-price appreciation tended to have lower loan delinquency rates. Homeowners who have acquired significant home equity have greater incentives and more opportunities to keep a mortgage loan current than those who haven't gained or who have lost value. Homeowners who bought or refinanced their homes while prices were still rising are better situated to weather this disruption. Home prices in California generally outpaced those throughout the

banks are tightening access to loans for small businesses. Restricted access to credit will make it more difficult for small business owners to grow their business, which will place another drag on the economy.

### Uneven Risks

Judging the overall risks posed for California by the subprime meltdown is difficult. It is an unprecedented mishap. Typically, a severe real estate slowdown results from a general economic slowdown. In this case, the housing slowdown and subprime troubles are the only significant drags on the state and national economies. Barring other economic setbacks, such as a dramatic slowdown in overall capital spending, the subprime troubles will likely be a stumbling block whose impact will gradually fade over the next year or two.

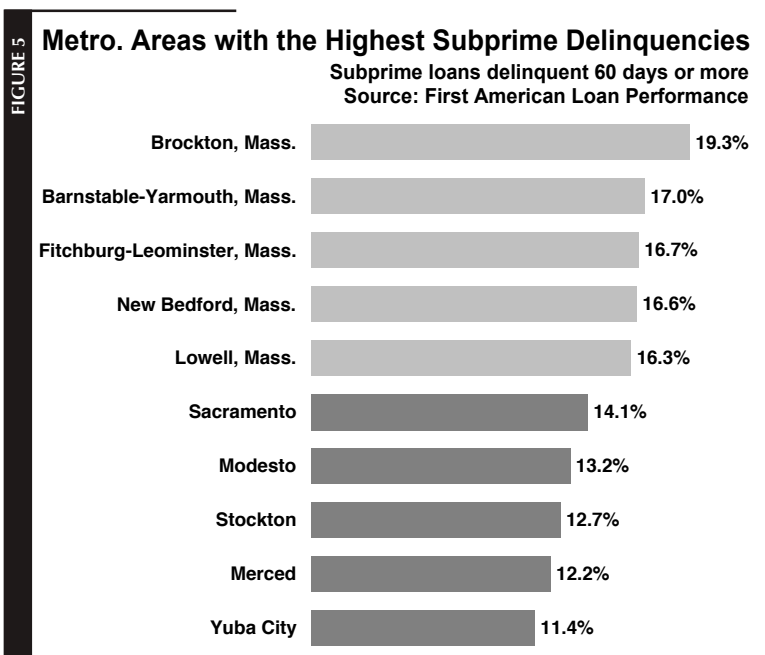
The scale of the problem is limited, for now. The numbers of homes and the value of troubled mortgages involved, relative to the size of the entire California real estate market, are actually quite small. Recently, though, there have been tentative signs that the crisis is impacting players outside of the subprime market. If the crisis produces a wider credit crunch and has a significant impact on capital markets, the pain could become more widespread.

The subprime crisis has had a very uneven effect on California. It principally impacts first-time home buyers with poor credit ratings, who purchased their homes in 2005 and 2006. The impact on the state is a patchwork quilt. Possibly the hardest-hit areas are Riverside and San Bernardino counties which saw tremendous building activity over the last several years as relatively low prices drew first-time buyers who took on adjustable rate loans. At least 20 percent of the state’s recent foreclosure actions have take place there. Around the state, regions that benefited from aggressive development of low and moderately priced homes in recent years will be the most severely affected. Other regions that enjoyed healthy home price gains without extensive new home construction have fared better. Regions like Los Angeles County, where home building was matched with improving economic conditions, are similarly better off. Generally, coastal markets have not been affected nearly as significantly as inland markets.

At this point, the biggest decline in sales volume is in the low-end market. The upscale market, however, is always somewhat dependent on a healthy starter home segment to provide “trickle up” demand for higher-priced homes. Soft prices and low sales at the low end mean fewer move-up buyers looking for more expensive homes. It is unclear at this time how upper-end markets will be affected.

Loan problems in the subprime market may not have peaked yet, although they will not persist indefinitely. Nationally, at least 1 million adjustable rate mortgages were originated between 2004 and 2006. This means that loan resets could trigger foreclosures through 2008. But since problems typically arise during the first 18 months of a mortgage, the level of late payments and foreclosures will likely begin receding around the end of 2007. Moreover, lenders are likely to work with troubled borrowers rather than book inordinate losses from foreclosures, which can reach up to 30 to 60 percent of a loan’s balance.

At this point, optimists point to sound underlying economic conditions as the main reason that the subprime crisis won’t spread too far. The housing slump of the 1990s stemmed mainly from massive defense cutbacks that led to high unemployment. The economy is generally sound today. Jobs and wages are growing and unemployment is low. The greatest threat is the possibility that the credit crunch could spread to industries not tied to real estate. That would have much more serious consequences.



California’s inland regions were among those hardest hit by subprime delinquencies.

# Select Indicators

	2006	2007				Year-Over % Change
	May	Feb	Mar	Apr	May	
<b>EMPLOYMENT (Seasonally adjusted)</b>						
Civilian employment (000)	17,006	17,195	17,259	17,209	17,227	1.3%
Unemployment (000)	879	874	876	934	944	7.3%
Unemployment rate	4.9	4.8	4.8	5.1	5.2	--
Nonagricultural wage and salary employment (000) a/	15,029.8	15,225.8	15,242.8	15,247.6	15,258.4	1.5%
Goods-producing industries	2,469.6	2,474.6	2,473.4	2,466.8	2,460.5	-0.4%
Natural resources and mining	24.9	26.1	25.9	25.7	25.2	1.2%
Construction	942.1	942.4	944.9	939.7	937.3	-0.5%
Manufacturing	1,502.6	1,506.1	1,502.6	1,501.4	1,498.0	-0.3%
Service-providing industries	12,560.2	12,751.2	12,769.4	12,780.8	12,797.9	1.9%
Trade, transportation, and utilities	2,868.0	2,899.6	2,902.5	2,903.0	2,906.2	1.3%
Information	470.2	474.3	476.6	469.9	474.5	0.9%
Financial activities	943.4	943.5	942.8	942.2	940.4	-0.3%
Professional and business services	2,213.6	2,260.7	2,265.4	2,269.6	2,269.7	2.5%
Educational and health services	1,608.2	1,647.6	1,649.9	1,654.2	1,655.4	2.9%
Leisure and hospitality	1,512.4	1,541.1	1,546.0	1,549.7	1,551.5	2.6%
Other services	505.4	511.5	510.9	511.3	514.0	1.7%
Government	2,439.0	2,472.9	2,475.3	2,480.9	2,486.2	1.9%
Federal government	248.5	244.3	244.2	244.5	245.3	-1.3%
State and local government	2,190.5	2,228.6	2,231.1	2,236.4	2,240.9	2.3%
High-technology industries b/	881.6	894.0	893.6	895.7	897.6	1.8%
Computer and electronic products manufacturing	320.0	322.4	321.6	321.8	321.8	0.6%
Aerospace products and parts manufacturing	72.3	71.9	72.0	71.7	72.0	-0.4%
Software publishers	40.2	41.8	42.0	41.7	42.0	4.5%
Telecommunications	109.4	110.9	109.2	108.5	108.6	-0.7%
Internet service providers	54.5	55.3	55.6	55.9	55.6	2.0%
Computer systems design	185.5	190.0	191.2	193.3	194.5	4.9%
Scientific research and development	99.7	101.7	102.0	102.8	103.1	3.4%

## HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)

Average weekly hours	40.2	40.2	40.4	40.6	40.8	1.5%
Average weekly earnings	\$637.97	\$652.85	\$657.71	\$662.59	\$666.26	4.4%
Average hourly earnings	\$15.87	\$16.24	\$16.28	\$16.32	\$16.33	2.9%

## CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)

All Urban Consumers Series						
California Average	n.a.	214.9	n.a.	217.7	n.a.	--
San Francisco CMSA	n.a.	213.7	n.a.	215.8	n.a.	--
Los Angeles CMSA	212.4	214.8	216.5	217.8	218.6	2.9%
Urban Wage Earners and Clerical Workers Series						
California Average	n.a.	207.0	n.a.	210.2	n.a.	--
San Francisco CMSA	n.a.	208.8	n.a.	211.2	n.a.	--
Los Angeles CMSA	205.0	206.6	208.9	210.2	211.1	3.0%

	2006	2007				Year-Over % Change
	Apr	Jan	Feb	Mar	Apr	
<b>CONSTRUCTION</b>						
Private residential housing units authorized (000) c/	170.4	140.6	124.1	152.4	121.4	-28.7%
Single units	120.8	95.5	88.8	88.2	76.2	-37.0%
Multiple units	49.5	45.1	35.3	64.2	45.2	-8.7%
Residential building authorized valuation (millions) d/	\$38,104	\$35,007	\$32,084	\$33,950	\$29,286	-23.1%
Nonresidential building authorized valuation (millions) d/	\$21,295	\$30,456	\$21,040	\$19,651	\$24,214	13.7%
Nonresidential building authorized valuation (millions) e/	\$1,517	\$1,777	\$1,780	\$1,873	\$1,707	12.5%
Commercial	591	678	737	730	637	7.8%
Industrial	75	85	121	117	130	72.9%
Other	274	258	215	288	310	13.1%
Alterations and additions	577	755	706	738	630	9.2%

## AUTO SALES (Seasonally adjusted)

New auto registrations (number)	144,731	152,867	140,841	146,736	n.a.	--
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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 FIRST QUARTER 2007

(Percent)

	Office		Office		Office		Industrial	
	Downtown		Suburban		Metropolitan		1Q07	1Q06
	1Q07	1Q06	1Q07	1Q06	1Q07	1Q06		
Northern and Central California:								
Oakland	11.3	15.0	11.4	13.1	11.4	13.5	n.a.	n.a.
Sacramento	9.7	13.3	12.3	13.4	11.8	13.4	13.0	11.0
San Francisco	8.6	11.5	12.4	17.3	9.8	13.3	10.5	11.6
San Jose	20.0	21.8	9.7	12.8	12.0	14.8	n.a.	n.a.
Southern California:								
Los Angeles Metro	13.9	14.6	8.3	10.3	9.1	11.0	7.4	7.2
Orange County	n.a.	n.a.	8.8	6.1	8.8	6.1	6.9	7.5
San Diego	12.7	10.1	11.2	8.9	11.5	9.1	7.1	9.4
Ventura County	n.a.	n.a.	10.8	10.1	10.8	10.1	n.a.	n.a.
National Average	10.8	12.3	13.9	14.3	12.8	13.6	9.7	9.7

## FOREIGN TRADE THROUGH CALIFORNIA PORTS

### SALES OF EXISTING SINGLE-FAMILY HOMES

		Median	Units	Exports		Imports		
		Price	(SAAR)	(\$ millions)	(\$ millions)	\$ millions	% of U.S.	
2003	Jan	\$336,212	584,600	\$8,408	\$17,588	1993-94	22,573	20.5%
	Feb	326,645	566,890	8,423	16,359	1994-95	18,277	16.8%
	Mar	351,134	567,609	9,784	18,789	1995-96	18,230	16.7%
	Apr	364,040	583,333	9,158	19,151	1996-97	18,477	17.3%
	May	367,627	572,265	9,090	18,537	1997-98	17,401	15.9%
	Jun	374,535	572,128	9,743	19,774	1998-99	17,372	15.1%
	Jul	381,938	595,858	9,604	20,743	1999-00	18,100	14.7%
	Aug	406,142	645,721	9,626	19,846	2000-01	19,939	14.7%
	Sep	384,686	631,881	8,968	21,060	2001-02	23,816	15.0%
	Oct	379,119	636,688	10,341	23,021	2002-03	28,681	15.0%
	Nov	384,472	627,190	9,969	21,320	2003-04	27,875	13.7%
	Dec	401,724	637,078	10,437	20,528	2004-05	31,065	13.1%
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	539,840	647,910	10,828	26,452			
	Aug	567,320	632,240	11,166	26,452			
	Sep	543,510	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	547,400	531,910	11,709	26,024			
2006	Jan	\$549,460	500,470	\$10,848	\$25,555			
	Feb	534,400	513,740	10,791	23,004			
	Mar	562,130	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			
	Jul	566,940	453,980	12,255	29,990			
	Aug	576,360	442,150	12,720	31,550			
	Sep	553,050	444,780	12,567	30,608			
	Oct	548,680	443,320	12,913	32,200			
	Nov	555,290	450,930	12,676	29,747			
	Dec	569,560	451,976	12,756	28,396			
2007	Jan	\$559,300	437,580	\$12,325	\$28,025			
	Feb	558,130	464,560	11,717	26,183			
	Mar	580,090	427,110	13,954	27,815			
	Apr	597,640	373,280	12,360	28,049			

