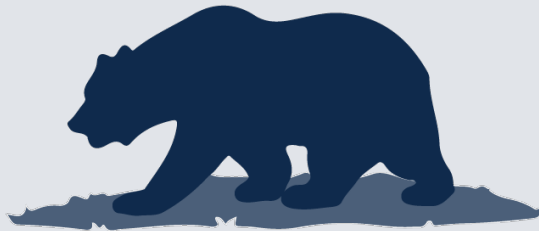


# State Economic and Budget Update



Presented to:

**City Managers Conference**

Ann Hollingshead

**Legislative Analyst's Office**

# State Economic Update

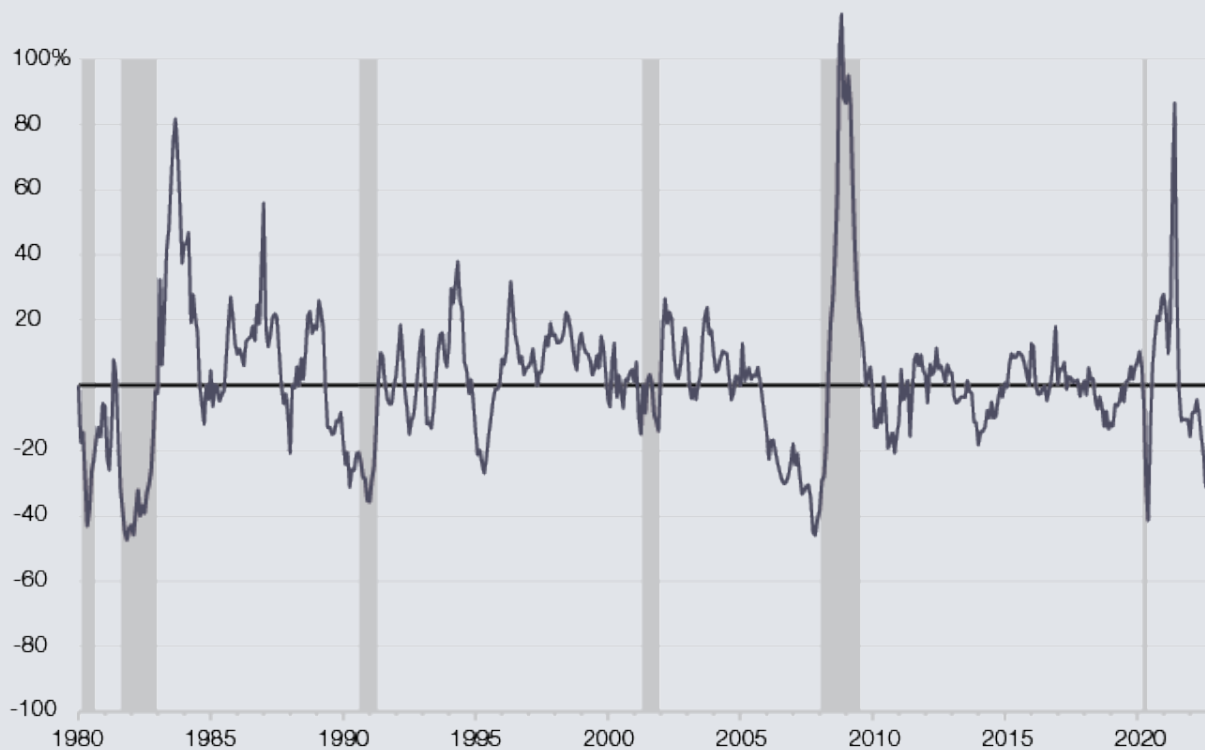
# Observations on the State Economy

- **Economic data sending mixed signals**
  - Negative signals in retail sales, payrolls, and industrial production
  - Positive signs in labor markets
- **Heightened risk of a recession remains (although not a certainty)**

