

California Defies Doom with No. 1 U.S. Economy

The Golden State has no peers when it comes to expanding GDP, raising household income, investing in innovation and a host of other key metrics.

When misfortunes multiplied during the coronavirus pandemic, observers seized on a four-letter word signaling end of days for the largest state with one-eighth the U.S. population and 14% of its gross domestic product. “California doom: Staggering \$54 billion deficit looms,” the Associated Press concluded a year ago in May. “California Is Doomed,” declared Business Insider two months earlier. “Is California doomed to keep burning?” queried the New Republic in October. California is “Doomed” because of rising sea levels, according to an April EcoNews Report. Bulletins of people leaving the world’s fifth-biggest economy for lower-cost states because of high taxes and too much regulation stifling business continue unabated.

No one anticipated the latest data readout showing the Golden State has no peers among developed economies for expanding GDP, creating jobs, raising household income, manufacturing growth, investment in innovation, producing clean energy and unprecedented wealth through its stocks and bonds. All of which underlines Governor Gavin Newsom’s announcement last month of the biggest state tax rebate in American history.

By adding 1.3 million people to its non-farm payrolls since April last year — equal to the entire workforce of Nevada — California easily surpassed also-rans Texas and New York. At the same time, California household income increased \$164 billion, almost as much as Texas, Florida and Pennsylvania combined, according to data compiled by Bloomberg. No wonder California’s operating budget surplus, fueled by its surging economy and capital gains taxes, swelled to a record \$75 billion.

If anything, Covid-19 accelerated California’s record productivity. Quarterly revenue per employee of the publicly traded companies based in the state climbed to an all-time high of \$1.5 million in May, 63% greater than its similar milestone a decade ago, according to data compiled by Bloomberg. The rest of the U.S. was nothing special, with productivity among those members of the Russell 3000 Index, which is made up of both large and small companies, little changed during the past 10 years.

While pundits have long insisted California policies are bad for business, reality belies them. In a sign of investor demand, the weight of California companies in the benchmark S&P 500 Index increased 3 percentage points since a year ago, the most among all states, according to data compiled by Bloomberg. Faith in California credit was similarly superlative, with the weight of corporate bonds sold by companies based in the state rising the most among all states, to 12.5 percentage points from 11.7 percentage points, according to the Bloomberg Barclays U.S. Corporate Bond Index. Translation: Investors had the greatest confidence in California companies during the pandemic.

The most trusted measure of economic strength says California is the world-beater among democracies. The state’s gross domestic product increased 21% during the past five years, dwarfing No. 2 New York (14%) and No. 3 Texas (12%), according to data compiled by Bloomberg. The gains added \$530 billion to the Golden State, 30% more than the increase for New York and Texas combined and equivalent to the entire economy of Sweden. Among the five largest economies, California outperforms the U.S., Japan and Germany with a growth rate exceeded only by China.

Enlarging its No. 1 footprint with factory jobs, California GDP from manufacturing gained 13% over the past five years to \$316 billion in 2020, an

increase unmatched by any of the 10 largest manufacturing states: Texas was No. 2 with 9% growth, followed by Indiana at 8%, according to data compiled by Bloomberg. For all its bluster as being “best for business,” Texas can’t match California’s innovation. California prosperity is rooted in its appeal as a worldwide destination for technology and health-care development. Of the 6,924 corporate locations in the state, 18% are research and development facilities, a ratio that easily beats the U.S. overall (11%), China (15%), U.K. (14%) and Japan (10%). Only Germany, at 19%, has a higher rate, according to data compiled by Bloomberg. The percentage of Texas facilities for R&D is less than half California’s at 8.2%.

Corporate California also is the undisputed leader in renewable energy, with 26 companies worth \$897 billion, or 36% of the U.S. industry, having reported 10% or more of their revenues derived from clean technology. No state comes close to matching the 21% of electricity derived from solar energy. Shares of these firms appreciated 282% during the past 12 months and 1,003%, 1,140% and 9,330% over two, five and 10 years, respectively, with no comparable rivals anywhere in the world, according to BloombergNEF. The same companies also increased their workforce 35% since 2019, almost tripling the rate for the rest U.S. overall and four times the global rate.

Perennial water shortages and devastating fires drive the perception of dystopia. But California reigns supreme with the GDP-equivalent of \$40.2 billion derived from agriculture, forest and hunting in 2020. That’s greater than the output from the next five largest states — Iowa, Washington, Illinois, Texas and Nebraska — combined, according to data compiled by Bloomberg.

Even with the economic disruptions caused by the pandemic, California cemented its position as the No. 1 state for global trade, with its Los Angeles and Long Beach ports seeing growth that led all U.S. rivals for the first time in nine years in 2020. Much has been made of the state reporting its first yearly loss in population, or 182,000 last year. Had it not been for the Trump administration preventing new visas, depriving as many as 150,000 people from moving to California from other countries annually, the 2020 outcome would have been more favorable.

Even so, Republicans, opposed to Newsom’s policies favoring immigration, criminal justice reform and greater benefits for housing, health and child care, want voters to decide whether he should be replaced in a potential recall election later this year. Former San Diego Mayor Kevin Faulconer, a Republican who is among those running to succeed him, said Newsom, a Democrat, hurt the state’s small businesses.