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

n.a. Not available

# Leading Indicators/<sup>a</sup>

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		Hours	Weekly Hours	Initial Claims	Incorporations	(Thousands)
2002	Jan	3.8	38.9	66,358	7,284	156.8
	Feb	3.9	39.4	57,122	6,846	159.2
	Mar	4.1	39.9	61,093	7,329	142.9
	Apr	4.1	39.9	62,279	7,320	162.9
	May	4.1	39.6	60,700	8,550	157.6
	Jun	4.1	39.9	59,006	6,972	146.4
	Jul	3.9	39.2	61,905	7,279	179.6
	Aug	4.0	39.8	61,363	7,595	167.7
	Sep	3.9	40.0	60,762	7,348	182.2
	Oct	3.8	39.6	63,112	8,192	216.8
	Nov	3.9	39.8	59,091	7,516	185.2
	Dec	3.9	39.9	60,044	7,682	156.1
2003	Jan	3.9	39.5	60,114	7,475	195.9
	Feb	4.0	39.8	60,424	8,658	239.9
	Mar	3.7	39.7	59,639	7,138	179.2
	Apr	3.6	39.6	63,029	7,813	189.3
	May	3.7	39.8	60,911	7,769	209.7
	Jun	3.7	39.9	60,851	7,834	171.5
	Jul	3.8	39.5	60,324	8,087	197.6
	Aug	3.8	39.6	58,097	7,094	181.3
	Sep	3.9	39.6	57,666	8,353	188.8
	Oct	3.9	39.7	60,721	8,197	227.7
	Nov	4.1	40.3	55,212	7,465	182.5
	Dec	4.0	39.6	51,300	8,288	203.2
2004	Jan	4.0	40.0	49,870	8,216	200.8
	Feb	4.1	40.2	50,160	8,678	200.1
	Mar	4.2	40.2	48,924	8,397	221.9
	Apr	4.4	39.9	48,650	8,333	207.9
	May	4.5	40.3	46,661	8,135	199.1
	Jun	4.3	39.9	49,797	8,807	213.2
	Jul	4.4	40.2	48,536	8,473	201.0
	Aug	4.2	40.2	47,805	8,391	213.6
	Sep	4.1	39.3	47,268	8,648	220.1
	Oct	4.2	39.8	47,402	8,087	192.5
	Nov	4.4	39.9	47,419	9,054	245.4
	Dec	4.4	39.8	48,016	9,020	239.2
2005	Jan	4.5	40.2	49,701	6,002	189.8
	Feb	4.5	39.9	46,500	9,073	195.3
	Mar	4.4	39.9	45,230	9,204	225.5
	Apr	4.5	40.0	43,777	9,300	207.6
	May	4.4	39.9	43,516	9,641	215.2
	Jun	4.4	39.6	42,618	9,263	224.3
	Jul	4.3	39.9	41,073	8,877	229.2
	Aug	4.6	40.0	41,064	9,374	205.3
	Sep	4.5	40.1	41,247	8,995	275.1
	Oct	4.5	40.5	40,114	8,621	169.5
	Nov	4.3	40.0	40,036	9,174	196.5
	Dec	4.3	39.3	41,128	9,104	175.9
2006	Jan	4.2	40.3	41,564	9,211	173.8
	Feb	4.3	40.3	38,567	8,771	208.5
	Mar	4.3	40.1	42,555	9,490	190.0
	Apr	4.1	40.3	43,065	8,194	170.4
	May	4.3	40.2	42,980	9,650	172.8
	Jun	4.4	40.5	40,768	8,573	204.4
	Jul	4.1	40.5	42,493	8,031	142.9
	Aug	4.0	40.3	42,831	9,389	157.7
	Sep	3.9	40.3	41,810	8,348	153.3
	Oct	4.1	40.5	42,212	8,866	117.7
	Nov	3.9	40.4	43,312	9,221	132.1
	Dec	4.2	40.7	45,035	8,782	135.9
2007	Jan	4.1	40.5	42,819	9,307	140.6
	Feb	3.8	40.4	42,567	8,924	124.1
	Mar	3.9	40.4	43,807	8,627	152.4
	Apr	3.8	40.8	42,878	n.a.	121.4
	May	3.9	40.8	n.a.	n.a.	n.a.

<sup>a/</sup> Seasonally adjusted by the California Department of Finance.  
n.a. Not available

# Coincident Indicators/<sup>a</sup>

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
2002	Jan	14,438	1,680	6.5	515
	Feb	14,446	1,672	6.6	543
	Mar	14,475	1,669	6.7	534
	Apr	14,466	1,662	6.7	540
	May	14,487	1,660	6.7	556
	Jun	14,479	1,653	6.8	535
	Jul	14,428	1,639	6.7	548
	Aug	14,452	1,635	6.7	524
	Sep	14,443	1,628	6.7	534
	Oct	14,459	1,623	6.7	540
	Nov	14,473	1,613	6.8	509
	Dec	14,449	1,603	6.8	513
2003	Jan	14,439	1,594	6.9	514
	Feb	14,420	1,583	6.9	521
	Mar	14,398	1,574	6.8	521
	Apr	14,398	1,567	6.9	569
	May	14,396	1,559	6.9	546
	Jun	14,391	1,552	6.9	541
	Jul	14,357	1,539	6.9	555
	Aug	14,376	1,541	6.8	526
	Sep	14,362	1,541	6.8	532
	Oct	14,403	1,538	6.9	520
	Nov	14,384	1,535	6.8	508
	Dec	14,386	1,535	6.7	507
2004	Jan	14,429	1,537	6.6	450
	Feb	14,445	1,534	6.5	453
	Mar	14,461	1,534	6.5	444
	Apr	14,481	1,537	6.4	438
	May	14,502	1,538	6.4	420
	Jun	14,503	1,534	6.3	439
	Jul	14,568	1,545	6.2	408
	Aug	14,549	1,536	6.1	415
	Sep	14,547	1,530	6.1	423
	Oct	14,616	1,528	6.0	395
	Nov	14,636	1,525	5.9	400
	Dec	14,626	1,520	5.9	403
2005	Jan	14,651	1,524	5.9	398
	Feb	14,685	1,520	5.7	396
	Mar	14,695	1,515	5.5	387
	Apr	14,747	1,517	5.5	367
	May	14,739	1,512	5.5	367
	Jun	14,750	1,510	5.5	376
	Jul	14,808	1,519	5.3	354
	Aug	14,840	1,514	5.3	360
	Sep	14,874	1,512	5.2	339
	Oct	14,895	1,512	5.2	340
	Nov	14,931	1,511	5.1	337
	Dec	14,953	1,509	5.1	322
2006	Jan	14,957	1,511	5.1	341
	Feb	14,999	1,511	4.9	339
	Mar	14,994	1,508	4.9	344
	Apr	14,984	1,503	5.0	350
	May	15,030	1,503	4.9	343
	Jun	15,060	1,501	4.9	334
	Jul	15,085	1,501	4.8	338
	Aug	15,110	1,499	4.9	338
	Sep	15,122	1,500	4.8	336
	Oct	15,162	1,506	4.8	342
	Nov	15,188	1,507	4.7	347
	Dec	15,213	1,507	4.8	340
2007	Jan	15,202	1,507	4.8	367
	Feb	15,226	1,506	4.8	364
	Mar	15,243	1,503	4.8	345
	Apr	15,248	1,501	5.1	356
	May	15,258	1,498	5.2	n.a.