# Heightened Risk of a Recession

## Home Sales Are Declining Rapidly

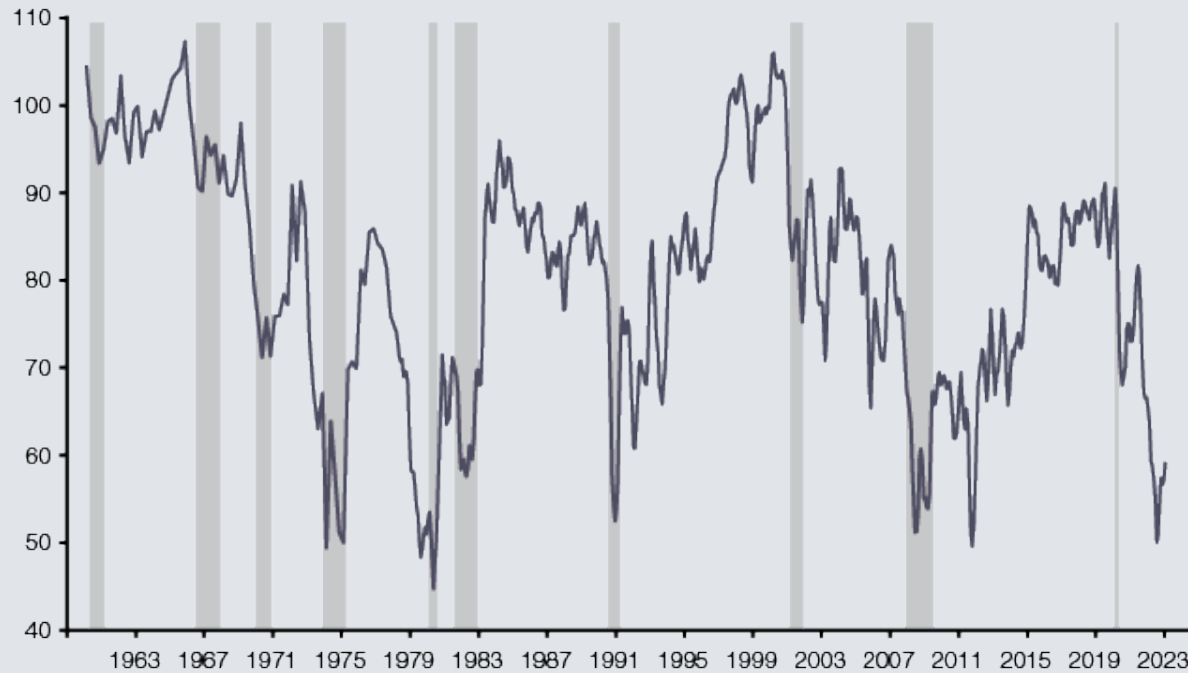
Annual Percent Change in Home Sales in California



# Heightened Risk of a Recession

## Consumers Pessimistic About the Economy

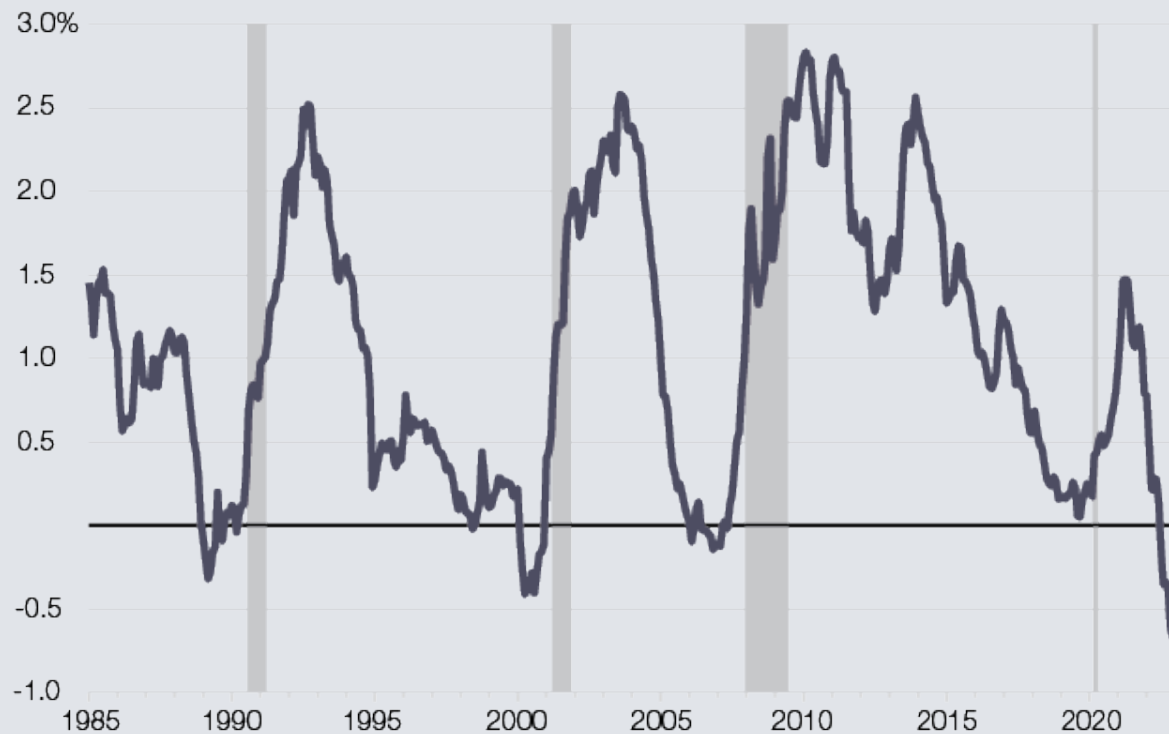
University of Michigan Index of Consumer Expectations



