State Economic and Budget Update

Presented to:
City Managers Conference

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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
- Heighted 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

[Line graph showing the University of Michigan Index of Consumer Expectations from 1963 to 2023, highlighting recession periods with shaded areas.]
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
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)
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.
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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

![Bar chart showing annual initial public offerings from 1983 to 2022. The highest number of offerings in 2019 and 2022 with 1035 and 168 respectively.](chart.png)