



CALIFORNIA Economic Indicators

September–October 2004

Building Momentum

Commercial construction and home building going strong despite modest job growth

REVIEW OF RECENT ECONOMIC DEVELOPMENTS

By many measures, the California economy is in better shape today than it was in 2003. Most of the acceleration, however, was achieved during the first half of 2004. California's experience closely matched the nation's. Since a Spring-Summer surge, employment gains have been modest. However, California's building industries, both commercial and residential, continue to prosper. Nonresidential construction is much stronger than last year, especially office construction. On the bright side, in September the San Francisco Bay Area—the source of the state's most severe job losses during the recent recession—recorded its first year-over-year employment gain since May 2001.

Employment

Modestly better employment news

Following a surprising drop in industry employment in July, California's labor markets improved modestly in August and September. Even though the state did not keep pace with national job gains in either month, industry employment has expanded by over 113,000 thus far in 2004. However, most of these gains occurred between March and June. Since then, employment has been essentially flat. Thus far, 2004's average monthly gain of 12,600 jobs is a major improvement on the average monthly loss of 3,800 jobs during 2003.

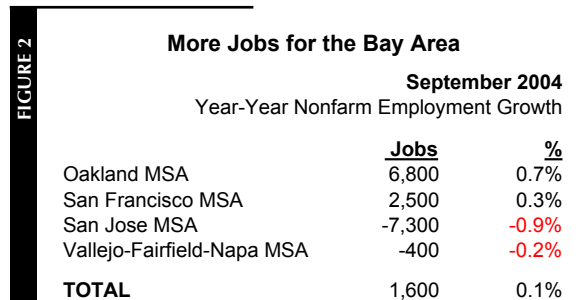
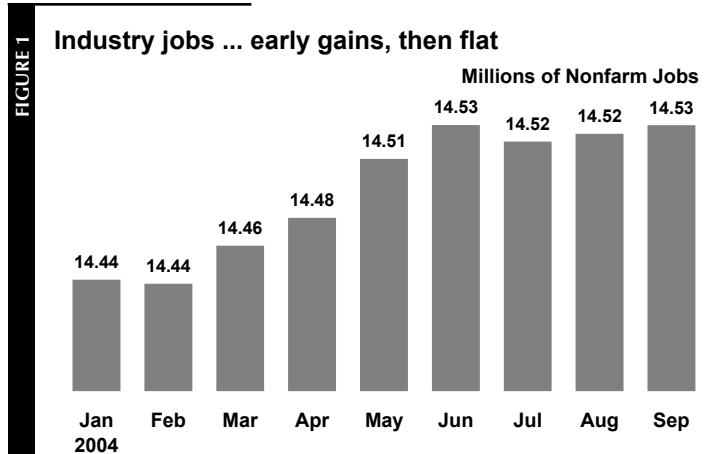
Nonfarm payroll employment rose by 4,900 in September, a 0.8-percent year-over-year gain. Furthermore, August's gain was revised up to 4,300 (from the originally reported 3,100 gain).

Five of 11 major industry sectors gained jobs last month. Professional and Business Services led the way, adding 18,800 jobs, boosted by a strong gain in employment services (temporary help). Construction added 5,000; Trade Transportation and Utilities, 4,100; Financial Activities, 1,300; and Natural Resources and Mining, 100.

Job losses were led by Information, which lost 8,300 due to fluctuating motion picture and sound recording employment. Additionally, Government lost 7,100 jobs; Education and Health Services, 5,500; Manufacturing (principally food processing), 1,900; Leisure and hospitality, 800; and Other Services, 800 also.

INSIDE

California's Industrial Mix	3
Economic Indicator Tables	7
Economic Indicator Charts	11
Business Cycles	15
Chronology	16



September was the first month since May 2001 that the San Francisco Bay Area showed positive year-over-year industry employment growth. This growth was based on gains in Leisure and Hospitality, Financial Activities, and Construction.

Steady unemployment rate

The state's unemployment rate was 5.9 percent in September, the same as the revised August rate. The state's rate was 6.7 percent in September 2003. This stability matches the national rate, which stood at 5.4 percent during both August and September. Unlike the nation, however, California's steadiness resulted primarily from rising household employment. The nation's rate held steady principally due to people withdrawing from the labor force. In September, civilian employment rose 37,000, which countered a 9,400 increase in the number unemployed.

Building Activity

Southern California home building leads the way

Home building gathered some momentum in September. Permits were issued for 225,000 residential units on a seasonally adjusted annual rate basis, an improvement on the 206,000-unit pace set in August. Both single-family and multi-family construction made significant gains. For the first nine months of the year as a whole, residential construction permitting is up over 7 percent from the same months of 2003.

Southern California continued to lead in home building. Residential construction permitting during the first nine months of 2004 was almost 11 percent greater in that region than during the same months of 2003. A fall-off in apartment construction in the San Jose region led to a significant reduction in San Francisco Bay Area home construction. Excluding San Jose, Bay Area residential permitting was up almost 5 percent from the 2003 pace.

Good signs from commercial construction

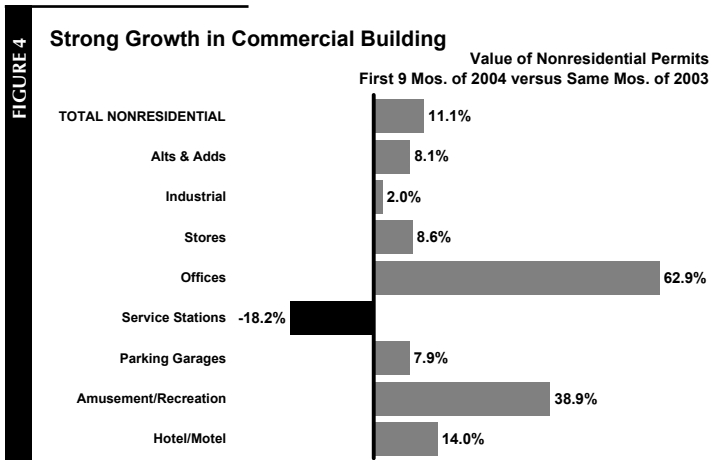
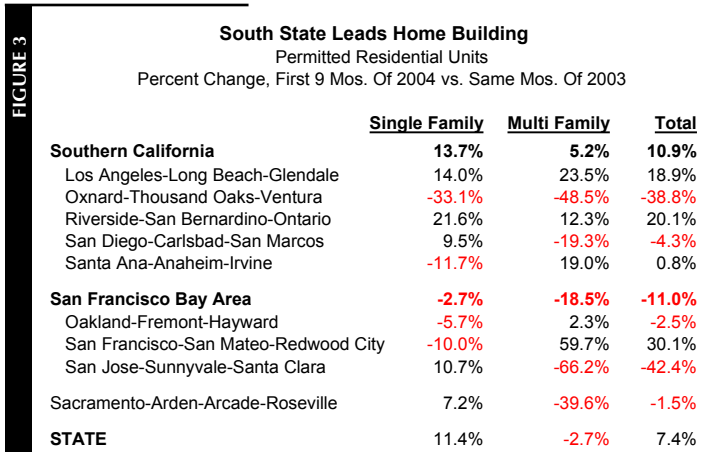
A major acceleration of office construction is a good sign for overall business conditions. Office building permit issuances surged in August and September and were up substantially from a year ago—over 200 percent on an unadjusted basis. On a year-to-date basis, office construction is running nearly 63 percent ahead of last year.

Overall, nonresidential building slowed in September for the third consecutive month, but this is largely due to a remarkably strong June. Total nonresidential construction in September reached a seasonally adjusted-annual rate of \$15.2 billion, as measured by the value of permits issued. On a year-to-date basis, total nonresidential construction is running almost 12 percent ahead of the first nine months of 2003.

Real Estate

Real estate markets may be leveling off

California's real estate market may be losing some steam. Even though current prices are at record high levels, the state's median home price has been essentially flat. Since May 2004, the median existing single-family home price has only deviated slightly from an average of \$467,000.



Home sales also may be moderating. September was the second consecutive month that home sales slid below their year-ago levels. These signs may indicate that California's real estate market is transitioning to a more sustainable pace.

California's home prices dropped in September. The median price of existing single-family homes sold in September, \$465,540, was a 1.7-percent drop from the August median. However, it was still 21 percent above the median one year ago. The median home price rose over 12 percent during the first four months of 2004. Since then, it has risen just 2.6 percent. From May through September the median price increased an average of only 0.5 percent each month, considerably slower than the 2.0 percent average monthly gain made during the 12 months ending in April.

Higher home prices may finally be taking their toll on home sales. Sales of existing single-family homes cooled in both August and September and dropped below the pace set at the same time last year. Existing home sales reached a seasonally adjusted annualized rate of 626,220 units in September, a 0.9 percent drop from a year ago. Sales in August were 8.5 percent from their year ago pace.

CALIFORNIA'S INDUSTRIAL MIX

The structure of an economy's industry mix is a key factor in its economic performance and development. California's economy is very diverse relative to other states. Diversity, in theory, yields security by spreading risks around. Specialization, on the other hand, is beneficial if it is focused on an area that outperforms the economy as a whole. In an earlier edition (July–August 2003¹) we discussed the transformation the California economy underwent during the 1990s. We concluded that changes in the state's industrial mix left it less reliant on federal Department of Defense spending—procurement and military bases—and aerospace industries. At the same time, California's concentration in high technology manufacturing and service industries increased substantially. Notably, computer and software services substantially rose in importance, principally due to the expansion of the internet.

More Diversity and Stability

This transformation was expected to yield more stability. Aerospace industries are exceptionally reliant on the federal government, a handful of foreign governments, and commercial airline and transport companies. High technology industries, on the other hand, are dependent on more diversified markets. Moreover, these industries are seen as a better source of growth in the future. Overall, the state's new industry mix offered the promise of more stability and growth potential.