		Personal Income (\$ millions)	Total Wages & Salaries (\$ millions)	Taxable Sales b/ (\$ millions)
2001	Qtr I	\$1,138,374	\$649,717	\$111,989
	Qtr II	1,133,096	646,255	111,275
	Qtr III	1,134,344	643,642	108,517
	Qtr IV	1,135,402	642,812	109,442
2002	Qtr I	\$1,141,338	\$642,910	\$108,528
	Qtr II	1,147,785	641,135	109,986
	Qtr III	1,147,971	639,919	111,384
	Qtr IV	1,153,768	643,974	110,449
2003	Qtr I	\$1,163,677	\$647,444	\$112,286
	Qtr II	1,179,563	656,068	113,415
	Qtr III	1,190,698	663,371	117,636
	Qtr IV	1,214,223	672,319	116,023
2004	Qtr I	\$1,234,741	\$682,933	\$122,428
	Qtr II	1,254,782	692,509	123,851
	Qtr III	1,274,933	704,954	125,590
	Qtr IV	1,307,740	715,106	127,372
2005	Qtr I	\$1,313,717	\$724,244	\$128,341
	Qtr II	1,323,822	727,064	133,482
	Qtr III	1,336,741	737,347	138,255
	Qtr IV	1,367,267	756,289	135,741
2006	Qtr I	\$1,406,156	\$780,007	\$138,437
	Qtr II	1,399,298	768,992	140,639
	Qtr III	1,418,177	778,390	141,059
	Qtr IV	1,442,656	794,134	137,311

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  
b/ Taxable sales estimates for 2006:QIII & QIV are preliminary.  
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.

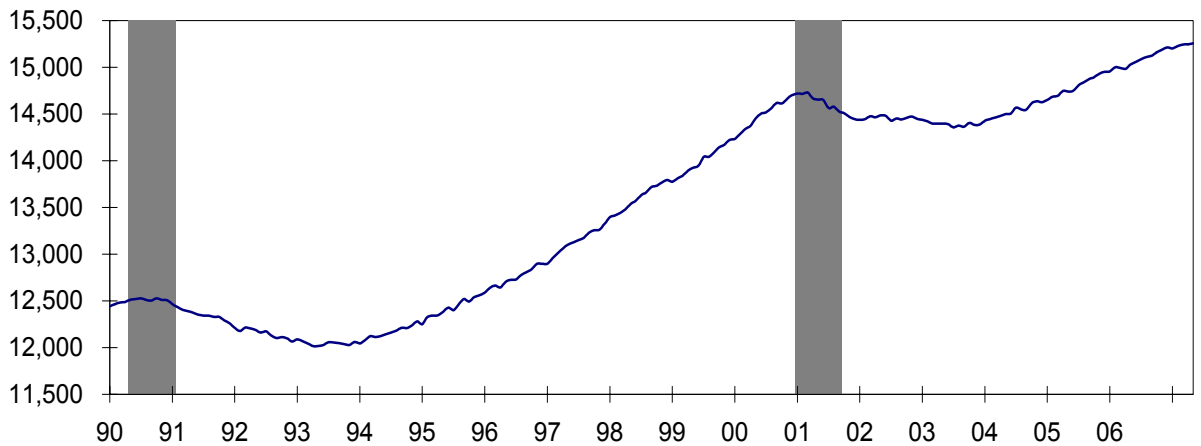
Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected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

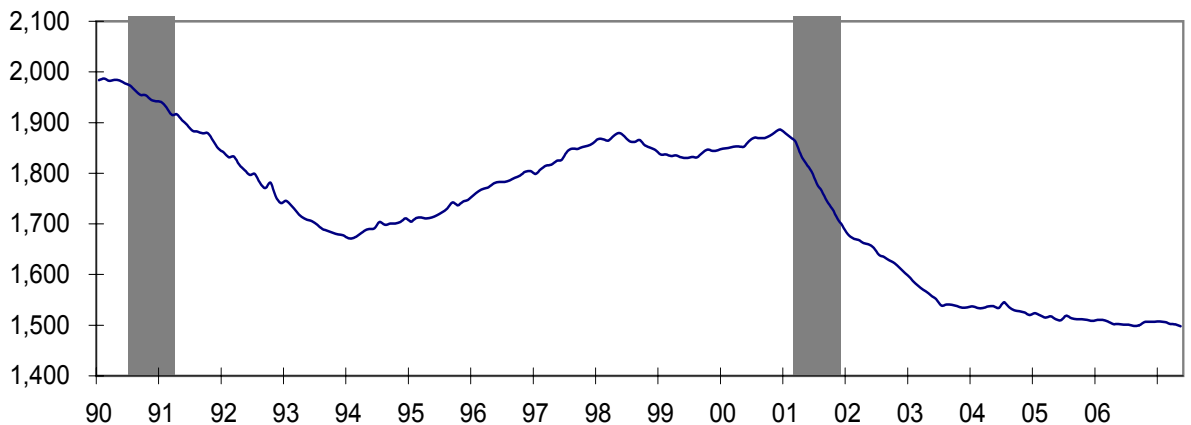
### Nonagricultural Employment

(Thousands, Seasonally Adjusted)