# Heightened Risk of a Recession

## Inverted Yield Curve Tends to Precede Recessions

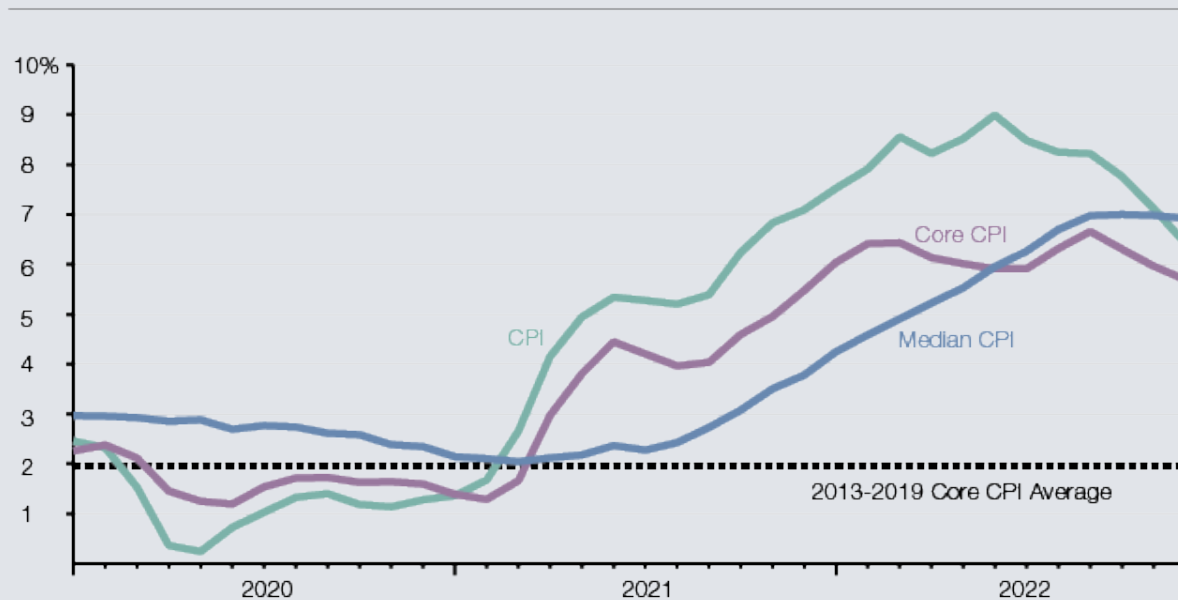
Ten-Year Treasury Constant Maturity Minus Two-Year Treasury Constant Maturity