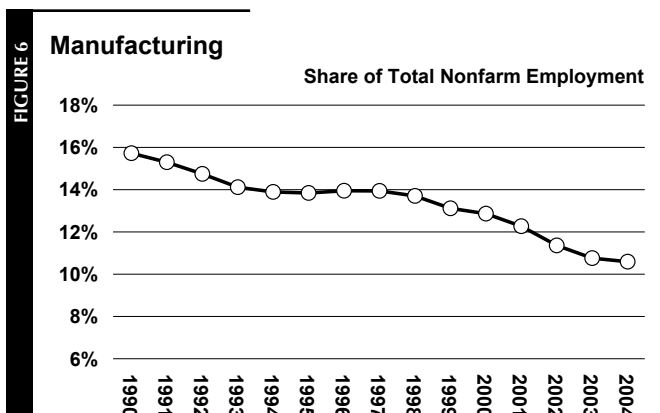
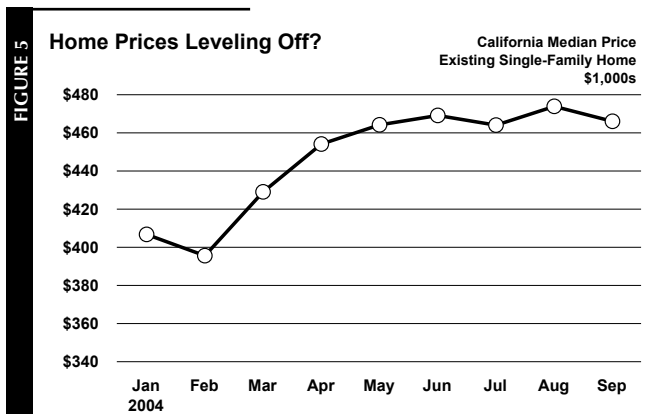
The 2001 recession, however, illustrated the downside of California's heightened dependence on high-tech industries. The recession was principally spurred by the meltdown of the unrealistic expectations for, and thus overinvestment in, a variety of technologies and ventures related to the internet. This meant that California's high technology centers were exceptionally hard hit. Indeed, the San Francisco Bay Area is just now starting to recover in earnest.

How has California's new industry mix weathered the 2001 recession? An examination of the employment performance of key industries leading up to, during, and following the 2001 recession reveals California's strengths and potential weaknesses.

Information business fuels exceptional growth

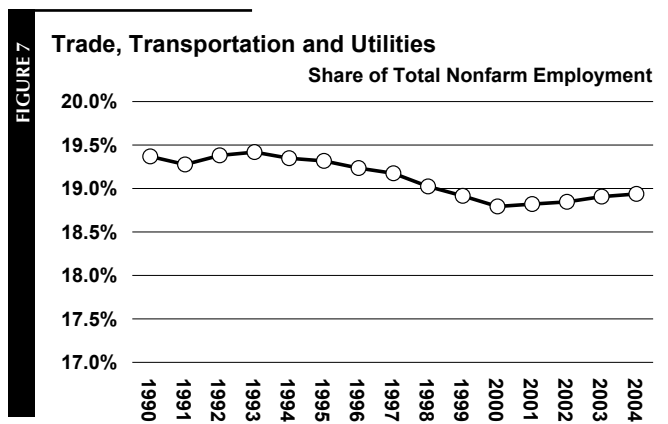
The most dramatic changes made during the 1990s signaled the declining importance of "conventional" industries and the rise of emerging technology-related industries. While the share of the state's employment accounted for by manufacturing, wholesale and retail trade, transportation, utilities, finance, and government was waning, the shares of the information sector—which

¹ Available at: http://www.dof.ca.gov/HTML/FS_DATA/indicatr/2003/CEI_July-Aug_03.pdf



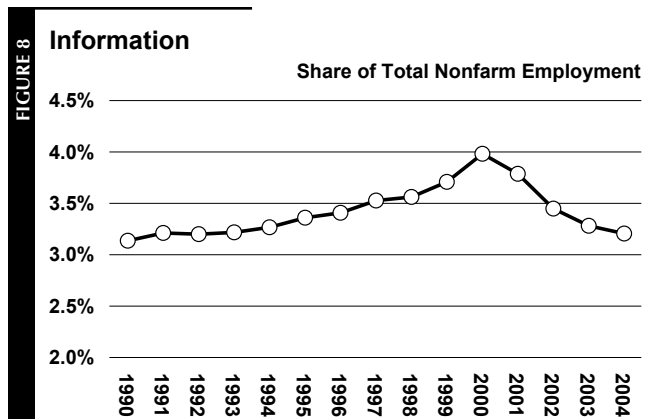
includes internet publishing and broadcasting, telecommunications, internet service providers, and data processing firms—as well as business and professional services—was growing. The collective share of the “conventional” industries fell from over 58 percent of all industry employment to just over 53 percent by 2000, a drop of 5 percentage points. At the same time, the share of the emerging information and business service industries rose by a comparable 4.5 percentage points, from 15 percent to 19.5 percent.

Looking at the contribution to the state’s growth provides a more vivid picture of the importance of these emerging industries. Despite representing less than one-fifth of total employment, these sectors accounted for 38 percent of the growth in nonfarm jobs from 1994 through 2000. The construction industry was also a strong contributor during the 1990s. Accounting for only about 4 percent of total employment, the building industry contributed over 11 percent of new nonfarm jobs from 1994 through 2000.

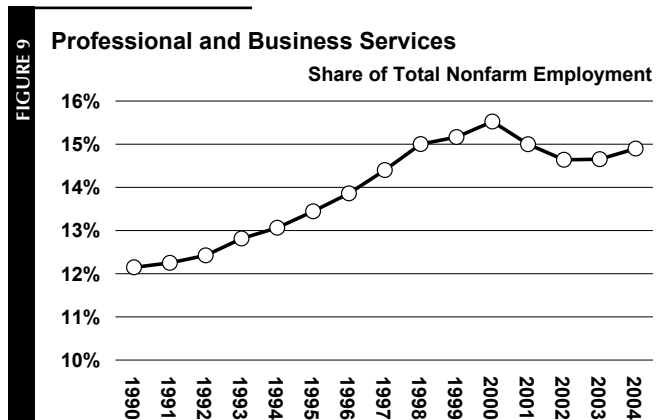


The Recession Strikes

With the exception of construction, these trends changed abruptly with 2001 recession. Total nonfarm employment, which expanded by nearly 500,000 in 2000, grew by only 115,000 in 2001 and then dropped in the two following years. Information sector employment declined by 24,000 in 2001, a big turnaround from the 58,000 jobs created in 2000. An even bigger swing struck Professional and Business Services, which lost 59,000 jobs in 2001 after creating 127,000 in 2000. Manufacturing also suffered significant losses.



California labor markets were buoyed during the recession by industries not associated with high technology developments. Construction continued to expand at a brisk pace. Home building was notably restrained during the booming 1990s. Thus, the recession did not immediately generate a surplus of homes that, in most recessions, leads to a sharp drop in building activity and employment. Actually, housing demand was sustained during the recession by the reinvestment of substantial capital gains that had been realized during the “dot-com” boom and by historically low mortgage interest rates. Those low rates also led to increased refinancing activity as well as strong home sales, which resulted in 40,000 new jobs in the Financial Activities sector. Government employment also continued to expand, fueled by public coffers that had been filled to overflowing during the expansion.



A Jobless Recovery

The 2001 recession was relatively brief and mild. Officially, it lasted from March through November—only eight months. The ensuing recovery was less buoyant than other historical recoveries, however. A combination of factors including a series of accounting scandals and the run-up to and the beginning of the War in Iraq put a damper on the economy. Indeed, the nation continued

to shed jobs through August 2003. From November 2001 through September 2003, national nonfarm employment expanded only 0.5 percent.

California had a similar experience. Employment growth for the state also did not resume until August 2003. Job creation since then has been low, rising only 0.6 percent during the first nine months of 2004 compared to the same months of 2003. As of September 2004, total industry employment in California had risen only 0.4 percent since the end of the recession, or less than 1,600 jobs per month on average.

The most prevalent explanation for the weak performance is surprisingly strong productivity gains. The investment in new technologies and other innovations made during the 1990s appear to have boosted worker productivity enough to allow many firms to expand output without proportionately adding to payrolls. This is evidenced by GDP growth that has outpaced job growth by a wide margin. International uncertainties, high energy prices, and uneven foreign economic growth may also have contributed to a below-par recovery.

So which sectors served the state well during the recession and initial slower recovery? Between the beginning of the official recession in March 2001 and the upturn in employment in August 2003 there was actually mixed performance. Six of the 11 major industry sectors gained jobs during this period. Health Care and Social Assistance contributed the most new jobs, over 107,000. Medical services provided essentially all of these gains. Laying the seeds for current budget difficulties, the public sector throughout most of this period continued to expand. Even though a decline in public employment began in October 2002, this sector ended the period with over 93,000 more employees. Low interest rates, home price appreciation, and languishing equity markets spurred home sales, mortgage lending and refinancing activity. This drove Financial Activities employment up by 58,000, or 7 percent. Lesser gains were contributed by the Construction, Leisure and Hospitality, and Other Services sectors. Of these gainers, only Construction actually lost jobs during the official recession.

Ironically, just as California's 1990s growth was fueled by the state's increased specialization in information technology industries, so was the retrenchment of the 2001 recession and its immediate aftermath. Given that the recession was predominantly the result of sharp cutbacks in business investment, and in information technologies in particular, it is not surprising that the most dramatic losses occurred in the Manufacturing, Information, and Business Service sectors. Information sector employment dropped almost 22 percent during the extended recessionary period. Manufacturing contributed the most losses with a 323,000 drop in employment, or 17.4 percent. Steep losses in computer system design and employment services (temporary help) accounted for most of the loss of over 137,000 jobs in the Professional and Business Services sector. Both the computer design and employment services were significant contributors to the extraordinary employment gains achieved in the 1990s.

