ECONOMIC OUTLOOK

The lack of effective and coordinated federal action allowed COVID-19 to spread in the United States, with clear consequences for public health. To prevent further loss of life, state and local governments have closed schools, implemented public health guidelines, and restricted unsafe activities. There were 25 million fewer employed Americans in April 2020, during the trough of the COVID-19 Recession, than in February 2020, the official start of the COVID-19 Recession. Job losses were concentrated in low-wage sectors in both the U.S. and California. California low-wage sector jobs were still approximately 10 percent below their February levels in November whereas the Standard and Poor's 500 Index (S&P 500) reached record highs, highlighting the disparate impacts of the COVID-19 Recession. As discussed in the Demographic Information Chapter, many households and workers have not benefited from the growth over the previous ten years, and the COVID-19 Recession has exacerbated this inequality.

The Budget forecast was finalized in November and does not reflect the recent federal COVID-19 relief bill enacted last month. In the forecast, more than one million Californians were expected to lose their Pandemic Unemployment Assistance benefits at the end of 2020. Almost three million Californians receiving regular state unemployment insurance were expected to exhaust benefits in the second quarter of 2021. The U.S. forecast also assumed that a vaccine would only become available in mid-2021. Under these assumptions, U.S. real GDP levels are expected to return to fourth quarter 2019 levels by the first quarter of 2022. However, jobs in leisure and hospitality may never recover to their 2019 level, and retail jobs are expected to continue their long-term decline. In California, the state is not expected to return to the overall level of 2019 jobs until 2025. The May Revision forecast will be updated to include the faster-than-expected deployment of vaccines as well as any additional economic policy changes between November 2020 and April 2021. Risks to the outlook include a fall in the stock market, a second round of job losses that affect higher-income workers, slower job growth from businesses closing, and a failure to address structural inequality at a time when climate risks are also increasing.

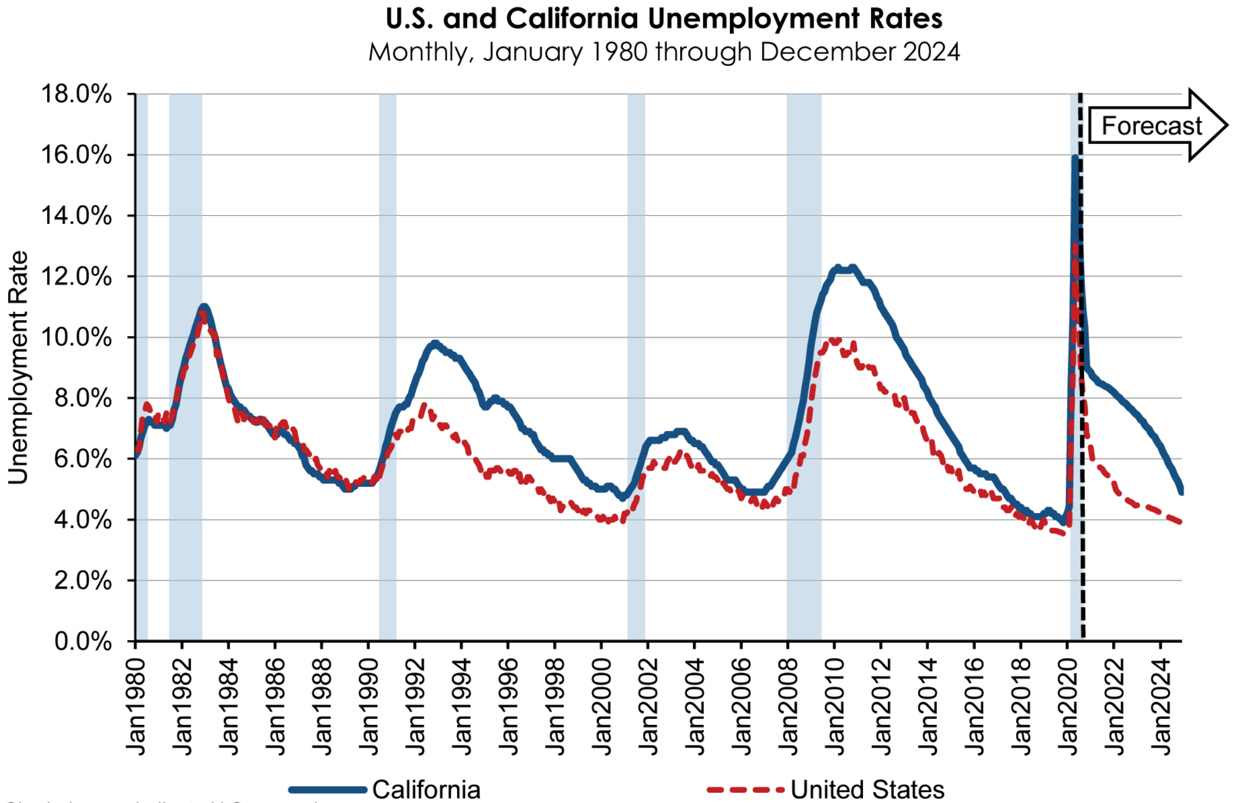
TEN YEARS OF GROWTH

In February 2020, both the U.S. and California were at historically low unemployment rates following ten years of growth. U.S. real GDP grew by 2.2 percent in 2019, with California growing by 3.4 percent. California maintained its rank as the fifth-largest economy in the world in 2019 with a current-dollar GDP of $3.1 trillion, or 14.6 percent of U.S. GDP.

As the economy grew, the U.S. unemployment rate fell from a peak of 10 percent in October 2009 to 3.5 percent in September 2019, the lowest rate since December 1969. There were fewer than 5.8 million unemployed Americans in February 2020, the lowest level since January 2001, despite a labor force that is 14 percent larger. Similarly, the California unemployment rate fell from 12.3 percent in November 2010 to a record low 3.9 percent in August 2019. In January 2020, there were around 750,000 unemployed civilians in California, the lowest level since July 1989, despite a labor force that is 30 percent larger. (See figure on U.S. and California Unemployment Rates.)

The U.S. added over 14 million nonfarm jobs from the pre-Great Recession peak to February 2020. More than 2 million jobs, or one of every seven U.S. jobs, were added in California. Job growth in the nation and in the state were concentrated in low-wage sectors, accounting for three out of every four jobs added. A sector is categorized as low-wage if its average wage was below the 2019 nonfarm average wage of around $61,000 for the nation or around $76,000 for California. By that measure, four out of the eleven major industry sectors are low-wage: trade, transportation and utilities, educational and health services, leisure and hospitality, and other services. (See figure on Nonfarm Employment and Average Wages by Major Industry Sectors in 2019.)

While the economy expanded, wages did not increase as much. In California, inflation-adjusted average wages grew by around 1 percent per year from 2010 to 2019. High-wage sector average wages grew by 13 percent, while low-wage average wages grew by 3.5 percent from 2010 to 2019. In current dollars, California average



Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics; CA Employment Development Department, Labor Market Information Division; CA Department of Finance, Governor's Budget Forecast.

wages grew by 34.8 percent, with high-wage sectors growing by 39.8 percent and low-wage sectors growing by 28 percent.

At the same time, the California median home sales price reached a then-record high of $617,400 in August 2019, more than double the nation's median home sales price of $278,200. Even during record low unemployment, one in five households spent at least 50 percent or more of their income on housing costs. One in eight homeowners spent 50 percent or more of their income on housing costs, but more than one in four renters spent that much.

A SHOCK TO THE SYSTEM

The COVID-19 Pandemic forced a sudden drop in economic activity in March and April 2020. Both the Federal Reserve and Congress acted swiftly; however, the economic disruptions were widespread and continue to affect the economy.