# Inflation Moderating, But Remains a Key Issue

## Annual Inflation Has Increased Substantially, But Declined in Recent Months

Percent Year-Over-Year Inflation, Seasonally Adjusted



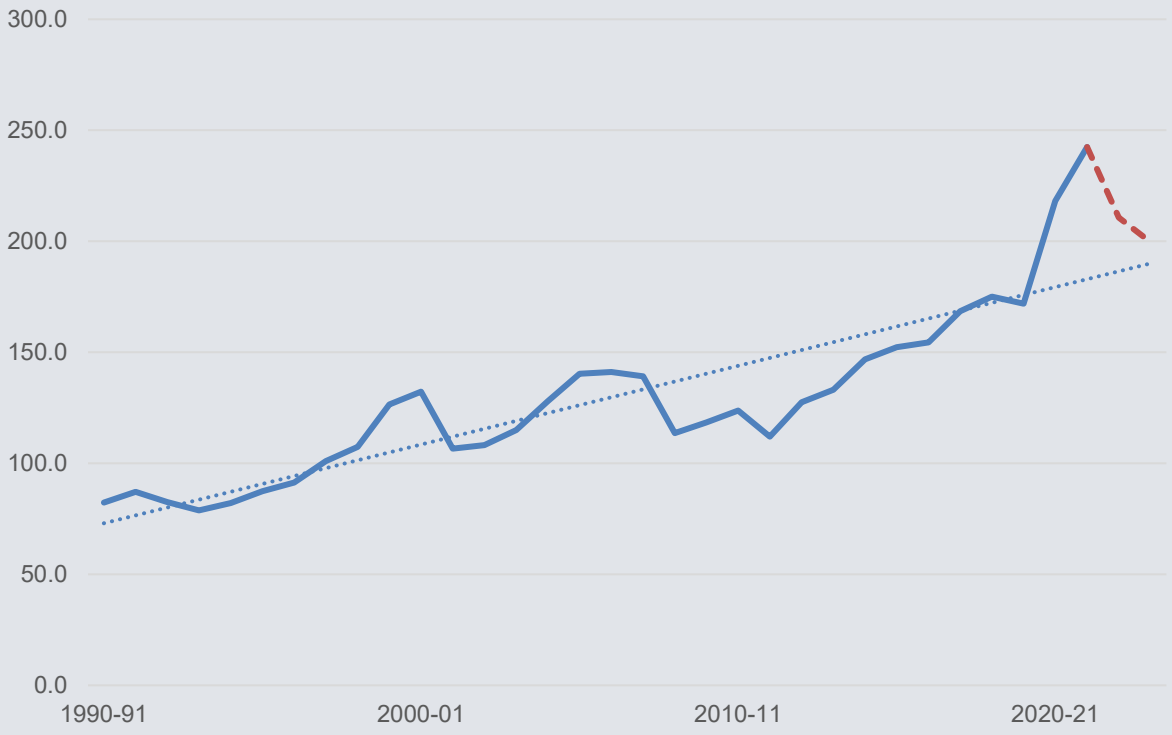
CPI = Consumer Price Index.