Mixed Recovery

The state's performance during the first nine months of 2004 is more positive, but still uneven. Employment in most major sectors has grown since the end of 2003—albeit modestly for a recovery. California has added over 113,000 payroll jobs since the end of 2003. For an economy this size, this is a very modest growth rate, less than one percent on a year-over-year basis. The growth is, however, spread across a variety of private industries.

More temps

Nearly half of this 2004's new jobs were created in the Professional and Business Services sector, a panoply of business support services encompassing legal, architectural, security, computer support, and employment service firms, among others. This is mixed news. While growth in this sector is a sign of a vibrant business activity, most of the new jobs come from Temporary Services. This represents a growing contingent workforce that typically

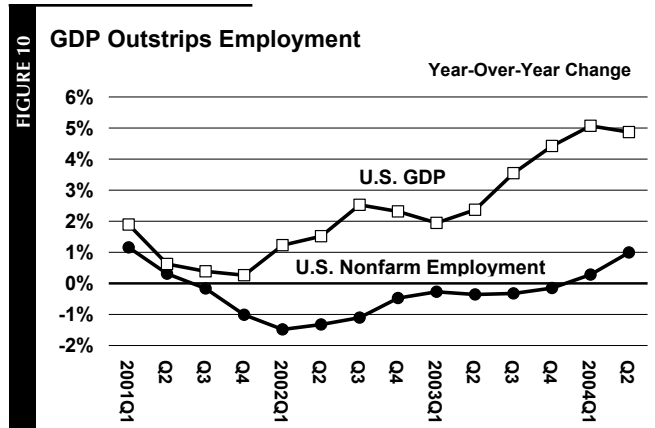


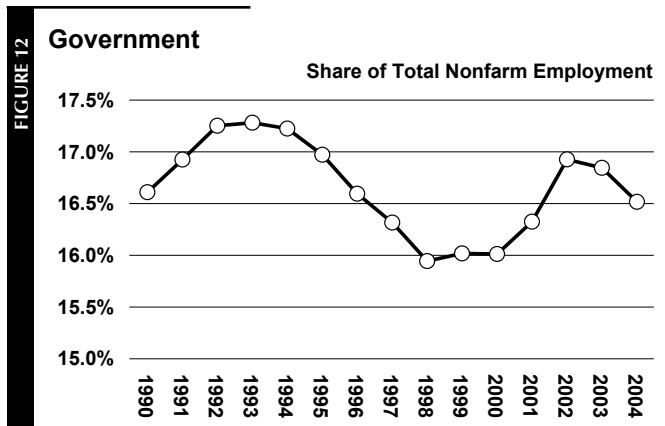
FIGURE 11 Industry Job Growth in 2004
Nonfarm Employment, Sept. 2004 vs. Dec. 2003

Industry	Jobs Added	Year-Over-Year Change (%)
Total Nonfarm	113,200	0.8%
Natural Resources and Mining	800	3.7%
Construction	25,100	3.1%
Manufacturing	1,200	0.1%
Trade, Transportation and Utilities	22,700	0.8%
Information	-12,700	-2.7%
Financial Activities	5,800	0.6%
Professional and Business Services	56,000	2.6%
Educational and Health Services	3,700	0.2%
Leisure and Hospitality	19,700	1.4%
Other Services	-1,000	-0.2%
Government	-8,100	-0.3%

lacks many of the benefits of traditional wage earners, including steady paychecks and retirement and health benefits.

Construction is another source of support. As discussed above, consistent demand for homes has been a notable feature of the recession and recovery. Rising business investment is stimulating commercial construction as well.

The public sector is a source of weakness. This probably reflects a delayed reaction to the slowdown in 2001. Soaring income in the 1990s—especially from the stock market—led to unexpectedly strong public revenue growth. To a large extent, this was translated into rising ongoing government spending commitments. The public sector, expecting a quick stock market rebound, was slow to react to plummeting revenues. However, the stock market languished much longer than expected. Employment in the Government sector continued to expand until the end of 2002 and has been on a path of readjustment ever since. Public sector employment in 2004 accounted for essentially the same proportion of total employment that it did in 1990.



Ironic Developments

During the 1990s, California shifted its specialization from federal Department of Defense spending and aerospace industries to the emerging Information Technology and internet industries. These new specialties encompass a range of directly and indirectly related industries ranging from computer and electronics manufacturing to software and computer system design to internet service providers. While these industries will no doubt be significant sources of growth going forward, they were particularly susceptible to the business-led recession of 2001. So far, these sectors have continued to shed jobs.

Sorting out the lingering effects of the recession, the fallout from the internet investment bubble, and other long-term trends is difficult at this time. A sustained economic recovery should eventually generate better job growth. At some point investment imbalances generated in the late 1990s should work themselves out, and businesses will resume a normal pace of information technology investment. Long-run forces such as automation and outsourcing could have employment growth dampening effects. Rising labor productivity and the flight to more affordable labor markets have put California and U.S. manufacturing employment on a downward trend since the 1970s. Ironically, California firms were at the forefront of the development of many information technologies that have been instrumental in raising productivity and in creating more outsourcing opportunities.

FIGURE 13

Information Technology Still Suffering

Nonfarm Employment Not Seasonally Adjusted Year-Year Percent Change

	2002	2003	2004*
MANUFACTURING			
Computer & Electronic Products	-13.8%	-9.4%	-2.4%
Computer & Peripheral Equipment	-13.3%	-8.7%	-3.3%
Communications Equipment	-21.8%	-16.2%	-1.6%
Semiconductor & Electronic Component	-17.3%	-11.9%	-2.8%
Electronic Instruments	-6.0%	-4.5%	-1.4%
SERVICES			
Software Publishers	-7.2%	-8.5%	-5.2%
Internet Serv Provid, Web Portals & Data Proc.	-28.3%	-8.0%	-0.8%
Computer Systems Design & Related Serv.	-13.4%	-5.4%	-2.1%

* First nine months

One of the great benefits of information technology is increased flexibility for businesses. This was demonstrated most dramatically by the ups and downs of California's Silicon Valley. It was the heart of the state's job creation machine in the 1990s. Investment capital poured in and new business sprang up at an unprecedented pace. But, just as quickly, their fortunes turned when the dot-com investment bubble burst. Thus, while California's industry structure now has a stronger footing in the business sector, it also has greater exposure to unexpected swings of the marketplace. Given the retrenchment in this sector, volatility is likely to be less in future than in the recent past.

Select Indicators

	2003	2004			Year-Over % Change	
	Sep	Jun	Jul	Aug		Sep
EMPLOYMENT (Seasonally adjusted)						
Civilian employment (000)	16,295	16,541	16,587	16,610	16,647	2.2%
Unemployment (000)	1,170	1,118	1,098	1,037	1,047	-10.6%
Unemployment rate	6.7	6.3	6.2	5.9	5.9	--
Nonagricultural wage and salary employment (000) a/	14,407.9	14,529.9	14,520.6	14,524.9	14,529.8	0.8%
Goods-producing industries	2,338.2	2,370.1	2,371.2	2,372.4	2,375.6	1.6%
Natural resources and mining	21.6	22.3	22.6	22.1	22.2	2.8%
Construction	791.4	817.3	814.2	819.7	824.7	4.2%
Manufacturing	1,525.2	1,530.5	1,534.4	1,530.6	1,528.7	0.2%
Service-providing industries	12,069.7	12,159.8	12,149.4	12,152.5	12,154.2	0.7%
Trade, transportation, and utilities	2,729.8	2,752.5	2,747.1	2,743.1	2,747.2	0.6%
Information	461.2	464.0	454.3	460.3	452.0	-2.0%
Financial activities	894.5	902.8	900.2	901.3	902.6	0.9%
Professional and business services	2,116.9	2,161.5	2,167.2	2,171.1	2,189.9	3.4%
Educational and health services	1,543.8	1,563.7	1,564.0	1,563.8	1,558.3	0.9%
Leisure and hospitality	1,400.6	1,417.4	1,417.9	1,418.9	1,418.1	1.2%
Other services	504.7	506.3	503.5	502.8	502.0	-0.5%
Government	2,418.2	2,391.6	2,395.2	2,391.2	2,384.1	-1.4%
High-technology industries b/	862.5	862.7	862.1	862.8	861.3	-0.1%
Computer and electronic products manufacturing	320.4	321.0	321.3	321.8	320.8	0.1%
Aerospace products and parts manufacturing	72.2	74.2	74.7	75.0	75.2	4.2%
Software publishers	43.8	42.8	42.5	42.6	42.3	-3.4%
Telecommunications	119.1	114.5	114.2	113.4	113.0	-5.1%
Internet service providers	47.7	48.8	48.4	48.7	48.6	1.9%
Computer systems design	165.2	163.4	162.6	163.1	163.5	-1.0%
Scientific research and development	94.1	98.0	98.4	98.2	97.9	4.0%
HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)						
Average weekly hours	39.8	40.0	39.9	40.3	39.6	-0.5%
Average weekly earnings	\$599.79	\$614.80	\$613.26	\$616.19	\$610.63	1.8%
Average hourly earnings	\$15.07	\$15.37	\$15.37	\$15.29	\$15.42	2.3%
CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)						
All Urban Consumers Series						
California Average	n.a.	195.8	n.a.	195.3	n.a.	--
San Francisco CMSA	n.a.	199.0	n.a.	198.7	n.a.	--
Los Angeles CMSA	188.2	193.7	193.4	193.1	194.5	3.3%
Urban Wage Earners and Clerical Workers Series						
California Average	n.a.	189.6	n.a.	188.9	n.a.	--
San Francisco CMSA	n.a.	195.4	n.a.	195.0	n.a.	--
Los Angeles CMSA	181.9	187.4	186.8	186.5	187.8	3.2%
CONSTRUCTION						
Private residential housing units authorized (000) c/						
Single units	195	222	202	206	225	15.8%
Multiple units	151	153	141	154	166	9.9%
Multiple units	44	69	62	53	59	36.0%
Residential building authorized valuation (millions) d/	\$40,547	\$47,093	\$43,340	\$45,406	\$47,123	16.2%
Nonresidential building authorized valuation (millions) d/	\$14,545	\$17,273	\$16,731	\$15,835	\$15,240	4.8%
Nonresidential building authorized valuation (millions) e/						
Commercial	1,285	1,639	1,315	1,471	1,342	4.5%
Industrial	364	588	394	468	413	13.6%
Industrial	130	180	92	135	116	-11.2%
Other	305	327	277	279	290	-4.9%
Alterations and additions	486	544	552	590	523	7.6%
AUTO SALES (Seasonally adjusted)						
New auto registrations (number)	143,267	148,741	141,848	n.a.	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 THIRD QUARTER 2004