Nonfarm Employment and Average Wages by Major Industry Sectors in 2019

	Nonfarm Employment			Average Wages	
	U.S. (Thousands)	California (Thousands)	California (% of U.S.)	U.S. ($)	California ($)
Total Nonfarm	150,935	17,400	11.5%	61,080	75,759
Mining and Logging	735	22	3.0%	129,042	114,570
Construction	7,494	886	11.8%	66,211	75,891
Manufacturing	12,839	1,322	10.3%	70,658	100,200
Trade, Transportation, and Utilities	27,708	3,053	11.0%	50,786	57,879
Information	2,859	563	19.7%	119,739	189,208
Financial Activities	8,746	811	9.3%	98,935	126,049
Professional and Business Services	21,315	2,726	12.8%	79,021	97,274
Educational and Health Services	24,175	2,797	11.6%	51,116	55,382
Leisure and Hospitality	16,581	2,032	12.3%	28,449	36,951
Other Services	5,893	578	9.8%	49,116	61,626
Government	22,588	2,608	11.5%	63,076	76,556

Cells highlighted in blue are low-wage sectors, whose average wages are below the nonfarm average wage.

Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; CA Employment Development Department, Labor Market Information Division.

FEDERAL SUPPORT

During two emergency meetings in March 2020, the Federal Reserve reduced the federal funds rate target to a range of 1 percent to 1.25 percent and then to a range of 0 percent to 0.25 percent in anticipation of the economic impact of the COVID-19 Pandemic. This followed three cuts in the second half of 2019, which reduced interest rates from a pre-COVID-19 Recession peak of 2 percent to 2.25 percent in July 2019 to a range of 1.5 percent to 1.75 percent in October 2019. It also announced various policies to assist lenders and to support growth including injecting around $700 billion into the economy. During the Great Recession, interest rates remained at around 5.25 percent for a year before being gradually reduced to a range of 0 percent to 0.25 percent in December 2008. The Federal Reserve left rates unchanged at that range until December 2015, when it increased the rate to a range of 0.25 percent to 0.5 percent.

Congress passed the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020, the largest fiscal stimulus in U.S. history. The package included one-time stimulus check payments to qualifying taxpayers, with a maximum credit of $1,200 for single filers and $2,400 for married or joint filers plus $500 per qualifying child. Through the end of August 2020, over 153 million stimulus payments were made in the U.S., including 18 million payments in California, with an average payment of $1,800 in the nation and $1,600 in the state. The CARES Act provided support to businesses through the Paycheck Protection Program ($669 billion in two phases), and corporate assistance ($500 billion), and to state and local governments ($340 billion). It also supplemented unemployment insurance benefits by extending the time individuals could claim benefits, extended eligibility to self-employed and independent contractors, added $600 per week to all forms of unemployment insurance through July 31, and paid for a larger share of benefits to relieve future employers ($300 billion).

Congress passed a federal COVID-19 relief bill last month. This included another round of stimulus check payments ($166 billion) of up to $600 per individual. The package also extended unemployment insurance to self-employed and independent contractors and provided an additional $300 per week to all recipients through March 14, 2021 ($120 billion). Another $284 billion was allocated for the Paycheck Protection Program, including to businesses who received funding from the CARES Act. Finally, $250 billion was made available for schools, vaccine purchases, rental assistance, and various other support programs. The federal eviction moratorium, which was initially scheduled to expire at the end of December, was extended through January 31, 2021.

HISTORIC IMPACTS OF THE COVID-19 RECESSION ON THE ECONOMY

GROSS DOMESTIC PRODUCT

Even with these measures, the economic impacts of the COVID-19 Recession were much larger than during the Great Recession. The fall in economic activity in March was large enough for the first quarter of 2020 U.S. real GDP to shrink by 5 percent on a seasonally adjusted annualized rate (SAAR), and for the California economy to contract by 4.3 percent. In the second quarter of 2020, U.S. real GDP fell by a record 31.4 percent SAAR, dwarfing the previous record decline of 10 percent in the first quarter of 1958.

California real GDP contracted by a record 31.5 percent SAAR in the second quarter of 2020, the twenty-third largest fall in real GDP amongst all states. The largest state decreases were in Nevada and Hawaii at -42.2 percent, while Delaware had the smallest contraction, at -21.9 percent.

In the third quarter, U.S. real GDP grew at a record high 33.4 percent SAAR, bringing it to first quarter 2018 levels. The previous record increase in U.S. real GDP of 16.7 percent occurred in the first quarter of 1950. Goods spending, which accounted for about 25 percent of overall GDP in 2019, was already 7.1 percent above its pre-pandemic level in the third quarter. Services spending, with a 2019 GDP share of nearly 45 percent, remained around fourth quarter 2015 levels. In comparison, California real GDP grew by 31.2 percent in the third quarter of 2020, bringing it to first quarter 2019 levels.

UNEMPLOYMENT AND JOBS

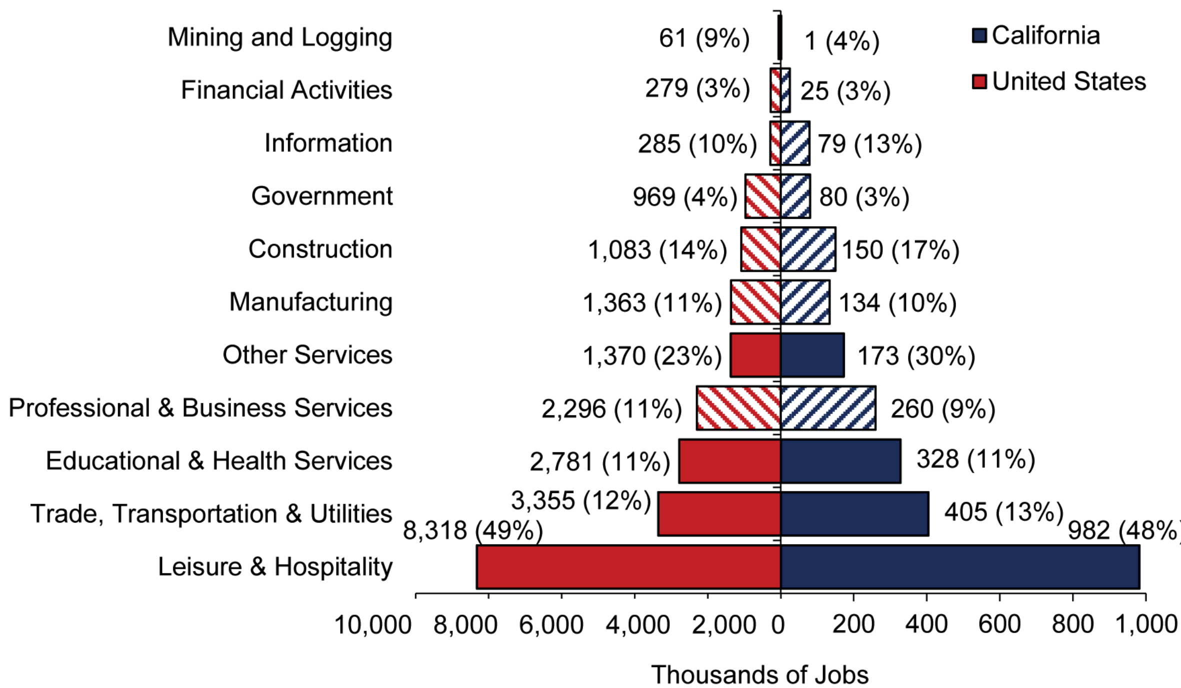
The U.S. unemployment rate reached a record high of 14.7 percent in April 2020, and California reached a record 16.4 percent in April and May 2020. State unemployment rates ranged from 8.7 percent in Nebraska to 30.1 percent in Nevada in April 2020, and California's unemployment rate was the eleventh highest amongst all states.

U.S. nonfarm jobs decreased by a record 22.2 million from February to April 2020, and this decrease of 14.5 percent was more than double the decrease of 6.3 percent over the span of two years during the Great Recession. California's nonfarm jobs decreased by 2.6 million in March and April. The decrease of 14.9 percent in California also exceeded the decrease of 8.5 percent during the Great Recession. Three out of four jobs lost in the U.S and in California in March and April 2020 were in low-wage sectors, erasing all the job gains in California since the Great Recession. (See figure on U.S. and California Jobs by Industry.)