# State Budget Update



# Revenue Estimates for Budget Window in Historical Context

**Inflation-Adjusted Revenue Collections from State's Three Major Sources**



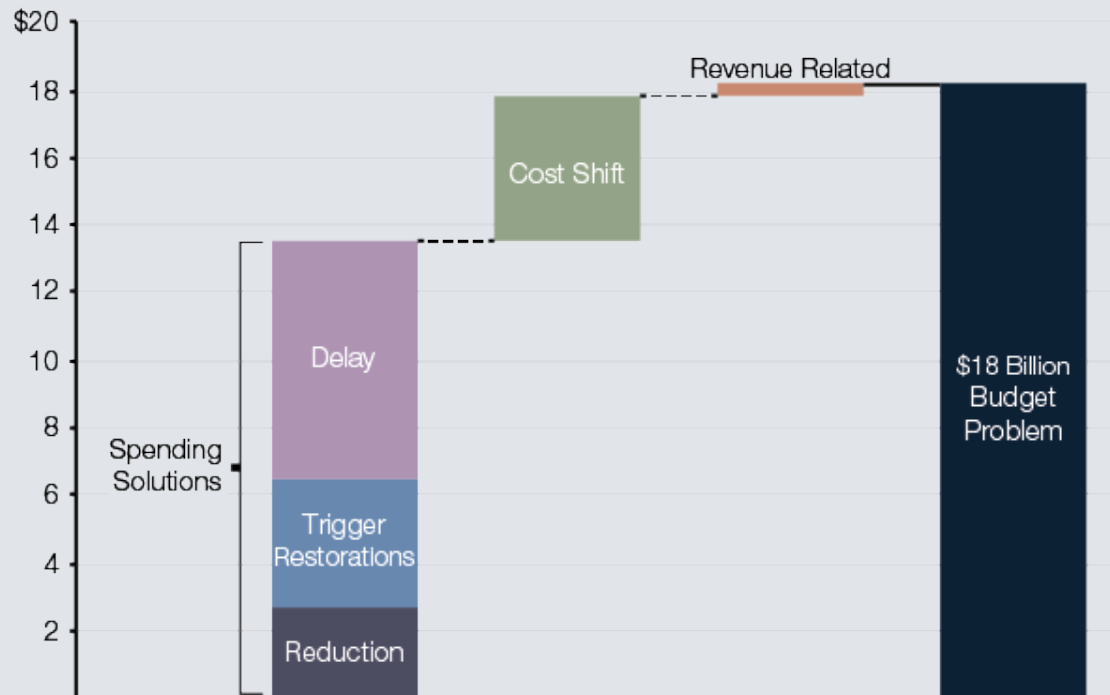
# Budget Problem in 2023-24

- **Governor's budget included an estimated \$18 billion budget problem (aka deficit).**
- **However, recent revenue collection data suggest budget problem is likely to be larger in May.**
- **State also faces moderate ongoing budget shortfalls under Governor's budget estimates.**

# Governor's Budget Relies Mainly on Spending-Related Solutions

## Governor's Budget Includes \$18 Billion in Budget Solutions

(In Billions)



# State Budget Condition

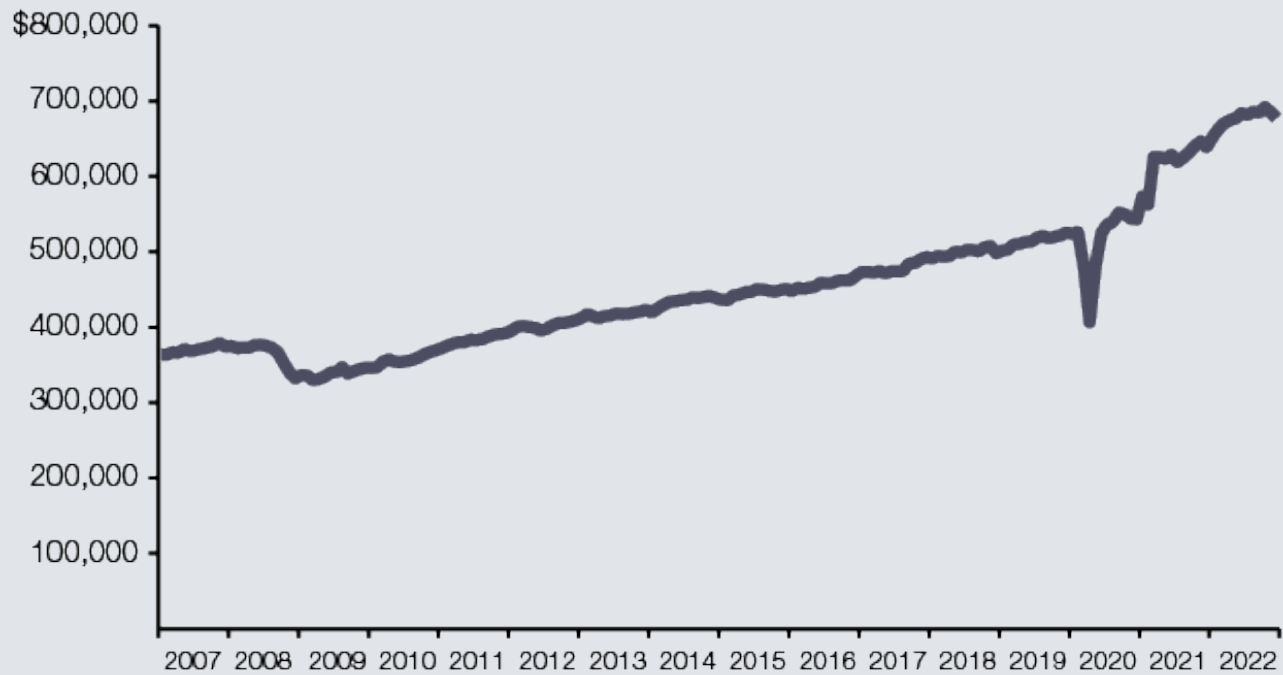
- **Governor's emphasis on spending reductions, rather than reserves, is prudent.**
- **Recommend the Legislature plan for a larger budget problem by identifying more spending reductions due to downside revenue risk.**