(Percent)

	Office		Office		Office		Industrial	
	Downtown		Suburban		Total		3Q04	3Q03
	3Q04	3Q03	3Q04	3Q03	3Q04	3Q03		
Northern and Central California:								
Oakland	17.2	15.6	17.1	16.8	17.1	16.6	n.a.	n.a.
Sacramento	14.1	11.9	13.8	12.5	13.9	12.3	16.4	15.3
San Francisco	17.4	18.7	23.0	27.7	19.1	21.5	13.4	13.4
San Jose	17.9	18.7	18.9	22.4	18.7	21.6	n.a.	n.a.
Southern California:								
Los Angeles Metro	16.8	18.7	13.8	14.3	14.3	15.0	8.1	8.6
Orange County	n.a.	n.a.	11.1	14.4	11.1	14.4	8.2	10.5
San Diego	9.2	10.6	10.5	12.1	10.3	11.8	13.0	9.7
Ventura County	n.a.	n.a.	9.5	8.8	9.5	8.8	n.a.	n.a.
National Average	14.4	14.5	17.4	18.2	16.3	16.8	11.2	11.7

FOREIGN TRADE THROUGH CALIFORNIA PORTS

SALES OF EXISTING SINGLE-FAMILY HOMES

DOD PRIME CONTRACTS ^{a/}

		Median	Units	Exports	Imports		\$ millions	% of U.S.
		Price	(SAAR)	(\$ millions)	(\$ millions)			
2001	Jan	\$244,110	502,800	\$12,284	\$19,173	1981-82	\$22,685	21.8%
	Feb	241,690	486,370	11,595	16,201	1982-83	26,387	22.2%
	Mar	257,550	518,410	12,390	19,475	1983-84	28,520	23.0%
	Apr	255,310	495,390	10,492	17,624	1984-85	29,115	20.8%
	May	255,860	505,590	10,948	16,885	1985-86	27,738	20.4%
	Jun	266,930	526,570	10,721	18,274	1986-87	24,515	18.4%
	Jul	267,520	503,030	9,890	18,206	1987-88	23,458	18.7%
	Aug	282,420	571,070	10,288	18,277	1988-89	23,125	19.3%
	Sep	275,620	475,380	9,634	17,585	1989-90	22,312	18.4%
	Oct	263,020	494,920	10,038	19,532	1990-91	24,265	19.5%
	Nov	270,210	493,870	9,315	17,184	1991-92	23,843	21.2%
	Dec	281,330	474,490	9,659	15,525	1992-93	22,952	20.1%
2002	Jan	\$287,080	584,250	\$8,688	\$15,517	1993-94	22,573	20.5%
	Feb	294,870	610,380	8,429	15,768	1994-95	18,277	16.8%
	Mar	305,840	586,230	9,945	16,318	1995-96	18,230	16.7%
	Apr	317,120	643,030	9,274	17,807	1996-97	18,477	17.3%
	May	319,590	620,300	9,814	17,568	1997-98	17,401	15.9%
	Jun	324,640	533,840	9,984	18,988	1998-99	17,372	15.1%
	Jul	321,900	540,800	9,335	18,998	1999-00	18,100	14.7%
	Aug	334,270	562,780	9,948	19,686	2000-01	19,939	14.7%
	Sep	322,450	493,800	9,286	19,478	2001-02	23,816	15.0%
	Oct	324,670	579,240	8,794	18,753	2002-03	28,681	15.0%
	Nov	328,440	542,120	9,046	20,522			
	Dec	338,840	573,790	8,797	19,060			
2003	Jan	\$336,210	584,600	\$8,408	\$17,588			
	Feb	326,640	566,890	8,423	16,359			
	Mar	352,780	567,610	9,784	18,789			
	Apr	364,040	583,330	9,158	19,151			
	May	367,630	572,260	9,090	18,537			
	Jun	374,540	572,130	9,743	19,774			
	Jul	381,940	595,860	9,604	20,743			
	Aug	400,020	645,720	9,626	19,846			
	Sep	384,690	631,880	8,968	21,060			
	Oct	380,350	636,690	10,341	23,021			
	Nov	384,930	627,190	9,969	21,320			
	Dec	403,570	637,080	10,437	20,528			
2004	Jan	\$406,220	615,660	\$9,062	\$19,996			
	Feb	395,060	589,220	9,536	18,011			
	Mar	428,570	590,220	11,420	22,589			
	Apr	453,590	640,710	10,249	21,722			
	May	463,690	632,380	10,460	21,760			
	Jun	468,620	633,670	10,481	23,971			
	Jul	463,540	639,910	10,388	24,162			
	Aug	473,360	591,150	10,130	24,127			
	Sep	465,540	626,220					

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	47,065	7,474	200.7
	Feb	4.2	40.2	51,343	6,465	136.3
	Mar	4.0	39.9	53,726	6,562	144.5
	Apr	3.5	39.5	53,017	6,217	153.3
	May	3.8	39.7	56,205	6,714	152.5
	Jun	3.8	39.3	55,053	6,429	147.6
	Jul	3.8	39.5	55,764	6,494	130.3
	Aug	3.9	39.6	57,542	7,309	160.8
	Sep	3.9	39.5	59,829	6,149	114.7
	Oct	3.7	39.3	64,090	6,933	139.7
	Nov	3.6	39.0	57,914	7,216	142.1
	Dec	3.7	39.3	47,557	6,922	163.6
2002	Jan	3.8	39.0	66,867	7,175	155.4
	Feb	4.0	39.5	55,653	6,932	162.1
	Mar	4.1	40.0	60,564	7,369	144.4
	Apr	4.1	40.0	64,132	7,305	163.0
	May	4.1	39.7	60,539	8,520	157.1
	Jun	4.1	39.9	59,679	7,012	149.7
	Jul	4.0	39.3	63,104	7,174	181.5
	Aug	4.0	39.8	61,589	7,645	166.9
	Sep	3.9	39.8	61,305	7,726	184.9
	Oct	3.7	39.5	63,105	7,929	203.3
	Nov	3.9	39.6	58,190	7,370	191.1
	Dec	3.9	39.7	58,106	7,778	151.9
2003	Jan	3.9	39.7	60,938	7,275	193.0
	Feb	4.0	39.9	58,324	8,809	249.9
	Mar	3.7	39.8	58,847	7,228	183.2
	Apr	3.7	39.8	65,902	7,840	188.9
	May	3.8	39.9	60,158	7,772	210.3
	Jun	3.7	39.9	61,883	7,939	177.6
	Jul	3.9	39.5	61,862	7,913	200.0
	Aug	3.8	39.5	58,148	7,108	178.6
	Sep	3.9	39.4	58,124	8,865	194.7
	Oct	3.7	39.5	60,267	7,802	210.2
	Nov	4.1	40.1	53,659	7,275	188.9
	Dec	3.9	39.4	50,224	8,477	194.9
2004	Jan	4.0	40.1	50,745	7,905	196.6
	Feb	4.2	40.3	49,833	8,869	206.1
	Mar	4.2	40.3	48,368	8,550	226.5
	Apr	4.5	40.1	51,481	8,381	201.8
	May	4.6	40.5	45,693	8,180	199.3
	Jun	4.2	39.9	50,863	9,003	221.6
	Jul	4.5	40.2	49,736	8,244	202.5
	Aug	4.2	40.1	48,017	n.a.	206.3
	Sep	4.0	39.2	47,497	n.a.	225.5

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)
2001	Jan	14,715	1,875	4.6	354
	Feb	14,720	1,866	4.7	356
	Mar	14,728	1,855	4.8	364
	Apr	14,666	1,831	4.9	386
	May	14,650	1,812	5.1	413
	Jun	14,641	1,797	5.2	421
	Jul	14,574	1,778	5.3	445
	Aug	14,582	1,761	5.6	471
	Sep	14,525	1,740	5.7	478
	Oct	14,512	1,723	6.0	524
	Nov	14,476	1,704	6.2	512
	Dec	14,449	1,689	6.3	520
2002	Jan	14,433	1,675	6.5	511
	Feb	14,451	1,667	6.6	538
	Mar	14,463	1,662	6.7	527
	Apr	14,466	1,656	6.7	541
	May	14,491	1,652	6.6	553
	Jun	14,470	1,645	6.7	542
	Jul	14,455	1,637	6.7	549
	Aug	14,475	1,629	6.7	530
	Sep	14,462	1,622	6.7	541
	Oct	14,479	1,615	6.7	541
	Nov	14,488	1,605	6.8	509
	Dec	14,462	1,594	6.8	517
2003	Jan	14,430	1,586	6.8	509
	Feb	14,418	1,575	6.8	514
	Mar	14,390	1,564	6.8	511
	Apr	14,399	1,559	6.8	571
	May	14,391	1,550	6.8	540
	Jun	14,389	1,541	6.8	552
	Jul	14,387	1,532	6.9	555
	Aug	14,411	1,528	6.8	535
	Sep	14,408	1,525	6.7	539
	Oct	14,450	1,530	6.7	520
	Nov	14,437	1,529	6.6	509
	Dec	14,417	1,528	6.5	510
2004	Jan	14,443	1,526	6.2	446
	Feb	14,440	1,527	6.3	445
	Mar	14,462	1,526	6.6	434
	Apr	14,478	1,528	6.2	442
	May	14,511	1,529	6.3	413
	Jun	14,530	1,531	6.3	452
	Jul	14,521	1,534	6.2	406
	Aug	14,525	1,531	5.9	425
	Sep	14,530	1,529	5.9	429