HOUSING

The housing market has rebounded quickly despite the COVID-19 Recession, signaling the continuing ability of high-income households to purchase homes. The California median home sales price was $579,770 in February 2020, compared to $270,100 for the nation and averaged over $600,000 in March through May before setting new record highs from June to September 2020. The California median home sales price exceeded $700,000 for the first time in August 2020, at $706,900, and reached the record high of $712,430 in September 2020. (See figure on California Median Home Sales Price of Existing Single-Family Homes.) Through November 2020, the California median home sales price was up 9.2 percent on average compared to the same period in 2019 and sales volume was up by 1.3 percent. Similarly, the U.S. median home sales prices also hit a record high of $313,000 in October 2020 before falling to $310,800 in November 2020, which was 14.6 percent higher than in November 2019. The U.S. existing home sales volume was around its highest level since December 2006 and was 25.8 percent higher than in November 2019.

U.S. and California Jobs by Industry
(Job Losses in April 2020 Relative to February 2020;
Solid Bars Represent Low-Wage Sectors)



Source: U.S. Bureau of Labor Statistics; CA Employment Development Department, Labor Market Information Division.

STOCK MARKET

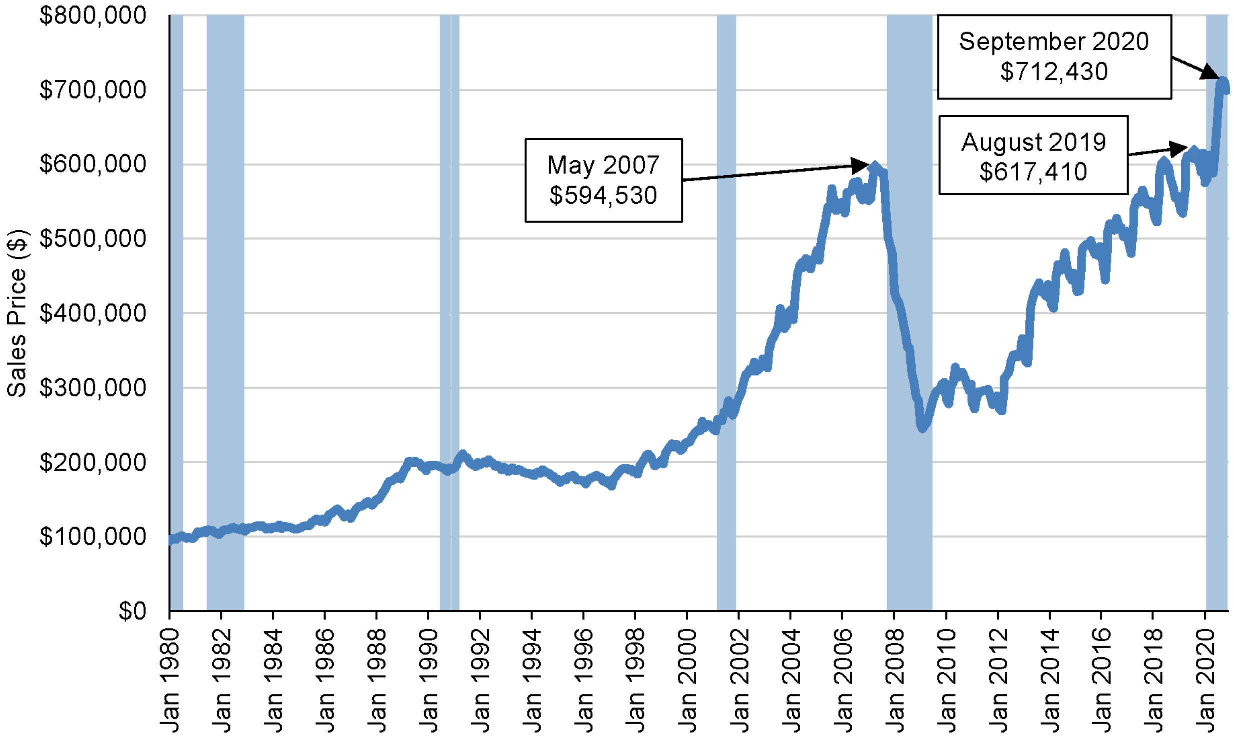
The S&P 500 Index fell by 33.9 percent from a high of 3,386 in February to 2,237 in March, compared to a drop of 56.7 percent over a period of 16 months during the Great Recession. The S&P 500 Index recovered within five months, compared to four years during the Great Recession and has since continued to set new record highs. (See figure on S&P 500 Index.)

THE ROAD AHEAD

The Budget incorporates federal policies and programs authorized as of November 2020, when the forecast was finalized. At that time, more than one million Californians were on the Pandemic Unemployment Assistance program and were expected to lose their benefits at the end of 2020. Additionally, almost three million Californians receiving regular state unemployment insurance were expected to exhaust their benefits in the second quarter of 2021. (See figure on Californians Receiving Unemployment Insurance Benefits.) The recent federal COVID-19 relief bill enacted last

California Median Home Sales Price of Existing Single-Family Homes

Monthly, January 1980 through November 2020



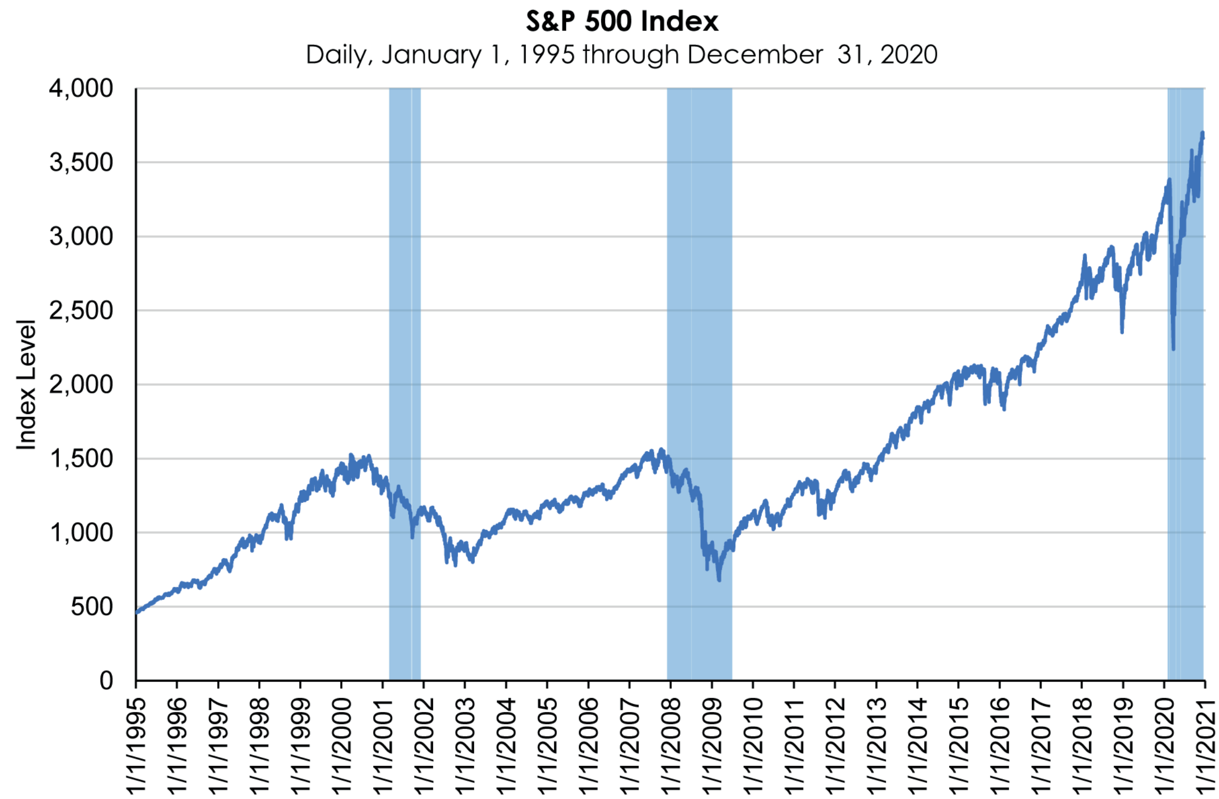
Shaded areas indicate U.S. recessions.
Source: California Association of Realtors.

month was not incorporated in the Budget forecast but will be included in the May Revision forecast.