**lao.ca.gov**

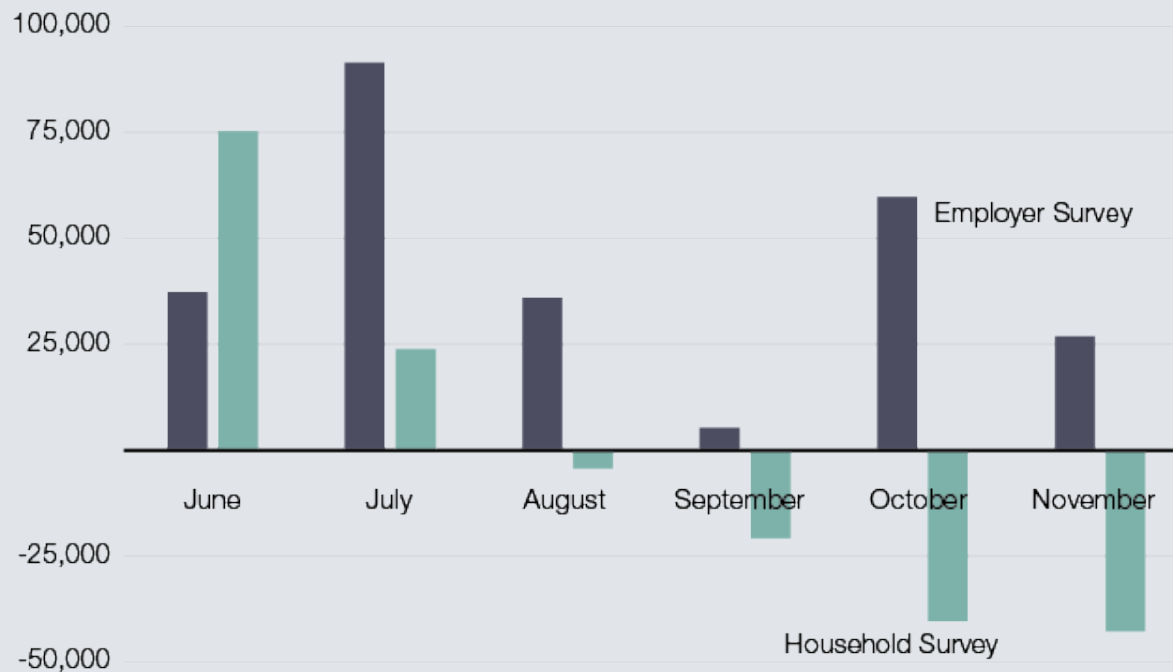
# Supplemental Graphics

## Retail Sales Declined in Recent Months

U.S. Retail Sales, Seasonally Adjusted (Millions of Dollars Per Month)