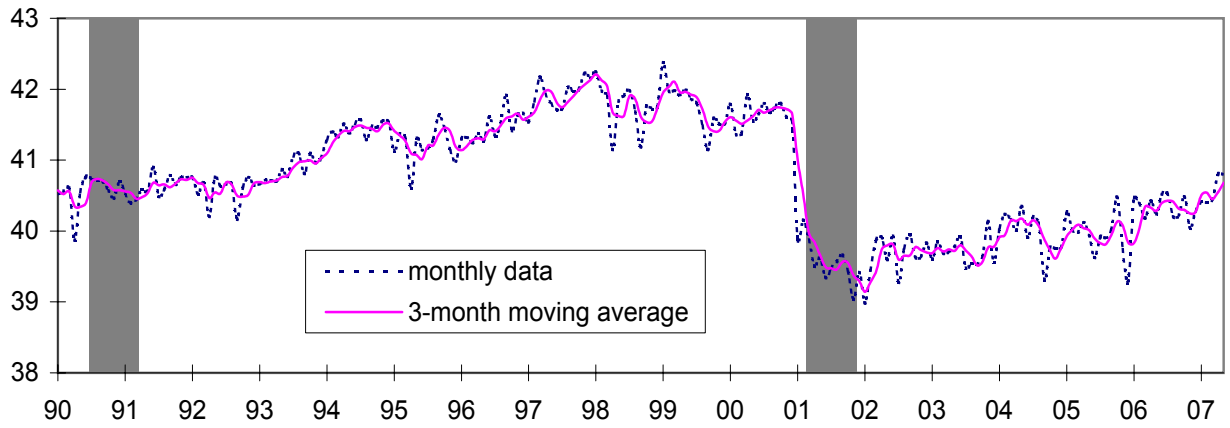


### Manufacturing Employment

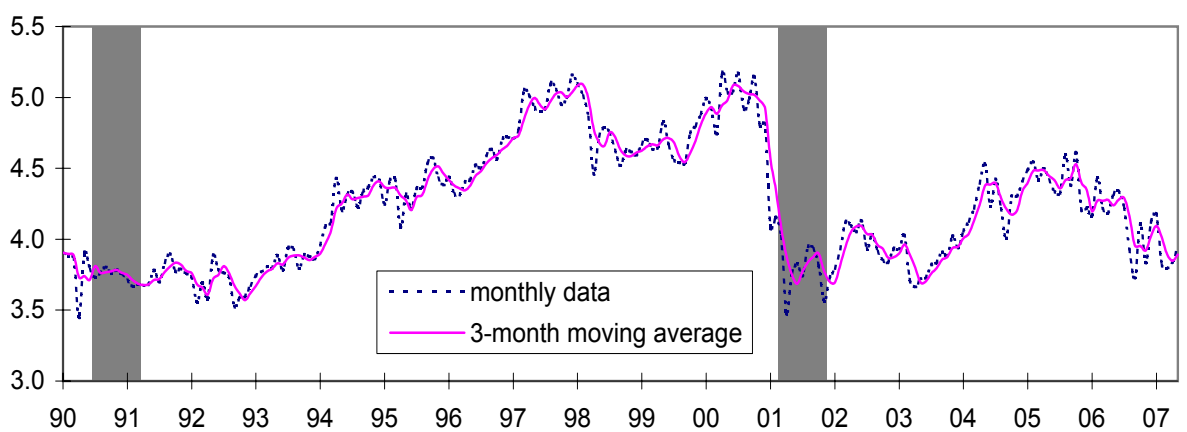
(Thousands, Seasonally Adjusted)



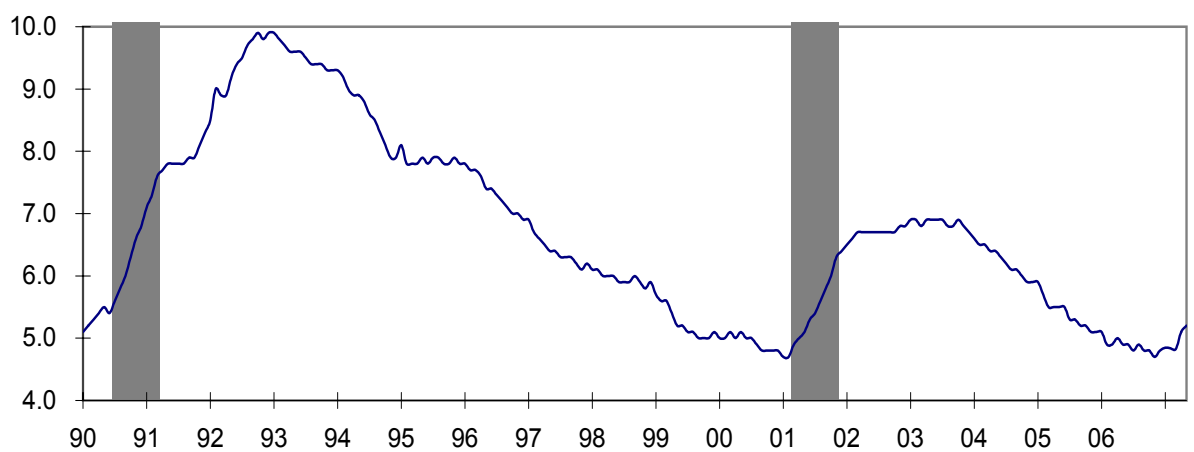
Average Weekly Hours, Manufacturing (Seasonally Adjusted)



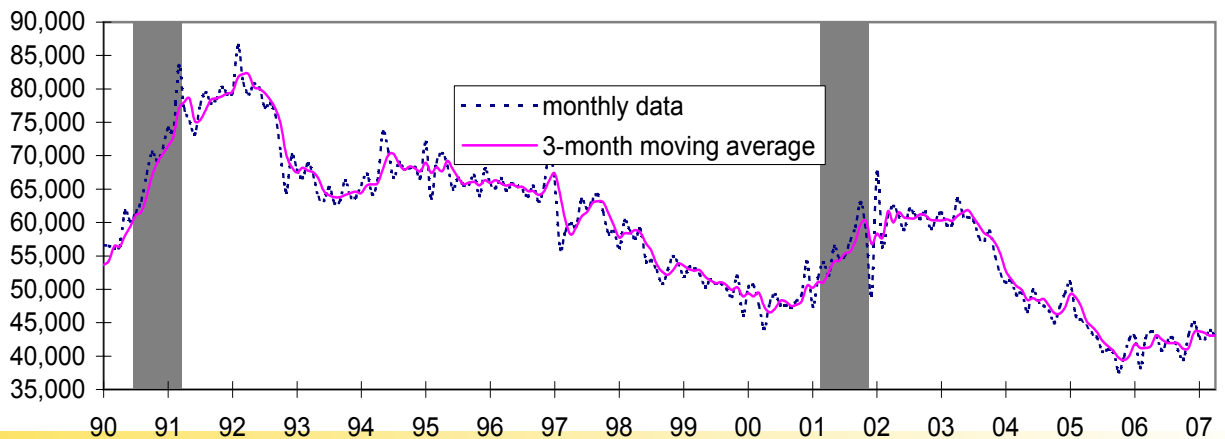
Average Overtime Hours, Manufacturing (Seasonally Adjusted)