The state moratorium on evictions will end on January 31, 2021. According to data from the Household Pulse Survey in late November, over a quarter of California renters reported slight or no confidence in making December's rent or had deferred rent payments during November. Housing disruptions make it more difficult to find or maintain work, and the slower recovery for these Californians is included in the baseline forecast. However, the extension of eligibility for unemployment insurance and additional funds for renter assistance included in the recent federal COVID-19 relief bill enacted last month should help offset some of the negative impacts of the COVID-19 Recession.

THE NATION

The forecast projects GDP to grow by 3.1 percent in 2021 after a contraction of 3.6 percent in 2020. Growth is expected to decelerate to around 2.5 percent through



Shaded areas indicate U.S. recessions.
Source: S&P Dow Jones Indices.

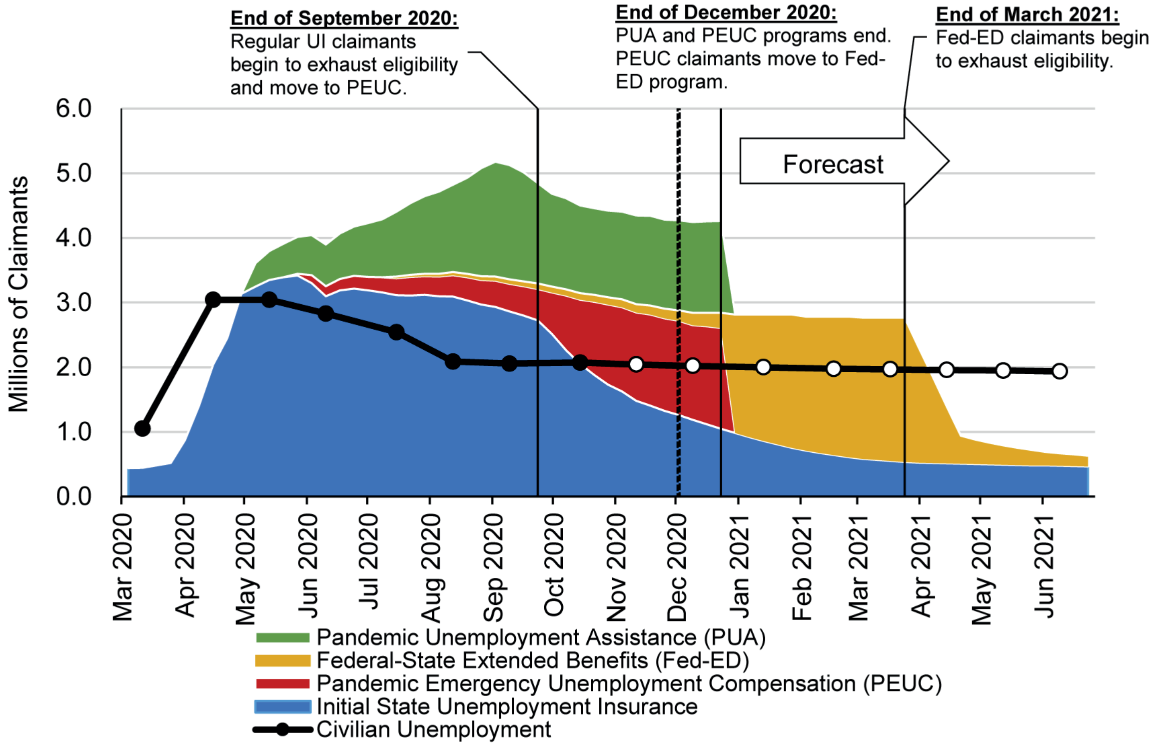
2024. U.S. real GDP levels are expected to return to fourth quarter 2019 levels by the first quarter of 2022. (See figure on Selected Economic Indicators.) The U.S. forecast assumed a continuation of economic policy as of November 2020 and that the recovery in real GDP occurs without additional monetary or fiscal stimulus. With the enactment of the recent federal COVID-19 relief bill last month, this will be revised in the May Revision forecast.

The U.S. unemployment rate decreased to 6.7 percent in November 2020 but the labor force was still 4.1 million people or 2.5 percent smaller than in February. The U.S. added a total of 12.3 million nonfarm jobs from May to November, or 55.6 percent of jobs lost in March and April, with jobs in high-wage sectors being 4.8 percent below February levels while low-wage sector jobs were 8.1 percent lower. The U.S. forecast projects that the recovery in the labor market will continue but at a slower rate.

After record losses to the labor market in 2020, the U.S. forecast projects the labor force will have decreased by 1.5 percent in 2020 before growing by 1.7 percent in 2021, allowing it to recover to its 2019 level in 2021. The U.S. labor force growth is then projected to decelerate to about 0.7 percent by 2024. The U.S. unemployment rate is

Californians Receiving Unemployment Insurance Benefits

Weekly, March 2020 through June 2021



Projections were based on the CARES Act and assumed continuation of economic policy as of November 2020.
Source: CA Employment Development Department, Labor Market Information Division;
CA Department of Finance, Governor's Budget Forecast.

projected to have averaged 6.8 percent in the fourth quarter of 2020, bringing the 2020 annual average to 8.1 percent. The number of unemployed Americans is projected to fall to 9.3 million in 2021 from 13 million in 2020, and to decline to 4 million by 2024. The official unemployment rate is projected to decrease to 4 percent by 2024.

In contrast to the six years it took for a fall of 6.3 percent in nonfarm jobs to recover after the Great Recession, the fall of 14.5 percent in nonfarm jobs in March and April is projected to be recovered by mid-2022. Some low-wage sectors that were hard-hit by the COVID-19 Recession, such as leisure and hospitality, and retail, are projected to remain below their 2019 levels at the end of the forecast period.

U.S. personal income increased by 10.4 percent year-over-year in the second quarter of 2020 (up $1.9 trillion year-over-year), as transfers increased by a record high $2.6 trillion due to stimulus checks from the CARES Act and the extended unemployment insurance benefits. All other major U.S. personal income components, such as wages and proprietor's income, declined.