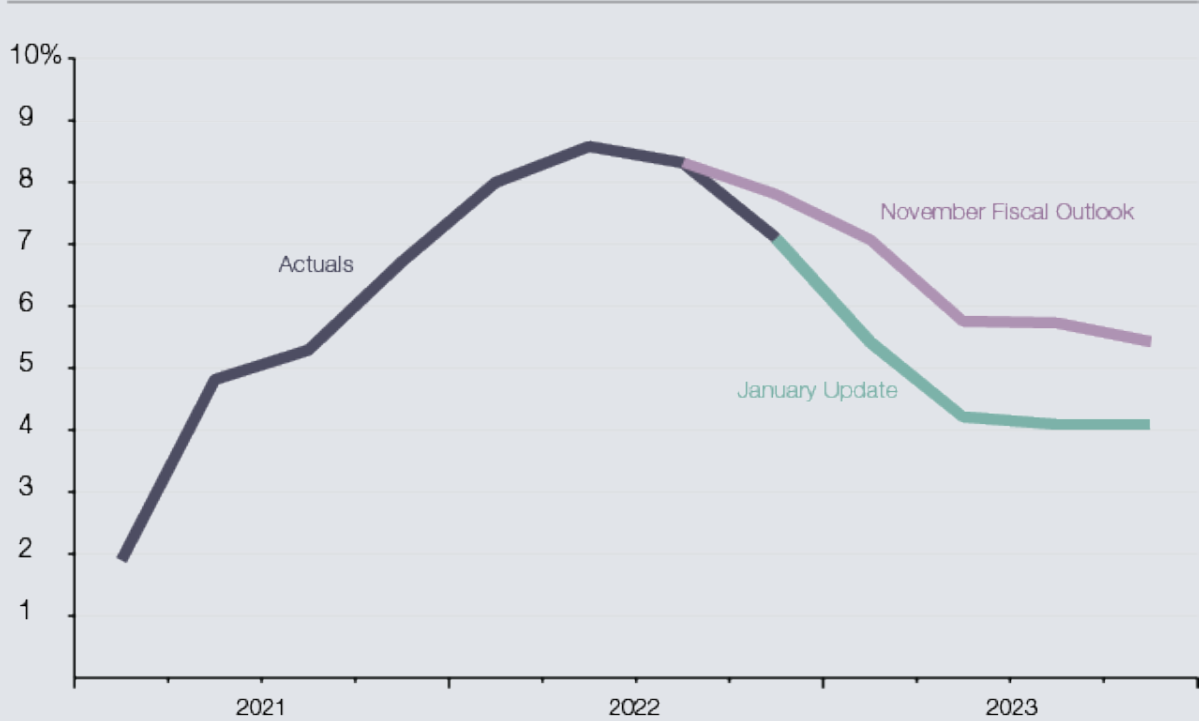
## Main Jobs Report Has Shown Gains, But Household Survey Has Shown Recent Job Losses





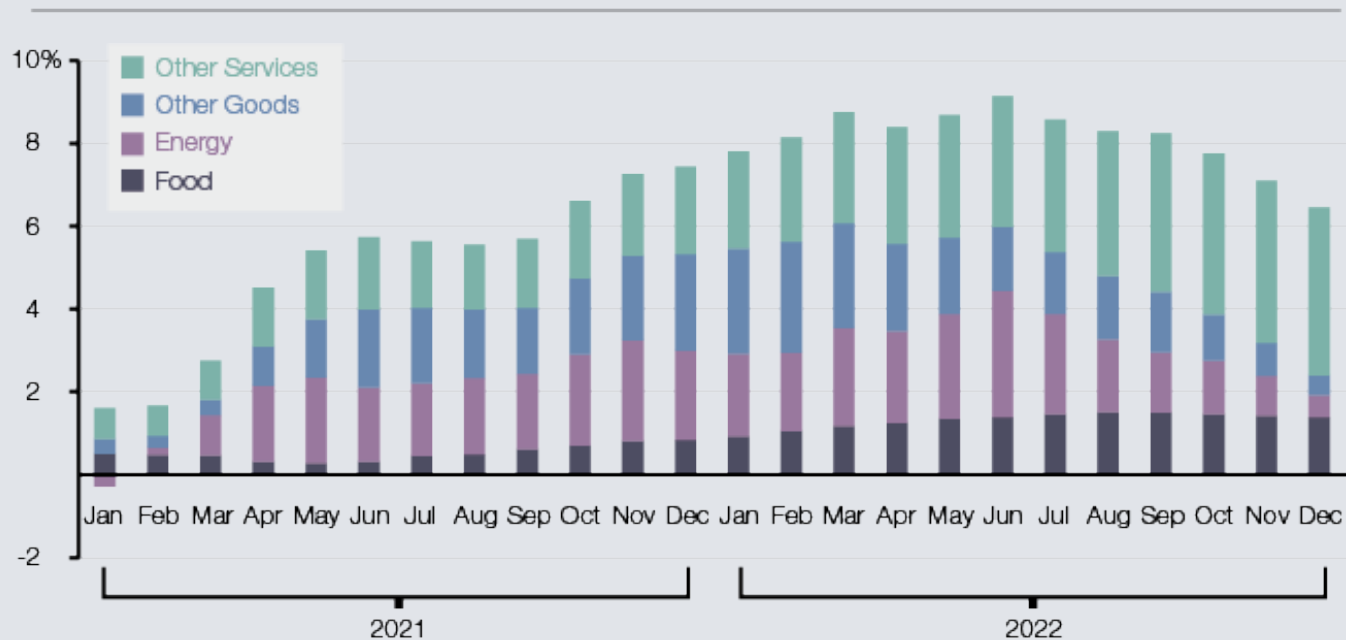
# Updated LAO Forecast Shows Significant Decline in Inflation