		Personal Income (\$ millions)	Total Wages & Salaries (\$ millions)	Taxable Sales (\$ millions)
2001	Qtr I	\$1,153,563	\$661,546	\$111,989
	Qtr II	1,139,669	650,479	111,275
	Qtr III	1,125,898	637,461	108,517
	Qtr IV	1,120,405	632,752	109,442
2002	Qtr I	\$1,133,441	\$637,434	\$108,528
	Qtr II	1,148,301	641,008	109,986
	Qtr III	1,153,479	641,928	111,384
	Qtr IV	1,161,353	647,397	110,449
2003	Qtr I	\$1,161,968	\$645,093	\$112,286
	Qtr II	1,175,472	652,247	113,415
	Qtr III	1,190,584	661,284	117,636
	Qtr IV	1,213,183	674,618	113,181
2004	Qtr I	\$1,221,673	\$679,545	\$119,072
	Qtr II	1,246,487	690,870	120,294

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.

■ 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.

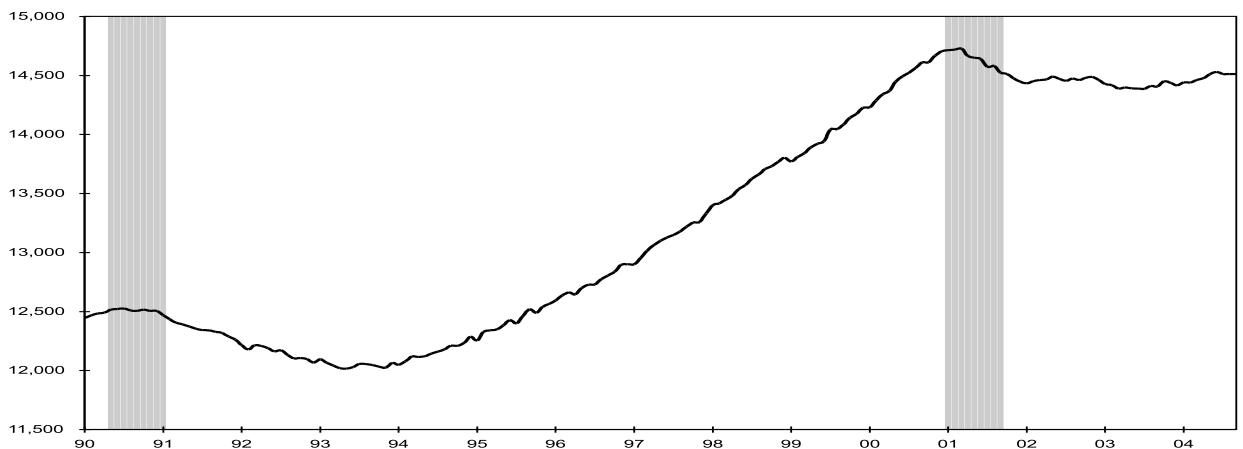
Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

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.

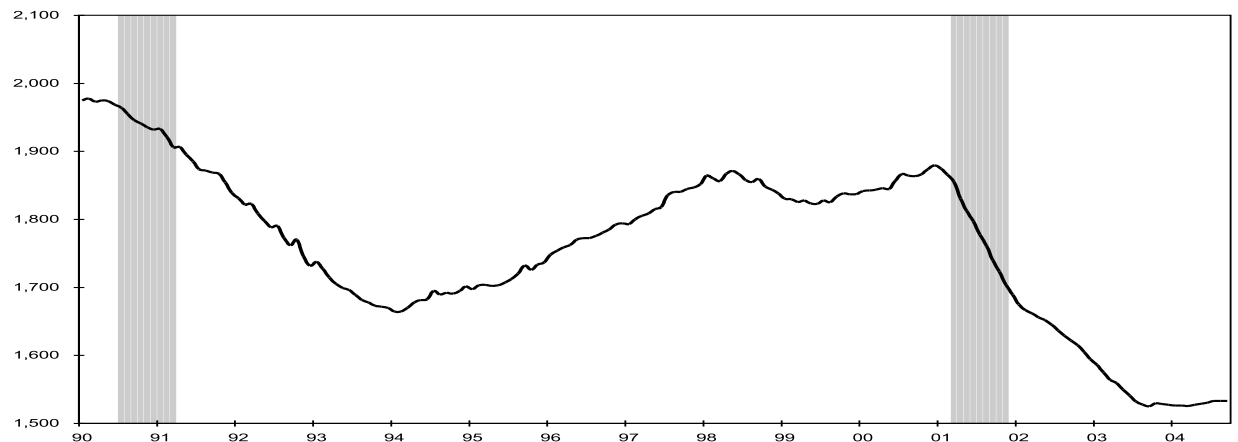
This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

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.

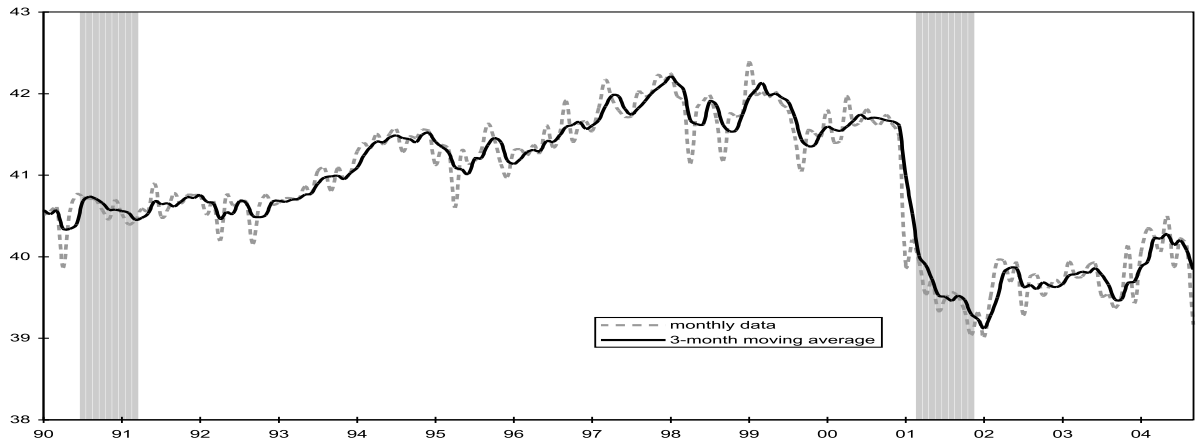
**Nonagricultural
Employment**
(thousands,
Seasonally Adjusted)



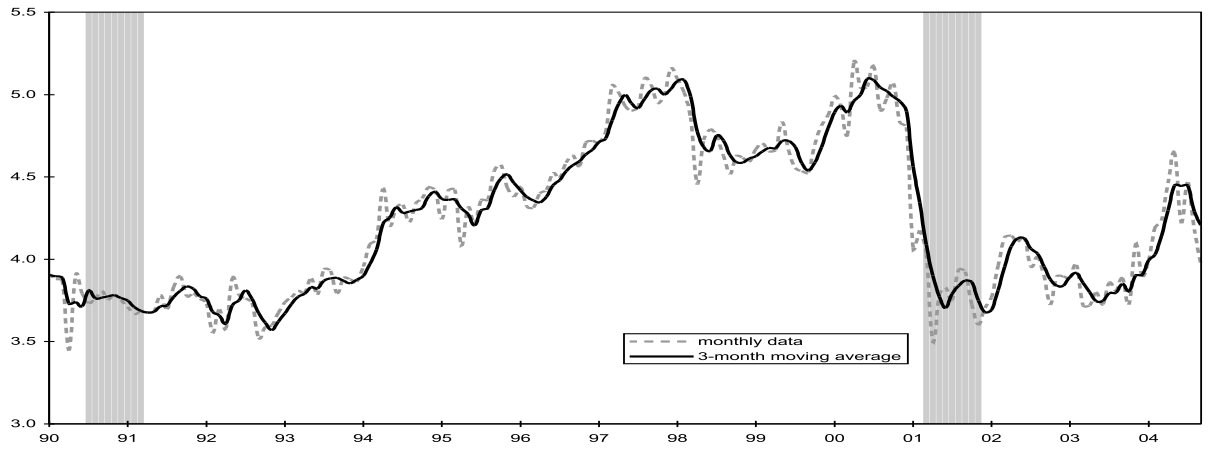
**Manufacturing
Employment**
(thousands,
Seasonally Adjusted)