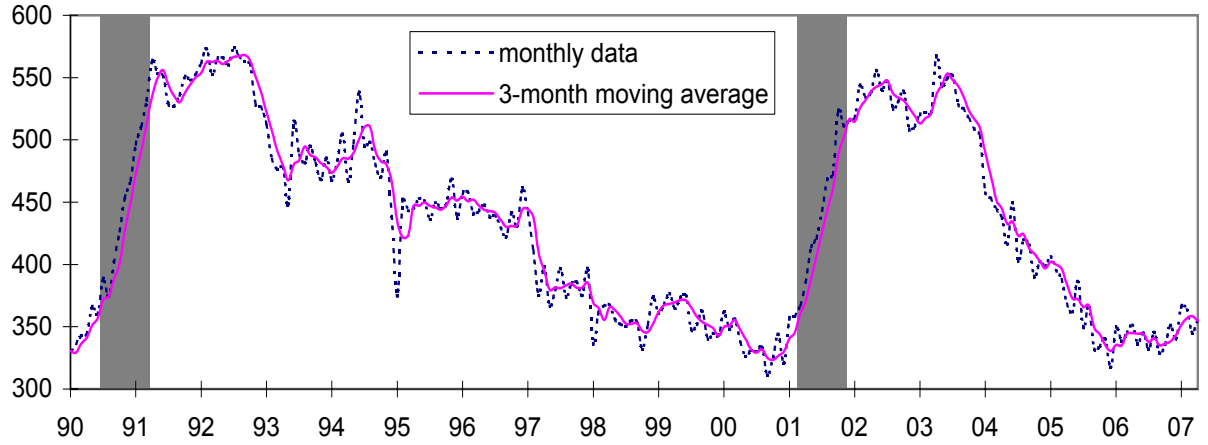
Unemployment Rate (Percent)



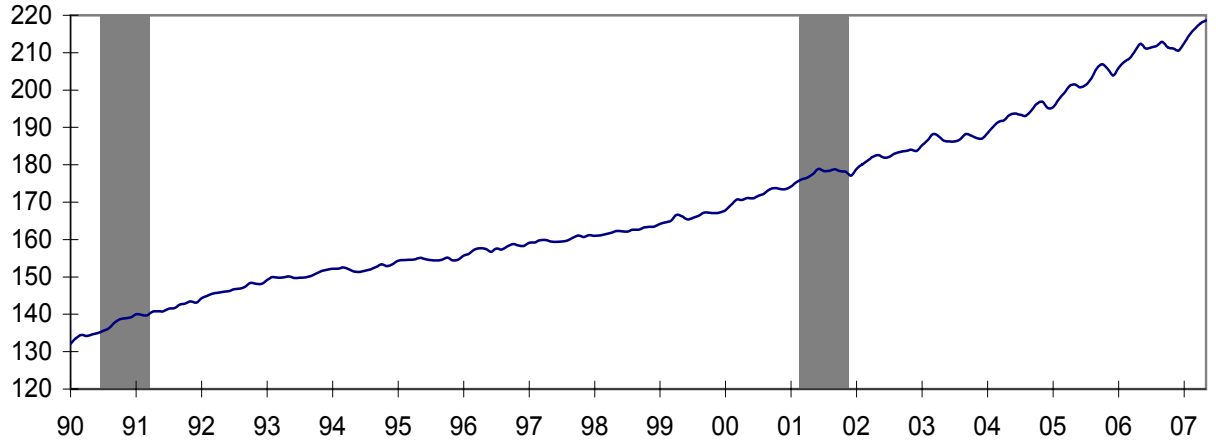
Initial & Transitional Claims for Unemployment Insurance (Weekly Average, Seasonally Adjusted)



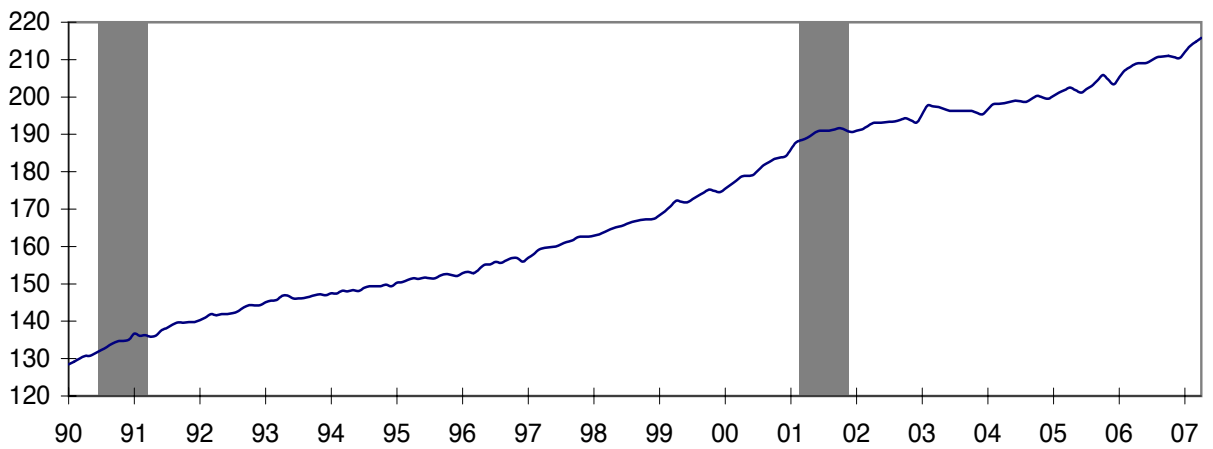
**Unemployment,  
Average Weeks  
Claimed**  
( thousands,  
Seasonally Adjusted)