Selected Economic Indicators

	2018	2019	Forecast 2020	2021	2022	2023	2024
United States							
Nominal gross domestic product, $ billions	$ 20,612	$ 21,433	$ 20,924	$ 21,986	$ 22,999	$ 24,056	$ 25,275
Real gross domestic product, percent change	3.0%	2.2%	-3.6%	3.1%	2.5%	2.5%	2.9%
Contributions to real GDP growth							
Personal consumption expenditures	1.9%	1.6%	-2.6%	2.4%	1.5%	1.7%	2.0%
Gross private domestic investment	1.1%	0.3%	-1.1%	1.1%	0.3%	0.6%	0.8%
Net exports	-0.3%	-0.2%	0.0%	-0.3%	0.6%	0.2%	0.0%
Government purchases of goods and services	0.3%	0.4%	0.2%	-0.1%	0.1%	0.0%	0.1%
Personal income, $ billions	$ 17,852	$ 18,552	$ 19,631	$ 19,364	$ 20,052	$ 20,941	$ 22,000
Corporate profits, percent change	0.2%	2.3%	-3.9%	-10.0%	6.3%	8.5%	9.2%
Housing permits, thousands	1,329	1,386	--	--	--	--	--
Housing starts, thousands	1,248	1,295	1,362	1,357	1,298	1,274	1,270
Median sales price of existing homes	$ 261,600	$ 274,600	--	--	--	--	--
Federal funds rate, percent	1.8%	2.2%	0.4%	0.1%	0.1%	0.1%	0.1%
Consumer price index, percent change	2.4%	1.8%	1.2%	1.9%	2.5%	2.3%	2.2%
Unemployment rate, percent	3.9%	3.7%	8.1%	5.7%	4.7%	4.4%	4.0%
Civilian labor force, millions	162.1	163.5	161.0	163.7	165.9	167.3	168.6
Nonfarm employment, millions	148.9	150.9	142.4	147.5	151.3	153.4	155.1
California							
Personal income, $ billions	$ 2,515	$ 2,632	$ 2,762	$ 2,635	$ 2,688	$ 2,796	$ 2,930
Exports of goods, percent change	3.6%	-2.3%	--	--	--	--	--
Housing permits, thousands	117	113	101	99	103	110	118
Housing unit net change, thousands	78	95	--	--	--	--	--
Median sales price of existing homes	$ 569,480	$ 592,450	--	--	--	--	--
Consumer price index, percent change	3.7%	3.0%	1.7%	2.8%	3.2%	3.1%	3.0%
Unemployment rate, percent	4.3%	4.1%	10.3%	8.5%	7.8%	7.0%	5.7%
Civilian labor force, millions	19.3	19.4	19.0	19.3	19.3	19.5	19.6
Nonfarm employment, millions	17.2	17.4	16.2	16.1	16.4	16.7	17.1
Percent of total nonfarm employment							
Mining and logging	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Construction	5.0%	5.1%	5.5%	5.7%	5.7%	5.7%	5.7%
Manufacturing	7.7%	7.6%	8.2%	8.2%	8.1%	7.9%	7.8%
Trade, transportation, and utilities	17.7%	17.5%	17.5%	17.5%	17.6%	17.6%	17.7%
Information	3.2%	3.2%	3.3%	3.3%	3.3%	3.3%	3.3%
Financial activities	4.9%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Professional and business services	15.5%	15.7%	16.2%	16.3%	16.4%	16.6%	16.8%
Educational and health services	15.9%	16.1%	16.7%	17.0%	17.0%	16.9%	16.8%
Leisure and hospitality	11.6%	11.7%	9.3%	9.1%	9.4%	9.7%	9.9%
Other services	3.3%	3.3%	3.1%	3.0%	3.0%	3.0%	3.0%
Government	15.0%	15.0%	15.5%	15.0%	14.6%	14.4%	14.2%

Forecast based on data available as of November 2020.
Percent changes calculated from unrounded data.
Source: CA Department of Finance, Governor's Budget Forecast.

In the second quarter of 2020, an increase in income and a decrease in consumption led to net private savings, increasing from $1.6 trillion in the first quarter of 2020 to $4.7 trillion in the second quarter. This represents more than a quarter of aggregate after-tax income in the second quarter of 2020, and compares to 7.5 percent in 2019. The forecast assumed that the personal savings rate will decrease to about 9 percent by the fourth quarter of 2021 and slowly decrease to about 8.7 percent by 2024.

Low demand for goods and services because of the COVID-19 Pandemic put downward pressures on prices. Headline inflation as measured by the Consumer Price Index (CPI) is expected to have slowed in 2020, led by softening demand for gasoline, transportation, apparel and shelter. After averaging 1.8 percent in 2019, headline CPI is expected to have decelerated to 1.2 percent in 2020. As oil prices gradually recover in 2021 and overall demand starts to increase again, CPI is expected to accelerate to an average of 2.2 percent during the forecast window.

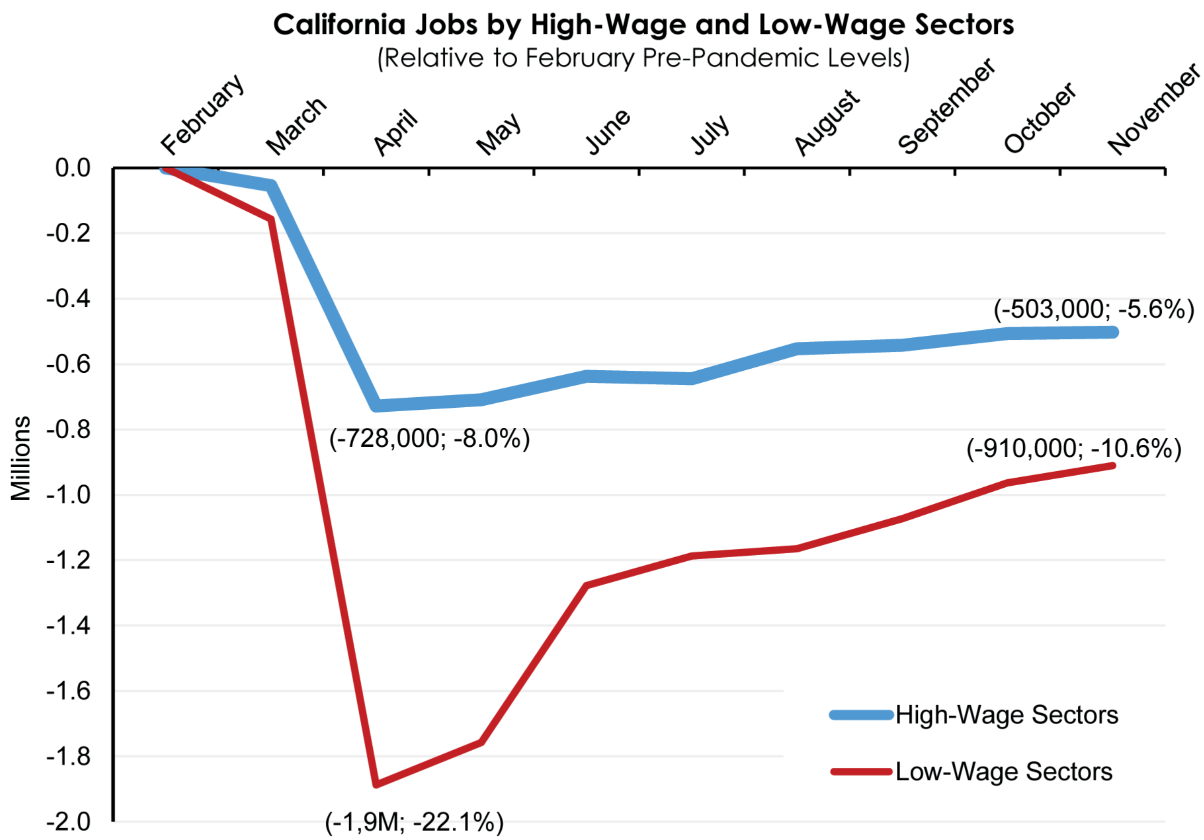
CALIFORNIA'S OUTLOOK

When finalized in November, the Budget forecast assumed that most unemployment insurance recipients would lose benefits in the first half of 2021, and the eviction moratorium would expire on January 31, 2021. This was projected to lead to an overall decrease in personal income in California as benefits run out and transfers contract, which will put many households at risk, exacerbating income inequality that existed before the COVID-19 Recession. Several programs were extended in the recent federal COVID-19 relief bill enacted last month; however, this was not included in the Budget forecast. The May Revision forecast will be updated to incorporate any changes in economic policy between November 2020 and April 2021.

The California unemployment rate decreased to 8.2 percent in November 2020 but there were 1.4 million fewer employed Californians and 783,000 more unemployed civilians in November than in February. California nonfarm employment was 16.2 million with low-wage sectors being 10.6 percent lower versus 5.6 percent for high-wage sectors. (See figure on California Jobs by High-Wage and Low-Wage Sectors.)