That’s not what the data shows. The 373 California-based companies in the Russell 2000 Index, which includes small-cap companies across the U.S., appreciated 39% the past two years and 85% since 2016, beating the benchmark’s 34% and 67%, respectively. The same California companies reported revenue growth of 56% the past five years, dwarfing the benchmark’s 34%, according to data compiled by Bloomberg. More important, California companies invested 16% of their revenues in R&D, or their future, when the rest of the U.S. put aside just 1%.

Investing in the future is California’s way, the opposite of doom.

Source: Bloomberg Opinion (06/14/2021)

<https://bloom.bg/3xxQSqx>

Region	May 2020	April 2021	May 2021	Percentage Point Change	
				1 month	12 months
San José–Sunnyvale MSA	11.4%	5.0%	4.7%	- 0.3	- 6.7
San Francisco MD	12.1%	5.1%	4.9%	- 0.2	- 7.2
California	15.5%	8.1%	7.5%	- 0.6	- 8.0
United States	13.0%	5.7%	5.5%	- 0.2	- 7.5

Sector — May 2021	San Jose MSA	San Francisco MD	Combined Region	Percentage Change (Combined Region)	
				1 month	12 months
Total Nonfarm	1,086,300	1,073,100	2,159,400	+ 0.7%	+ 5.2%
Construction	48,300	43,100	91,400	- 0.2%	+ 4.7%
Manufacturing	168,800	36,700	205,500	+ 0.2%	+ 2.0%
Retail Trade	72,700	68,700	141,400	- 0.3%	+ 17.2%
Information	108,200	106,900	215,100	+ 0.0%	+ 2.6%
Professional & Business Services	240,400	282,200	522,600	+ 0.1%	+ 2.8%
Educational Services	40,900	29,300	70,200	+ 0.1%	- 4.5%
Health Care & Social Assistance	132,900	117,000	249,900	+ 0.4%	+ 9.6%
Leisure & Hospitality	72,800	91,100	163,900	+ 9.0%	+ 29.4%
Government	93,700	124,900	218,600	+ 0.2%	- 0.6%

Note: San José MSA (San José–Sunnyvale–Santa Clara Metropolitan Statistical Area) = Santa Clara and San Benito Counties
San Francisco MD (San Francisco–Redwood City–South San Francisco Metropolitan Division) = San Mateo and San Francisco Counties

Source: California Employment Development Department, LMID

9-County San Francisco Bay Area	Labor Force			Employed			Unemployment		
	May 2020	May 2021	Change	May 2020	May 2021	Change	May 2020	May 2021	Change
	California	18,348,100	18,949,700	+ 3.3%	15,513,300	17,523,600	+ 13.0%	15.5%	7.5%
Alameda County	800,600	799,500	- 0.1%	689,800	751,700	+ 9.0%	13.8%	6.0%	- 7.8
Contra Costa County	532,300	533,000	+ 0.1%	457,900	499,500	+ 9.1%	14.0%	6.3%	- 7.7
Marin County	124,700	130,200	+ 4.4%	111,000	124,600	+ 12.3%	11.0%	4.3%	- 6.7
Napa County	68,300	71,400	+ 4.5%	57,900	67,400	+ 16.4%	15.2%	5.5%	- 9.7
San Francisco County	548,900	544,000	- 0.9%	478,800	516,300	+ 7.8%	12.8%	5.1%	- 7.7
San Mateo County	425,100	426,700	+ 0.4%	377,300	407,100	+ 7.9%	11.3%	4.6%	- 6.7
Santa Clara County	1,006,200	1,010,300	+ 0.4%	892,600	963,100	+ 7.9%	11.3%	4.7%	- 6.6
Solano County	198,900	199,800	+ 0.5%	170,000	185,500	+ 9.1%	14.5%	7.2%	- 7.3
Sonoma County	240,100	242,500	+ 1.0%	207,800	229,700	+ 10.5%	13.4%	5.3%	- 8.1
SF Bay Area (sum)	3,945,100	3,957,400	+ 0.3%	3,443,100	3,744,900	+ 8.8%	12.7%	5.4%	- 7.4

Note: Totals may not add correctly due to rounding

Source: California Employment Development Department, LMID

Company	Location	# Affected	WARN SUMMARY	
			Events YTD †	221
All About Parking	Palo Alto	1	Individuals Affected YTD :	24,727
Crescendo Bioscience	South San Francisco	22	Individuals Previous YTD ‡:	33,992
Dermira	Menlo Park	163		
Gilead Sciences	Foster City	179		
Hitachi Vantara	Santa Clara	65		
Johnson & Johnson	South San Francisco	72		
Total		502		

WARN SUMMARY

Events YTD †: 221

Individuals Affected YTD : 24,727

Individuals Previous YTD ‡: 33,992

* **WARN: Worker Adjustment and Retraining Notification**
(notice of mass layoff or closure)

† **YTD: Year to Date**
(Program year: July 1–present)

‡ **Previous YTD:**
(Same date range as YTD, one year prior)

Note: Layoff data are preliminary and should be considered an estimate of monthly regional activity

Source: California EDD, CalJOBS: WARN data