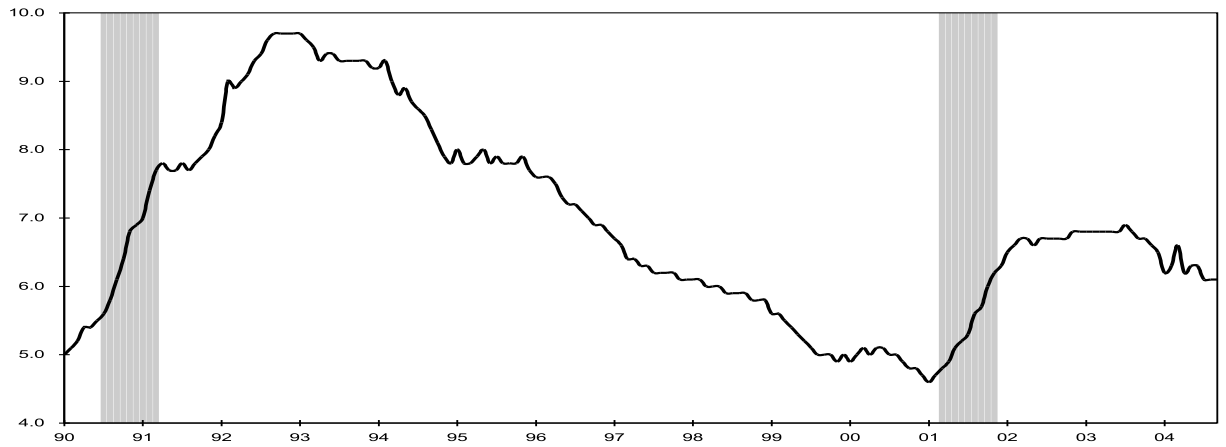
Average Weekly Hours, Manufacturing (Seasonally Adjusted)



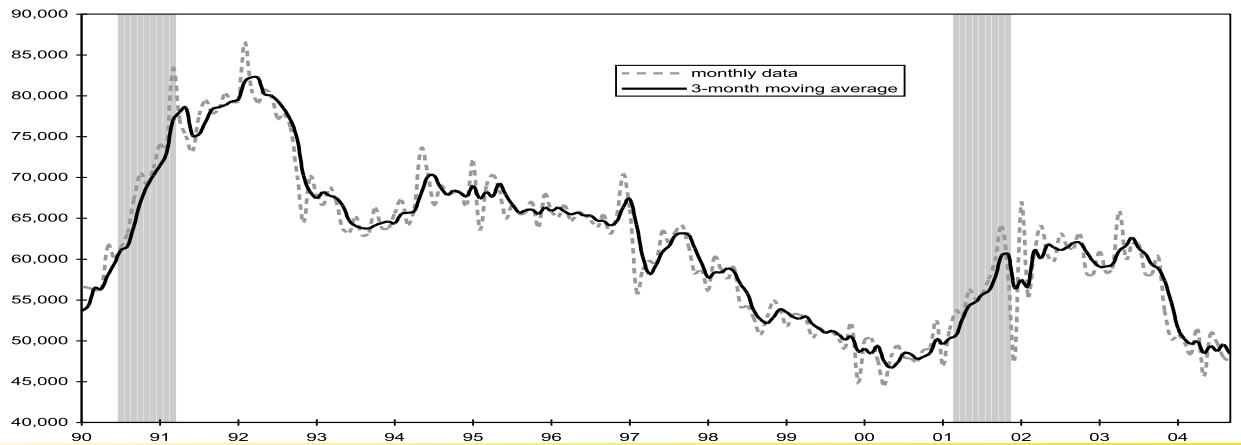
Average Overtime Hours, Manufacturing (Seasonally Adjusted)



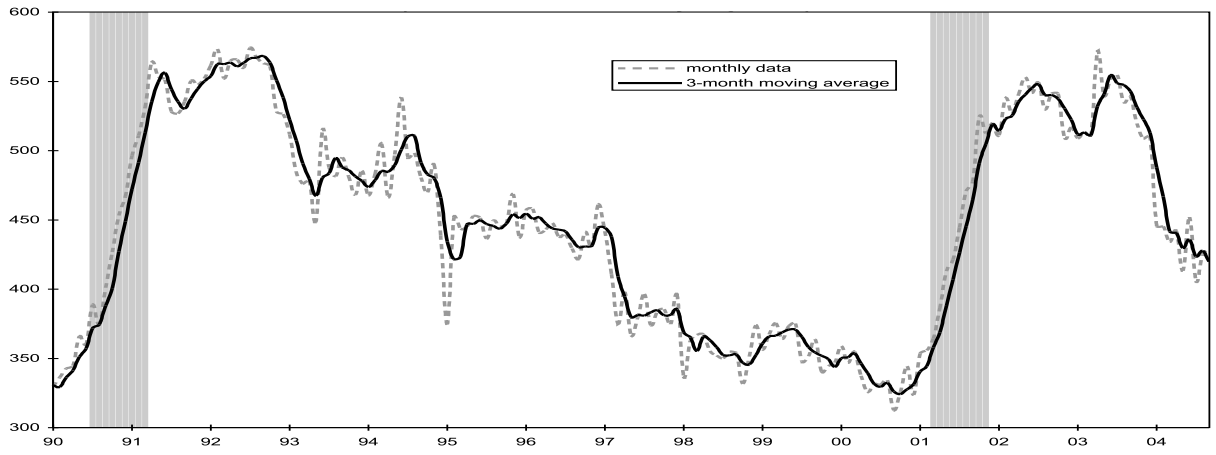
Unemployment Rate (Percent)



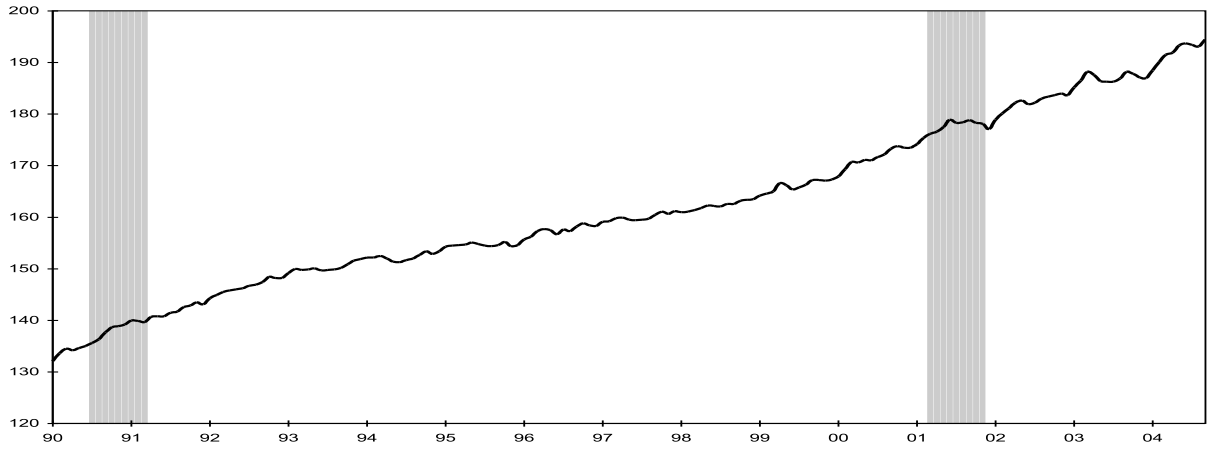
Initial & Transitional Claims for Unemployment Insurance (Weekly Average, Seasonally Adjusted)



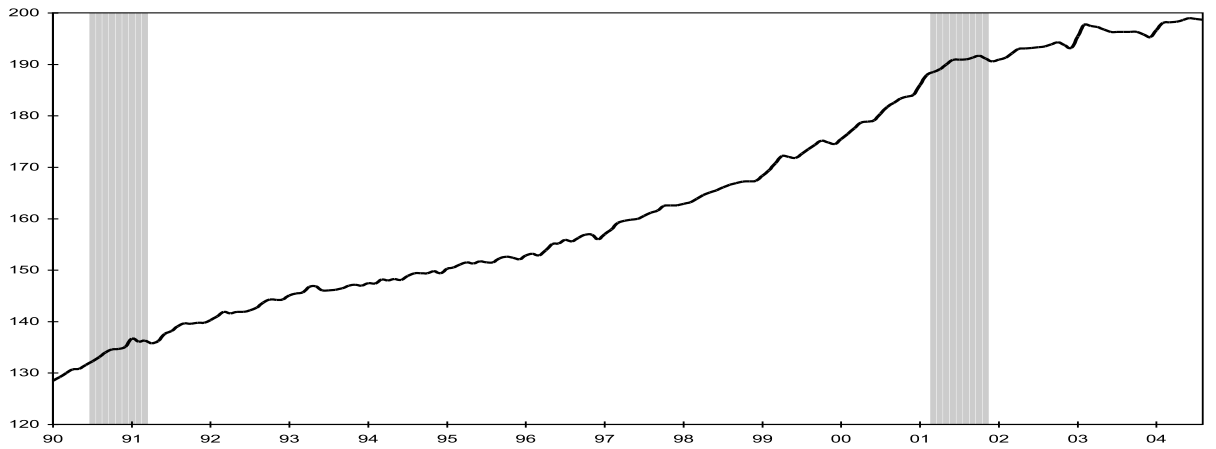
Unemployment,
Average Weeks
Claimed
(thousands,
Seasonally Adjusted)



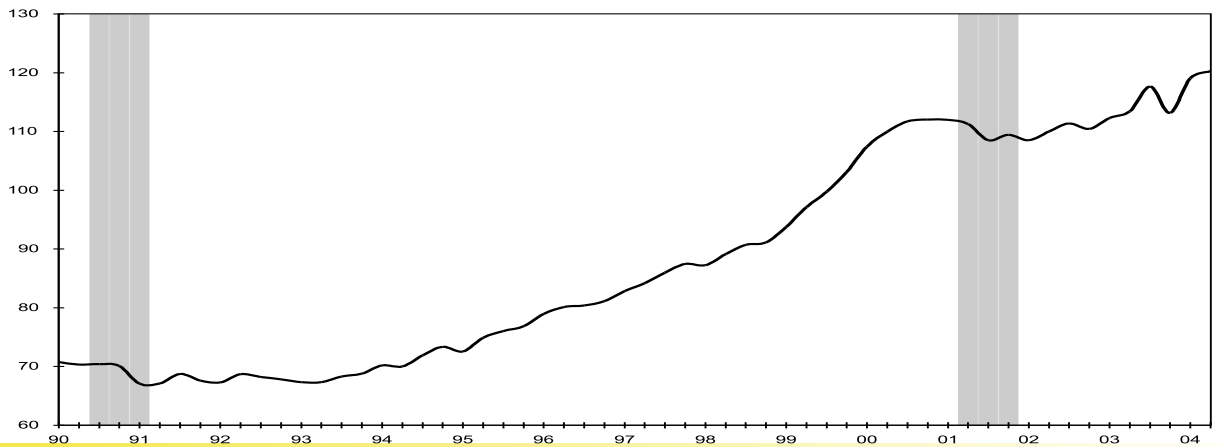
Consumer
Price Index,
Los Angeles
(1982-84=100)