California's economic recovery is projected to continue and the forecast assumed that the expiration of unemployment benefits and the ending of the eviction moratorium will weigh on growth in the first half of 2021. With the recent federal COVID-19 relief bill, growth is likely to be faster than assumed in the baseline Budget forecast, but income inequality will persist.

California's unemployment rate is expected to average 8.5 percent in 2021, following following 10.3 percent in 2020. Proposition 22, approved by voters in November 2020, is expected to decrease growth in wage employment. Employers of independent contractors are not required to pay into unemployment insurance, disability insurance, or provide family or annual leave. While the unemployment rate is projected to decrease, the quality of jobs is also expected to be lower. Labor force participation rate (LFPR)—the percentage of working age population in the labor force—decreased

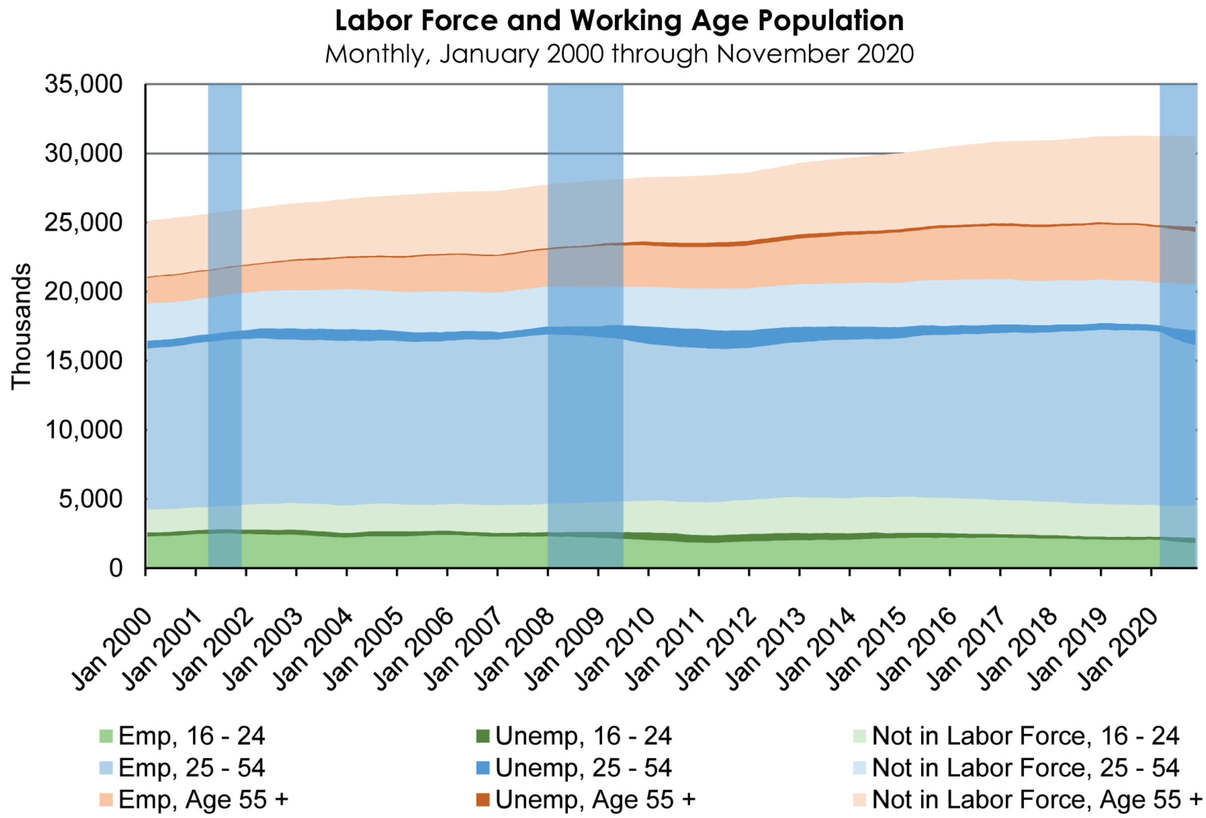


Source: CA Employment Development Department, Labor Market Information Division.

from 62.3 percent in the first quarter to 59.8 percent in the second quarter of 2020, the lowest participation rate on record. (See figure on California Labor Force and Working Age Population.) The California labor force is expected to decline in the second quarter of 2021, before growing around 0.7 percent by 2024.

Businesses are expected to continue to operate at limited capacity into 2021. Increased automation and a shift to online retailing will lead to permanent job declines in leisure and hospitality, retail, and other services. This will slow overall job growth as these industries were among the largest employers in California prior to the COVID-19 Pandemic. However, due to the loss in lower-wage jobs, average wages are projected to have increased by 6.2 percent in 2020.

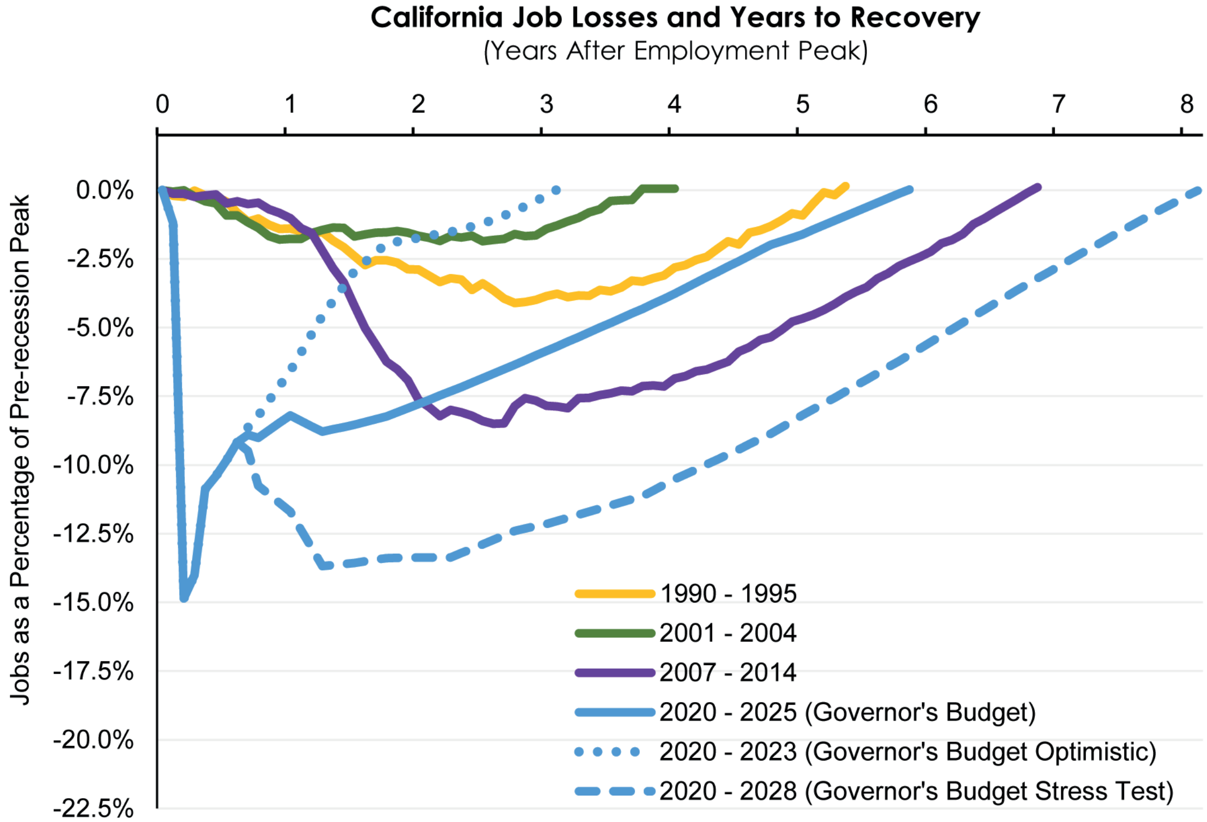
The job recovery is expected to be faster in industries that are less reliant on in-person contact, and in industries that are currently facing increased demand, such as wholesale trade, transportation and warehousing, and construction. Nonfarm employment for California is projected to recover to pre-pandemic levels in 2025. (See figure on the Change in Jobs by Sector: 2024 Q4 relative to 2020 Q1.)