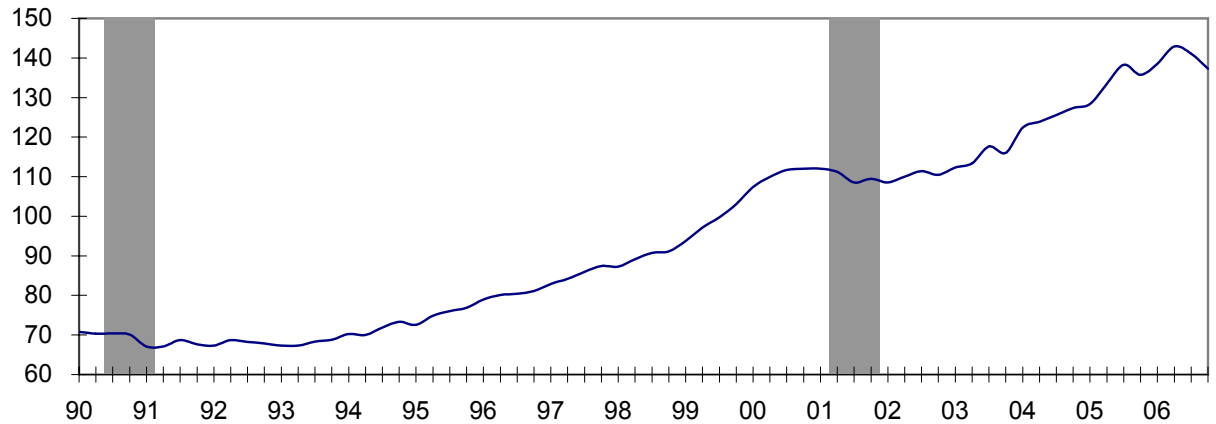
**Consumer  
Price Index,  
Los Angeles**  
(1982-84=100)



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

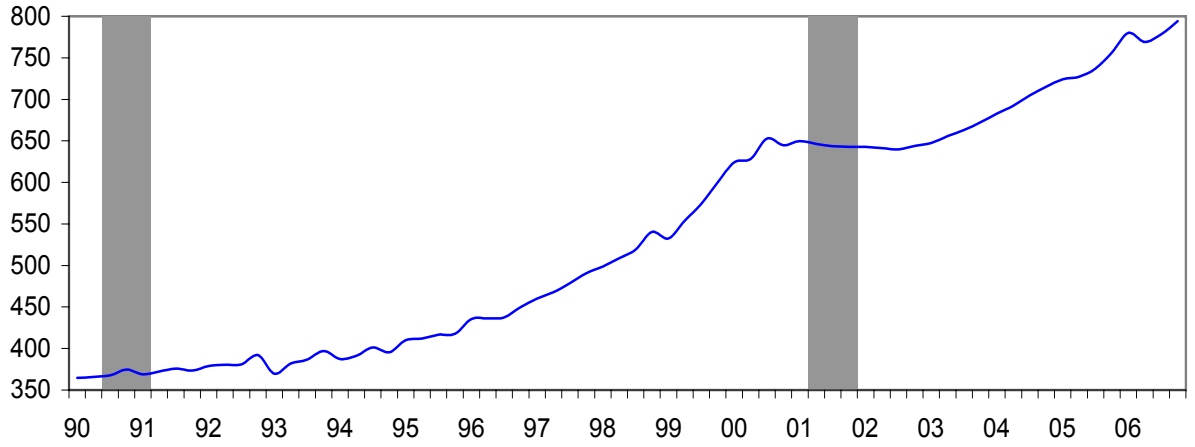


**Taxable Sales**  
(Dollars in billions,  
Seasonally Adjusted)



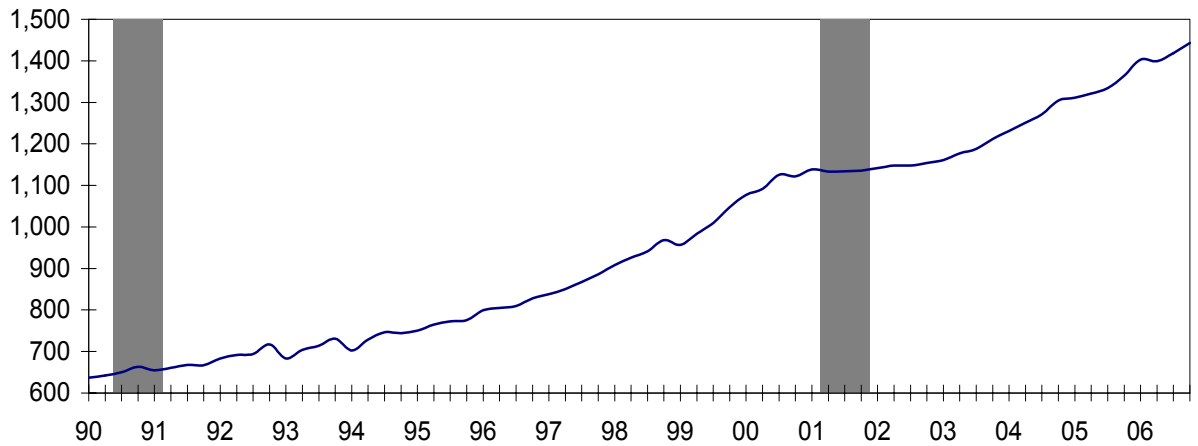
## Wages and Salaries

(Dollars in billions, Seasonally Adjusted)



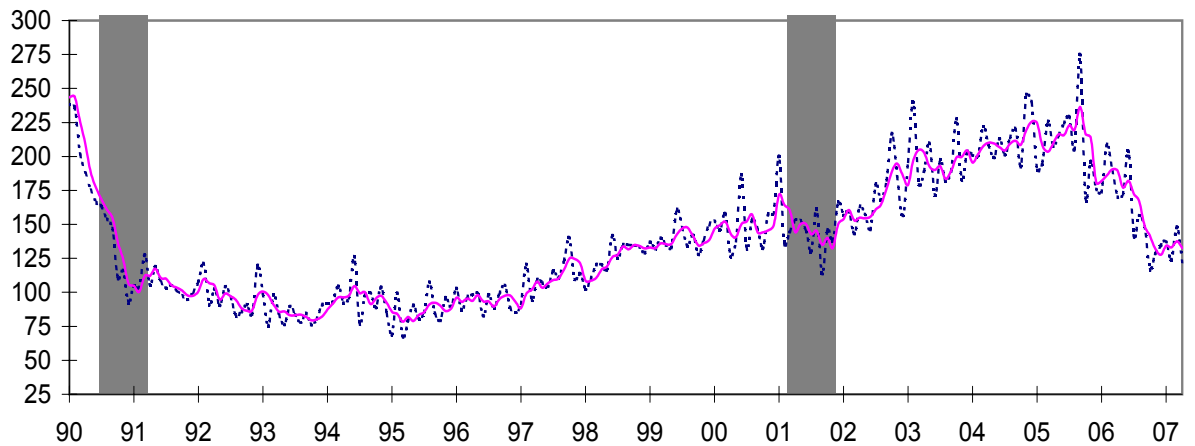
## Personal Income

(Dollars in billions, Seasonally Adjusted)