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

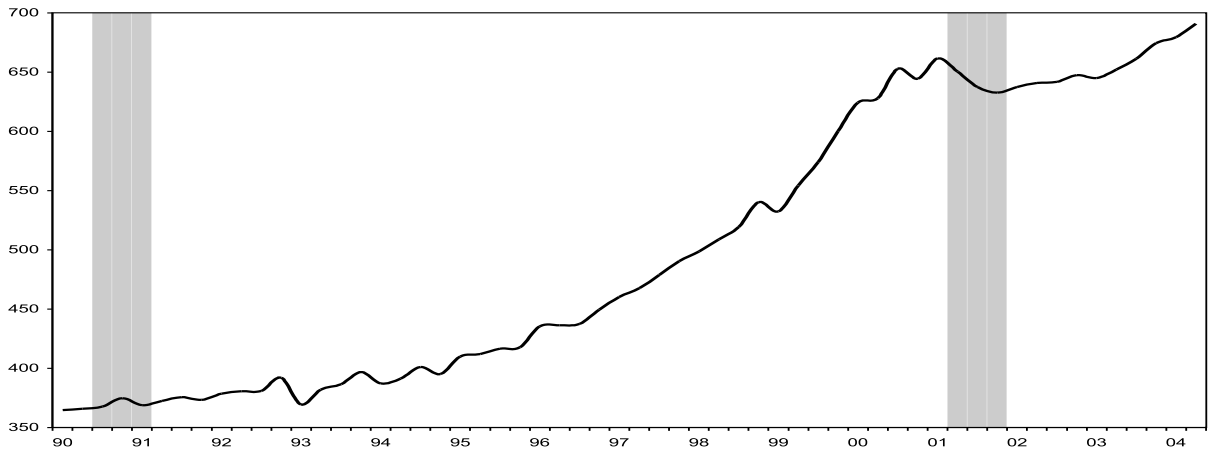


Taxable Sales
(Dollars in billions,
Seasonally Adjusted)



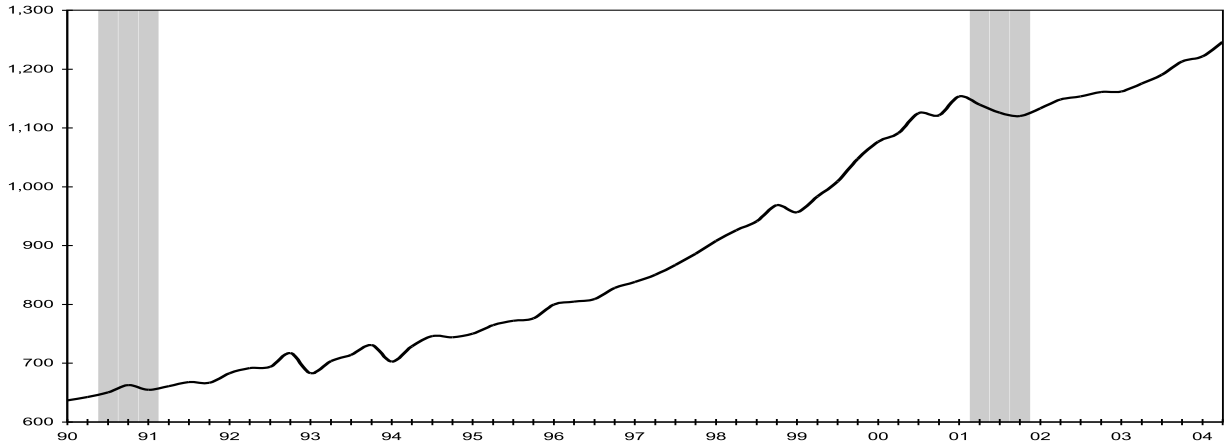
Wages and Salaries

(Dollars in billions, Seasonally Adjusted)



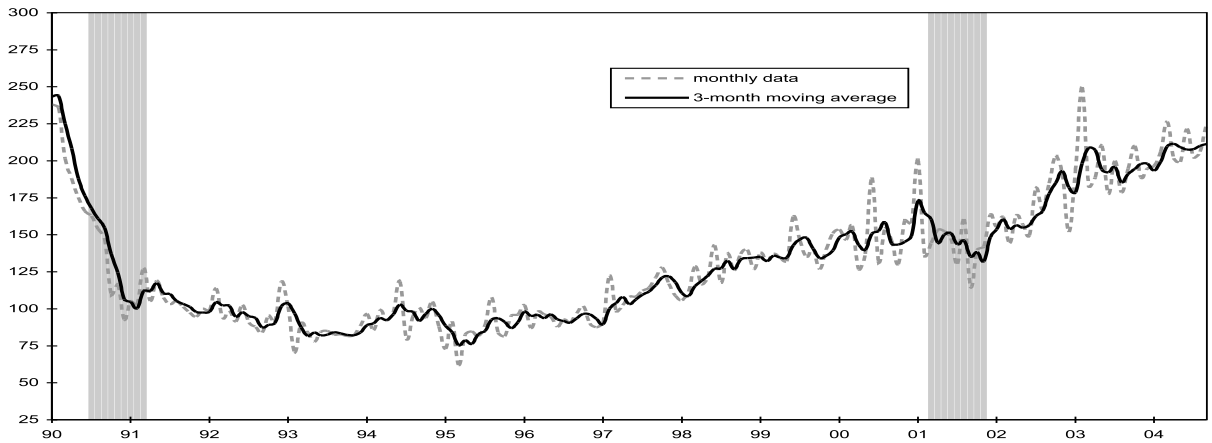
Personal Income

(Dollars in billions, Seasonally Adjusted)



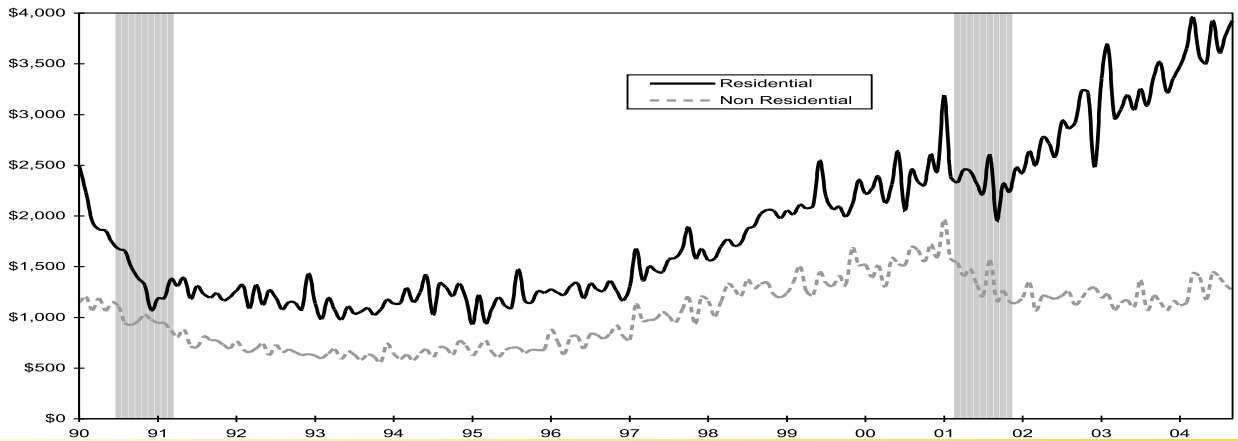
New Housing Units Authorized By Building Permits

(thousands, Seasonally Adjusted at Annual Rate)

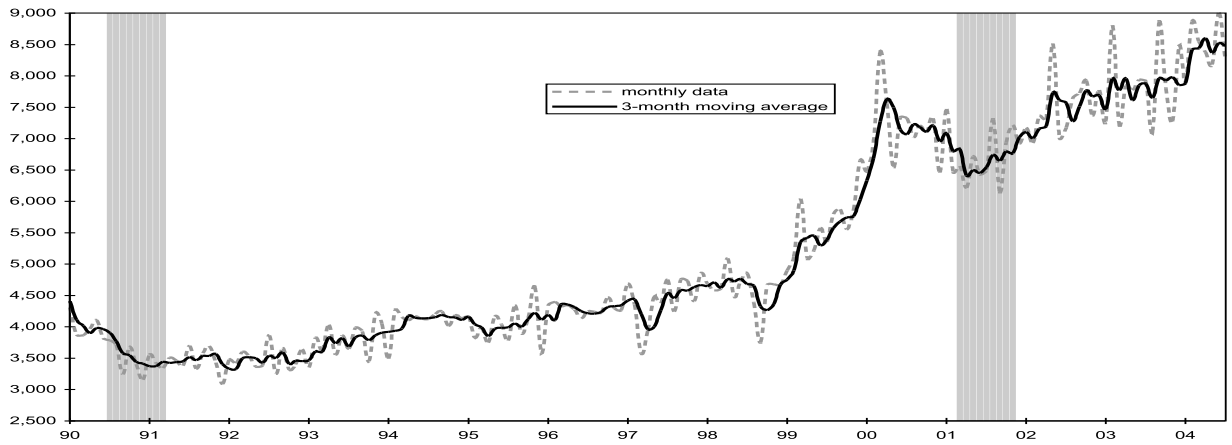


Residential & Nonresidential Building Permit Valuation

(Dollars in millions, Seasonally Adjusted)