Shaded areas indicate U.S. recessions.
Source: CA Employment Development Department, Labor Market Information Division.

An Optimistic Scenario modeled by the Department of Finance that assumed continuation of federal assistance beyond the CARES Act projects that the recovery in jobs would speed up to return to pre-pandemic levels within three years. This scenario included another round of Paycheck Protection Program loans, an extension of the Pandemic Unemployment Assistance program, extended eligibility, an unemployment benefit supplement of $600 per week through the end of 2021, and an extension of the state eviction moratorium also through the end of 2021. Under the Optimistic Scenario, Californians can continue to meet their spending needs and businesses can continue to operate, supporting job growth. The recent federal relief bill passed by Congress was smaller in scope and duration than the stimulus package assumed in this Optimistic Scenario. (See figure on California Job Losses and Years to Recovery.)

Despite lower employment and falling total wages, total personal income in California is projected to grow by 4.9 percent in 2020, due largely to transfer payments, which include assistance to individuals such as unemployment benefits and Social Security. Transfer payments are projected to have increased by 44.1 percent or by $165 billion in 2020. This would be the largest annual percentage increase in transfers in the history of the series dating back to 1998. Unemployment benefits payments are projected to

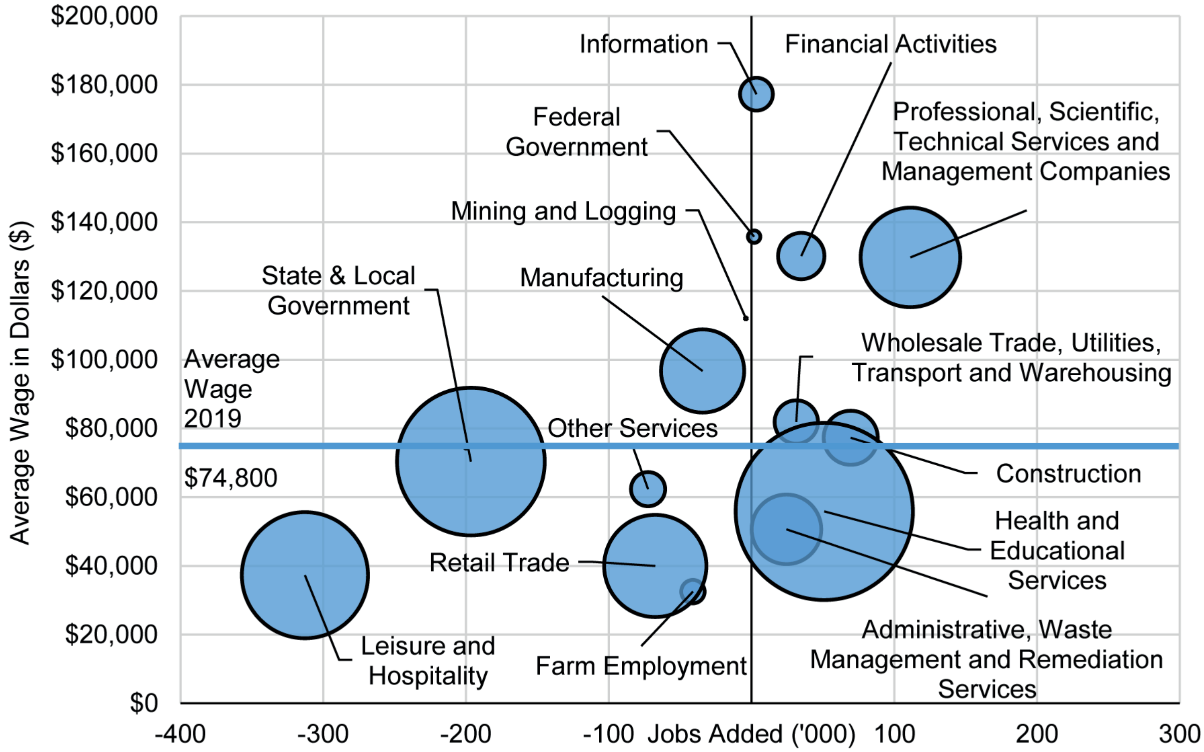


Source: CA Employment Development Department, Labor Market Information Division;
CA Department of Finance, Governor's Budget Forecast.

have risen to around $119.4 billion in 2020 after totaling only $5 billion in 2019. In 2021, total personal income is projected to fall by 4.6 percent as stimulus payments and unemployment benefits were expected to end. After a projected decline of 2.3 percent in 2020, proprietors' income is expected to fall further by 6.3 percent as the forecast assumed that the Paycheck Protection Program would end. Rental income is projected to fall by 2.2 percent in 2021, the first annual decrease since 2007. The forecast projects personal income to start growing at 2 percent in 2022 and to accelerate to 4.8 percent by 2024, in keeping with California's historical share of U.S. personal income of about 13 percent. (See figure on Contributions to California Personal Income Growth.)

While the market for existing homes has been resilient, total permits for new construction are expected to decline by 10.3 percent to 101,000 units in 2020 and by 2.3 percent to 99,000 units in 2021 before steadily increasing to reach growth of 7.4 percent by 2024. Total permits averaged 96,000 units on a seasonally adjusted annualized rate through September, down 11.1 percent from the same period in 2019. This was driven by multi-family units, which averaged 43,200 units, or 18.3 percent lower than in the first three quarters of 2019, while single-family units were down by 4.2 percent, at an

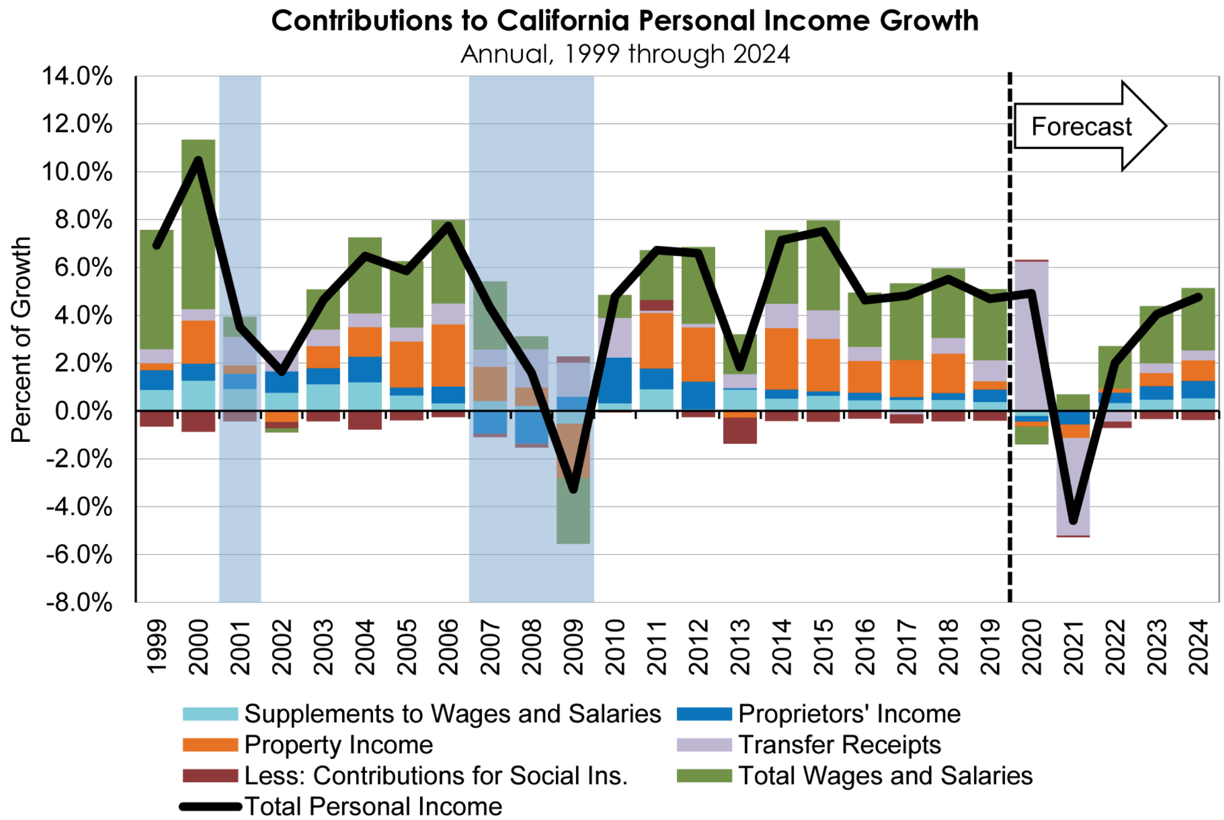
Change in Jobs by Sector: 2024 Q4 Relative to 2020 Q1
(Bubble Size Indicates Total Number of 2020 Q1 Jobs)