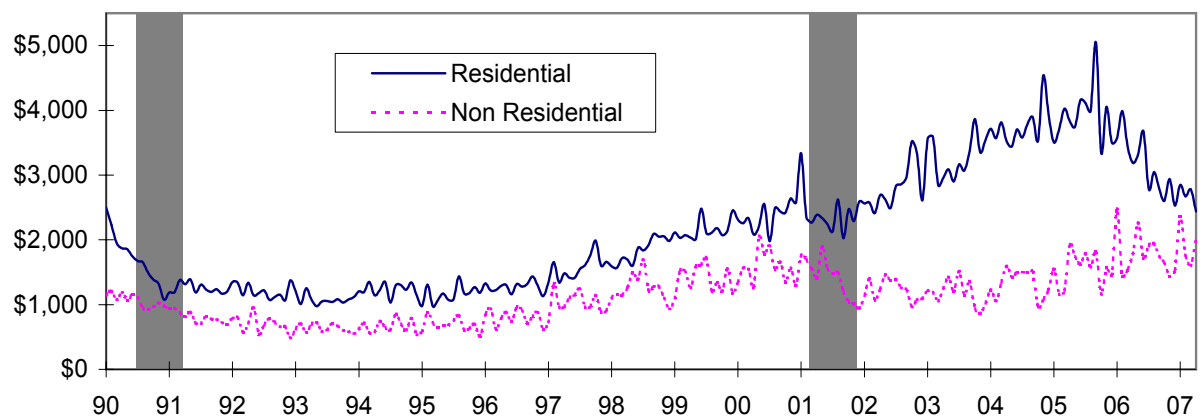
## New Housing Units Authorized By Building Permits

(thousands, Seasonally Adjusted at Annual Rate)

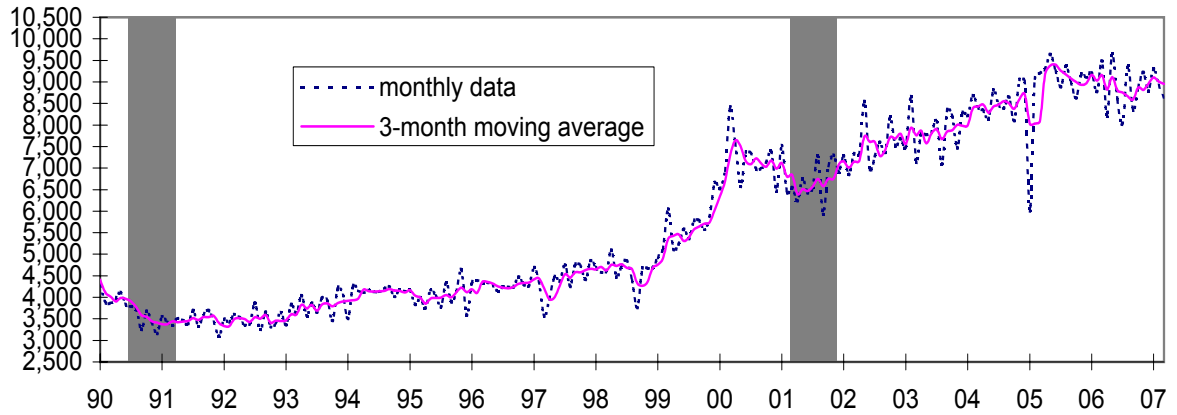


## Residential & Nonresidential Building Permit Valuation

(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](http://www.dof.ca.gov)

### 2006

- 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.
- September 5** Intel announced that it will lay off about 10 percent of its work force.
- September 12** California minimum wage legislation signed.  
The \$1.25 increase in the minimum wage will be phased in, with an increase of 75 cents on January 1, 2007 and an increase of 50 cents on January 1, 2008.
- October 19** Dow Jones Industrials close above 12,000 for the first time.
- October 27** GDP increased at an annual rate of 1.6% in the third quarter, down from 2.6% in the second quarter.
- November 7** California Governor Arnold Schwarzenegger won a second term.  
Voters in six states approved ballot measures raising the minimum wage, joining 18 other states in setting a wage higher than the federal mark of \$5.15 an hour.
- December 21** GDP increased at an annual rate of 2.0 percent in the third quarter.

## 2007

- January 1** California minimum wage increased to \$7.50 per hour from \$6.75.
- January 11** Vietnam becomes WTO member.
- Mid-January** Freezing temperatures in California caused some \$1.3 billion in crop losses.
- January 25-26** Sales of both new and existing homes in the U.S. suffered sharp declines last year. The plunge in new home sales was the biggest drop since 1990 and sales of existing homes saw its biggest decline since 1989.
- February** Crippling winter storms blanketed large swaths of the Midwest and Northeast with snow, ice and freezing rain.
- February 21** Rising default rates hitting subprime mortgage industry hard.
- February 27** Dow Jones industrial average down 416 points, biggest one-day point loss since 2001, after declining markets in China and Europe and a steep drop in durable goods orders triggered a massive sell-off on Wall Street.
- February 28** GDP grew at a 2.2 percent pace in the 4th quarter –a considerably weaker rate than what the government first estimated.
- March 2** The latest benchmark revision to the California labor market statistics shows nonfarm payroll employment growth was considerably stronger than what was first estimated.
- March 14** President Bush issues a disaster declaration for California counties hurt by the January deep freeze.
- March 29** Fourth quarter GDP revised upwards to 2.5 percent.
- April 16** The number of default notices sent to California homeowners last quarter increased to its highest level in almost ten years, the result of flat appreciation, slow sales, and post teaser-rate mortgage resets.
- April 25** Dow Jones Industrials close above 13,000 for the first time.
- April 27** First quarter GDP increased at an annual rate of 1.3 percent.
- May 3** S&P 500 closed above 1,500 for the first time in more than six years.  
Dow Jones Industrials surged to a record high for the sixth time in seven sessions.
- May 4** US payroll job growth slowest since 2004.  
The Dow Jones industrial average hit another record high making this the longest bull run in 80 years.
- May 31** First quarter GDP increased at an annual rate of 0.6 percent. That's down from its initial estimate of 1.3 percent growth.