Year-Over-Year Inflation, Consumer Price Index



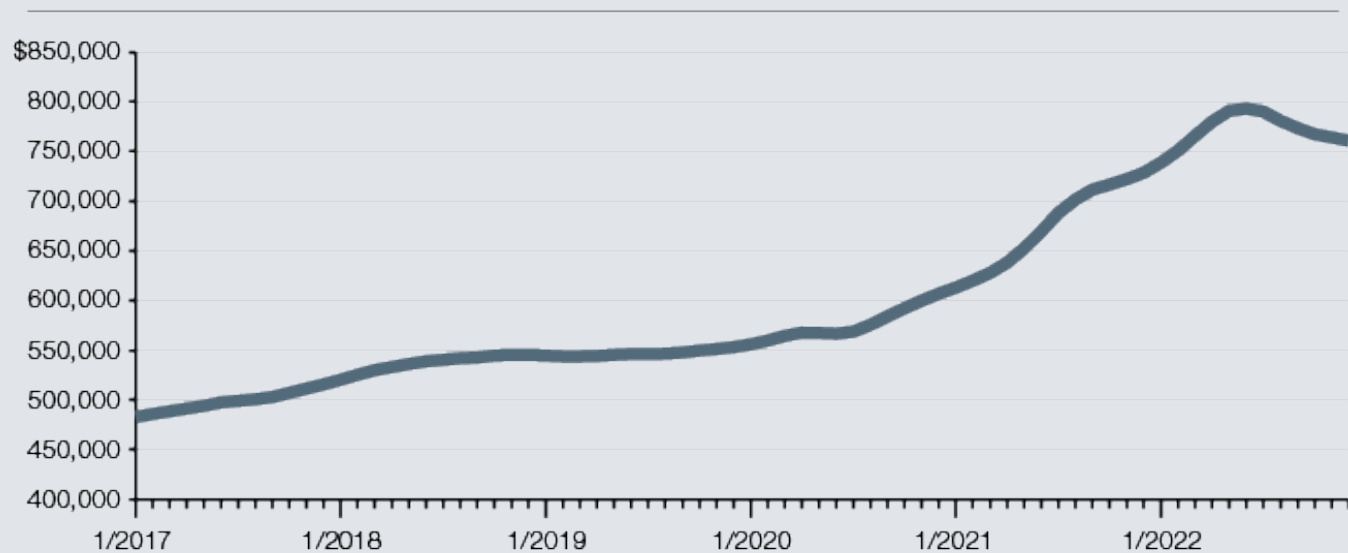
# Inflation Has Shifted from Energy and Other Goods to Services

Contribution to Year-Over-Year Inflation



## Home Prices Boomed During Pandemic, But Declining in Recent Months

Median California Single Family Home Prices, Seasonally Adjusted



Source = Zillow.

## After Record Year, Few Companies Went Public in 2022

Annual Initial Public Offerings