Source: CA Employment Development Department, Labor Market Information Division; CA Department of Finance, Governor's Budget Forecast.

average of 52,800 units. Total permits are projected to exceed the 2019 pre-pandemic level of 113,000 units in 2024, with a total of 118,000 units. (See figure on Number of Permits Issued per Year.)

Due to higher housing costs in the state, California inflation is expected to have averaged 1.7 percent in 2020, 0.5 percentage point higher than the nation. California inflation reflects the rate of change in CPI for the metropolitan areas of Los Angeles, Riverside-San Bernardino, San Diego, and San Francisco. The expected decrease in inflation rates in 2020 is projected to be driven by a decline in energy prices for gasoline, transportation and apparel as people cut back on non-essential travel and discretionary purchases of clothing and accessories. This is projected to be offset by an acceleration in demand for some essentials, such as food, fuel and utilities, and medical care. In 2021, inflation is expected to accelerate to 2.8 percent, led by recovery in gasoline, transport and apparel prices, and as overall demand strengthens.



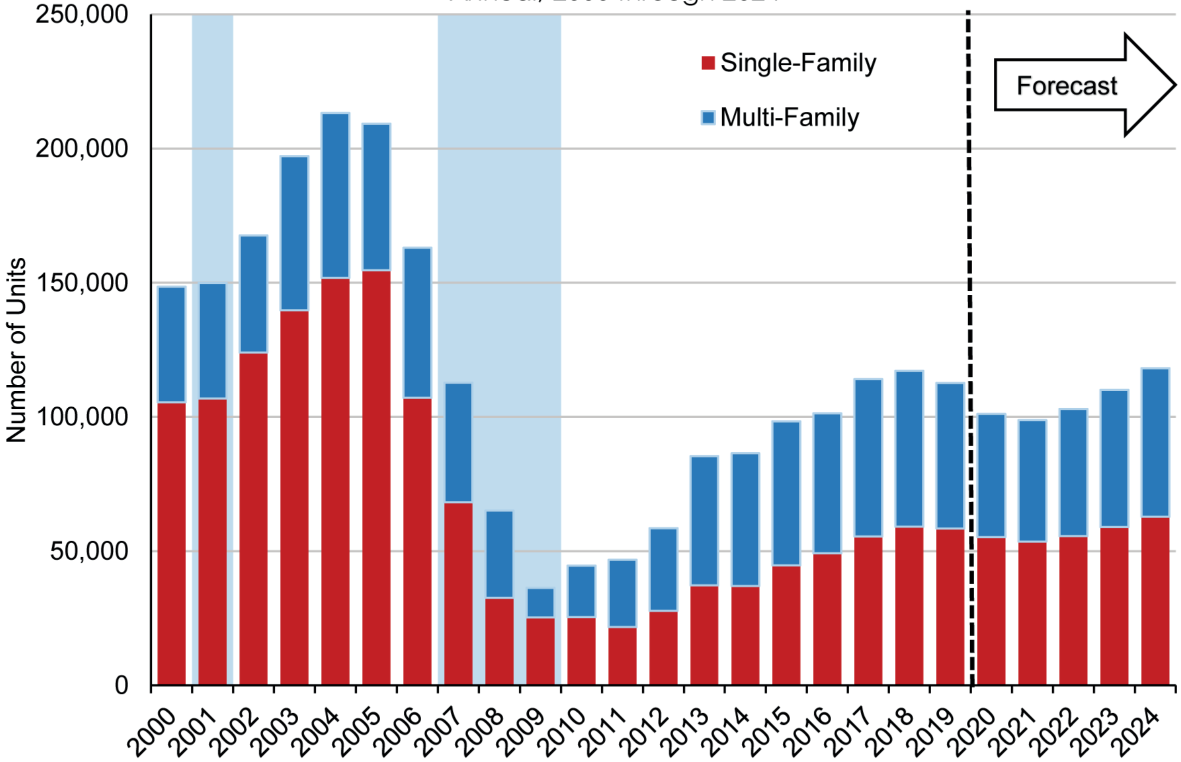
Shaded areas indicate previous U.S. recessions.
Source: U.S. Bureau of Economic Analysis; CA Department of Finance, Governor's Budget Forecast.

CONTINUING RISKS

With the recession lingering and economic inequality intensifying since the COVID-19 Pandemic began, risks continued to increase throughout 2020. While the comparative insulation of high-income workers has supported the economy, evidenced by record high housing and stock prices, subtle shifts in high-wage sectors could tip the scales and slow the recovery or lead into a more generalized recession affecting all sectors. Risks continue to include a fall in the stock market, more widespread job losses, more businesses closing, and a failure to address structural inequality at a time when climate risks are also increasing.

Most of the burden of the COVID-19 Recession has been relatively isolated to industries and individuals working in public-facing sectors. If more businesses enter bankruptcy and unemployment increases among high-income workers, the economy would face additional stresses as modeled in the Stress Test scenario. (See figure on California Job Losses and Years to Recovery.) This scenario would more closely resemble the unfolding of the Great Recession, which also began in a single sector of the economy with the collapse of the housing market. As the shock spread through the financial system, it

Number of Permits Issued per Year in California
Annual, 2000 through 2024



Shaded areas indicate previous U.S. recessions.
Source: CA Homebuilding Foundation; CA Department of Finance, Governor's Budget Forecast.

affected the rest of the economy. Under the Stress Test scenario, California would lose jobs in both low- and high-wage sectors in the first half of 2021, reversing economic growth from the second half of 2020. It would then grow more slowly compared to the baseline afterwards. California nonfarm employment would recover to pre-pandemic levels three years later than in the baseline scenario, around 2028. The Stress Test scenario did not include any additional federal assistance beyond the CARES Act.

The stock market has benefited from federal policy to cushion the financial sector, and the large increase in savings also likely led to more investment in stocks. The shift towards telework has supported information and technology companies and sectors, which also tend to be among the top S&P 500 companies. However, risks of a second and potentially worse stock market downturn remain. Mirroring consumption patterns, the growth of S&P 500 company stock prices has been sharply divided, with the technology-heavy and consumer discretionary sectors growing while other sectors such as energy decrease.

Climate change and extreme weather events continue to be a risk to California. Calendar year 2020 was California's most widespread wildfire year on record, with over

4 million acres burned throughout the state as of mid-December—more than twice the previous record of over 2 million acres burned in 2018. The ongoing risk of worsening wildfire seasons will likely affect individuals' and businesses' livelihoods and decisions on where to reside and conduct business, which may impact the growth of regions that are most at risk, as well as cities and towns which are regularly impacted by smoke and pollution. Rising sea levels may also introduce new challenges to some coastal communities in the future. Finally, other environmental risks such as the ongoing threat of droughts remain.

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