**New Business
Incorporations**
(Seasonally Adjusted)



BUSINESS CYCLES

REFERENCE DATES OF UNITED STATES BUSINESS CYCLES, 1854-2001

Initial Trough		Peak		Terminal Trough		Expansion (months)	Contraction (months)	Total (months)
Dec.	1854	June	1857	Dec.	1858	30	18	48
Dec.	1858	Oct.	1860	June	1861	22	8	30
June	1861	April	1865	Dec.	1867	46	32	78
Dec.	1867	June	1869	Dec.	1870	18	18	36
Dec.	1870	Oct.	1873	March	1879	34	65	99
March	1879	March	1882	May	1885	36	38	74
May	1885	March	1887	April	1888	22	13	35
April	1888	July	1890	May	1891	27	10	37
May	1891	Jan.	1893	June	1894	20	17	37
June	1894	Dec.	1895	June	1897	18	18	36
June	1897	June	1899	Dec.	1900	24	18	42
Dec.	1900	Sept.	1902	Aug.	1904	21	23	44
Aug.	1904	May	1907	June	1908	33	13	46
June	1908	Jan.	1910	Jan.	1912	19	24	43
Jan.	1912	Jan.	1913	Dec.	1914	12	23	35
Dec.	1914	Aug.	1918	March	1919	44	7	51
March	1919	Jan.	1920	July	1921	10	18	28
July	1921	May	1923	July	1924	22	14	36
July	1924	Oct.	1926	Nov.	1927	27	13	40
Nov.	1927	Aug.	1929	March	1933	21	43	64
March	1933	May	1937	June	1938	50	13	63
June	1938	Feb.	1945	Oct.	1945	80	8	88
Oct.	1945	Nov.	1948	Oct.	1949	37	11	48
Oct.	1949	July	1953	May	1954	45	10	55
May	1954	Aug.	1957	April	1958	39	8	47
April	1958	April	1960	Feb.	1961	24	10	34
Feb.	1961	Dec.	1969	Nov.	1970	106	11	117
Nov.	1970	Nov.	1973	March	1975	36	16	52
March	1975	Jan.	1980	July	1980	58	6	64
July	1980	July	1981	Nov.	1982	12	16	28
Nov.	1982	July	1990	March	1991	92	8	100
March	1991	March	2001	Nov.	2001	120	8	128

■ 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

2001

April 18	Federal funds rate reduced from 5.0 percent to 4.5 percent. Discount rate reduced from 4.5 percent to 4.0 percent.
April 23	A Tosco refinery explosion pushed gasoline prices to near record highs.
April 24	Standard & Poors lowered California's bond rating from AA to A+
April 27	GDP grew at an annual rate of 2 percent in the first quarter.
May 7–8	California hit by rolling blackouts.
May 15	Federal funds rate reduced from 4.5 percent to 4.0 percent. Discount rate reduced from 4.0 percent to 3.5 percent.
June 7	Federal tax cut was signed into law.
June 18	The Federal Energy Regulatory Commission adopted a price "mitigation" plan designed to reduce spikes in wholesale electricity prices in California and other Western states.
June 27	Federal funds rate reduced from 4.00 percent to 3.75 percent. Discount rate reduced from 3.50 percent to 3.25 percent.
June 29	First quarter GDP growth rate revised to 1.2 percent.
August 21	Federal funds rate reduced from 3.75 percent to 3.50 percent. Discount rate reduced from 3.25 percent to 3.00 percent.
August 29	Second quarter GDP grew at a 0.2 percent annual rate. Discount rate reduced from 3.25 percent to 3.00 percent.
August 29	Second quarter GDP grew at a 0.2 percent annual rate.
September 11	Terrorists attack World Trade Center and the Pentagon.
September 11–14	U.S. stock trading halts.
September 17	Federal funds rate reduced from 3.50 percent to 3.00 percent. Discount rate reduced from 3.00 percent to 2.50 percent. Dow Jones Industrials record biggest point drop in history, falling 684.41.
October 2	Federal funds rate reduced from 3.00 percent to 2.50 percent. Discount rate reduced from 2.50 percent to 2.00 percent.
October 26	Lockheed Martin Corporation awarded defense contract.
November 6	Federal funds rate reduced from 2.50 percent to 2.00 percent. Discount rate reduced from 2.00 percent to 1.50 percent.
November 26	Recession in the US began in March 2001, according to NBER.
December 2	Enron filed for bankruptcy protection.
December 11	Federal funds rate reduced from 2.00 percent to 1.75 percent. Discount rate reduced from 1.50 percent to 1.25 percent. China becomes WTO member.

- December 21** GDP down 1.3 percent in Q3.
December 31 Markets fall for a second straight year for the first time since 1974.

2002

- January 1** Taiwan becomes WTO member.
 OPEC to cut oil production by 6.5 percent.
 Euro becomes legal tender in 12 European countries.
- January 6** Unemployment insurance benefits increased in California.
- February 28** GDP up 1.4 percent in Q4.
- March 9** California's "Job Creation and Worker Assistance Act of 2002" was signed into law that provides for temporary extended unemployment compensation.
- March 28** GDP up 1.7 percent in Q4.
- April 25** Security and Exchange Commission launched a formal investigation of Wall Street analysts' conflicts of interest.
- May 13** President Bush signed a 10-year, \$190 billion farm bill that promises to expand subsidies to growers.
- June 27** GDP up 6.1 percent in Q1.
- July 5** Foreign direct investment flows to developed countries declined by 56% in 2001, with the United States seeing the largest fall off to its lowest level since 1997.
- July 8** Intel launches its Itanium 2 chip.
- July 10** President Bush called for stiffer penalties to eradicate corporate fraud.
- July 15** Pfizer to buy Pharmacia.
- July 16** The dollar sank against the euro for the first time in more than two years.
 Intel to eliminate 4,000 jobs.
- July 21** WorldCom filed for bankruptcy protection.
- July 22** The Dow Jones industrial average sank to its lowest level in nearly four years.
 Both the Nasdaq and S&P 500 are at their lowest levels since the first half of 1997.
- July 30** President Bush signed into law the Public Company Accounting Reform and Investor Protection Act.
- July 31** GDP growth slowed to 1.1 percent in Q2 from revised 5.0 percent in Q1.
 Last year's data was also revised indicating that the economy shrank in each of the first three quarters.
 Venture capital investments hit four-year low.
- August 8** IMF signed an emergency loan to Brazil.
- August 11** U.S. Airways filed for bankruptcy.
- August 20** The U.S. trade deficit narrowed in June, following two straight record monthly deficits.
- September 27
 –October 9** Cargo operations at 29 West Coast ports ground to a halt when terminal operators locked out unionized workers.
- November 6** Federal funds rate reduced from 1.75 percent to 1.25 percent.
 Discount rate reduced from 1.25 percent to 0.75 percent.
- December 9** United Airlines filed for bankruptcy protection.
- December 19** Standard & Poor's lowered California's bond rating to an A from an A+.

2003

February 10	Moody's lowered California's bond rating to A2 from A1.
February 14–17	A major snowstorm hit the Middle Atlantic and Eastern states.
February 26	Doctors in Hong Kong report the first case of a flu-type virus "Atypical Pneumonia" now more commonly known as Severe Acute Respiratory Syndrome (SARS).
March 20	Operation Iraqi Freedom begins.
April 9	Baghdad falls and Iraqis and American troops topple statue of Saddam Hussein.
April 14	President Bush declares conclusion of major combat operations in Iraq.
June 25	Federal funds rate reduced from 1.25 percent to 1 percent, the lowest rate in 45 years.
June 26	GDP up 1.4 percent in Q1.
July 17	The US recession ended in November 2001, according to NBER.
July 24	S&P lowered California's bond rating from "A" to "BBB".
July 25	United States Treasury begins mailing \$400 per child tax rebate checks.
August 2	Governor Gray Davis signs the 2003-04 state budget bill.
August 4	Moody's lowered California's bond rating from A2 to A3.
August 28	GDP grew at a revised 3.1 percent annual rate in the 2nd quarter.
September 3	Light vehicle sales in the U.S. reach 19.0 million in August, the second best monthly rate ever.
October 21	Wildfires breakout in Southern California, eventually burning 743,000 acres and destroying over 3,500 homes.
October 30	GDP grew by 7.2 percent, its fastest rate since 1984.
December 4	President Bush ends steel tariffs.
December 12	Dow Jones Industrial average closed above 10,000 for the first time since May 24, 2002.
December 13	Saddam Hussein captured by American troops.
December 23	Final report shows GDP grew by 8.2 percent in the third quarter, its fastest rate since 1984.
December 24	U.S. confirms first case of "mad cow" disease.

2004

February 10	Unexpected cut in OPEC quota and cold weather contribute to higher oil prices.
February 11	Dow Jones Industrials closed at highest level in more than 2½ years.
March 25	Fourth quarter GDP rose 4.1 percent.
April 30	International oil prices hit a 3½ year high.
May 21	Moody's raised California's credit rating from "Baa1" to "A3".
May 27	First quarter GDP grew at a 4.4 percent annual rate.
June 30	Federal funds rate increased by 25 basis points bringing the rate up to 1.25 percent. It is over four years since the Fed last tightened rates.
August 9	Fitch removes California from Rating Watch Negative.
August 10	Federal funds rate raised from 1.25 percent to 1.50 percent.
August 24	S&P raised California's credit rating from "BBB" to "A".

- August 27** Second quarter GDP grew at a 2.8 percent annual rate.
- Mid-August** Hurricane Charley hits Florida
- September** Three powerful hurricanes (Frances, Ivan, and Jeanne) hit Florida and some neighboring states.
- September 21** Federal funds rate raised from 1.50 percent to 1.75 percent.
- October 29** GDP grew at a 3.7 percent rate in the third quarter.

RETURN ADDRESS

California
Department
of Finance

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