

Economics Group

Special Commentary

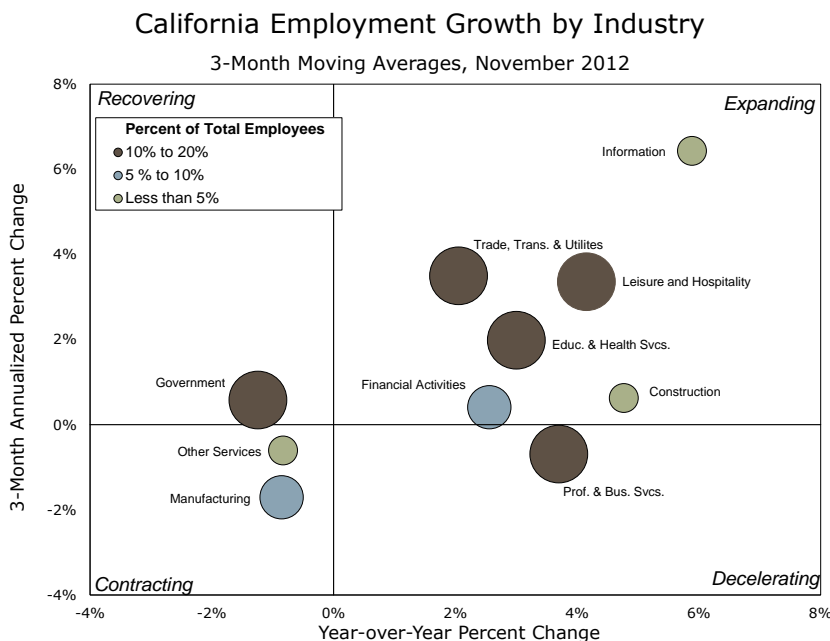
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California's Broadening Economic Recovery

Strong growth in the technology sector continues to drive California's economic recovery, propelling job growth in tech-heavy metro areas throughout the Bay area. Improvement is evident across the state, however, as the Golden State's economic recovery has broadened and strengthened over the course of this past year. While government cutbacks are still evident across much of the state, hiring has clearly improved across much of the private sector. Overall nonfarm employment has risen 1.9 percent over the past year, while the unemployment rate has fallen 1.5 percentage points to 9.8 percent. Private sector payrolls have increased 2.6 percent.

California's recovery is clearly being led by gains in the tech sector, which is primarily benefitting northern California, and the media and entertainment business, which is fueling gains in southern California. Hiring in information services, which includes software publishing, social networking, data processing, motion pictures and sound studios, has surged 5.9 percent over the past year, producing a net gain of 26,000 jobs. Hiring in the leisure and hospitality sector has also improved, reflecting gains in tourism and business travel. Retail trade is another bright spot and even construction and financial services are showing improvement on a year-to-year basis, following years of persistent weakness.

Hiring in information services has surged in the past year.



Source: U.S. Department of Labor and Wells Fargo Securities, LLC



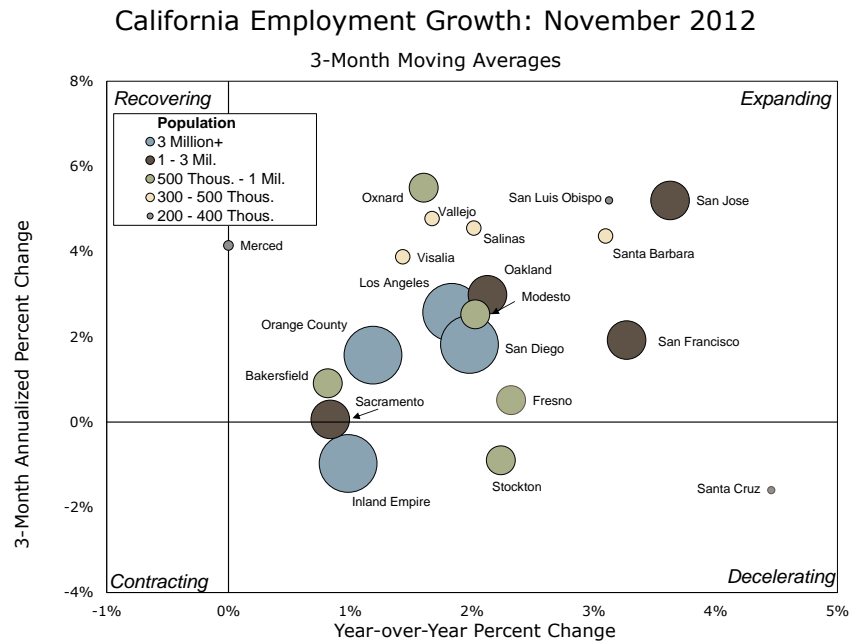
The broadening of California's economic recovery beyond the tech sector is important, given recent signs that tech spending is cooling off. San Jose is a clear outlier in terms of job growth, with private-sector payrolls rising 4.1 percent over the past year. Naturally, those gains have been led by the information sector, where employment surged 8.9 percent, and professional and business services, where hiring is up 3.9 percent. The growth in the tech sector has also fueled gains in other areas, most notably construction, retailing, education and healthcare. But, even much of this growth is likely tied to the tech sector. The broadening is more evident when you look at other areas that have improved, most notably the improvement in job growth along the Central Coast and in southern California, where the tech sector is less prevalent.

Gains are not evident across the board.

Up until recently, the Bay area metro areas all stood apart from most other areas of California and were the only parts of the state registering consistent strong job growth. San Francisco and Oakland are still near the top, but the state's other large metro areas are closing the gap. Hiring in Los Angeles and San Diego has steadily improved, as more key areas of their economies have revived. Gains are not evident across the board. Job growth in the Inland Empire is clearly lagging behind, and Orange County has also seen less improvement.

Hiring in Los Angeles has been fueled by gains in retail trade and business and professional services. The financial sector has also turned the corner, but manufacturing remains sluggish and international trade has cooled a bit. The media and entertainment business has been one of the stronger areas in greater Los Angeles recently, with motion picture and recording studios having a relatively good year. Travel and leisure have also improved, and homebuilding has started to recover, with most of the gains in the apartment sector.

The rebound in travel and leisure has been even more important to San Diego, where overall employment has risen 2.0 percent over the past year and private-sector payrolls are up 2.4 percent. The leisure and hospitality sector has added 5,400 jobs over the past year, accounting for more than one quarter of the total increase. Improvement is evident in other areas, most notably retail sales and professional services, which added 8,600 and 6,200 jobs, respectively, over the past year. Nonetheless, we suspect that San Diego's job gains are slightly understated, given the recent expansion announcements in mobile telecommunications R&D and life sciences.



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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