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LABOR DAY 2007: CALIFORNIA'S WORKERS FACE A MIX OF PROMISING AND TROUBLING TRENDS

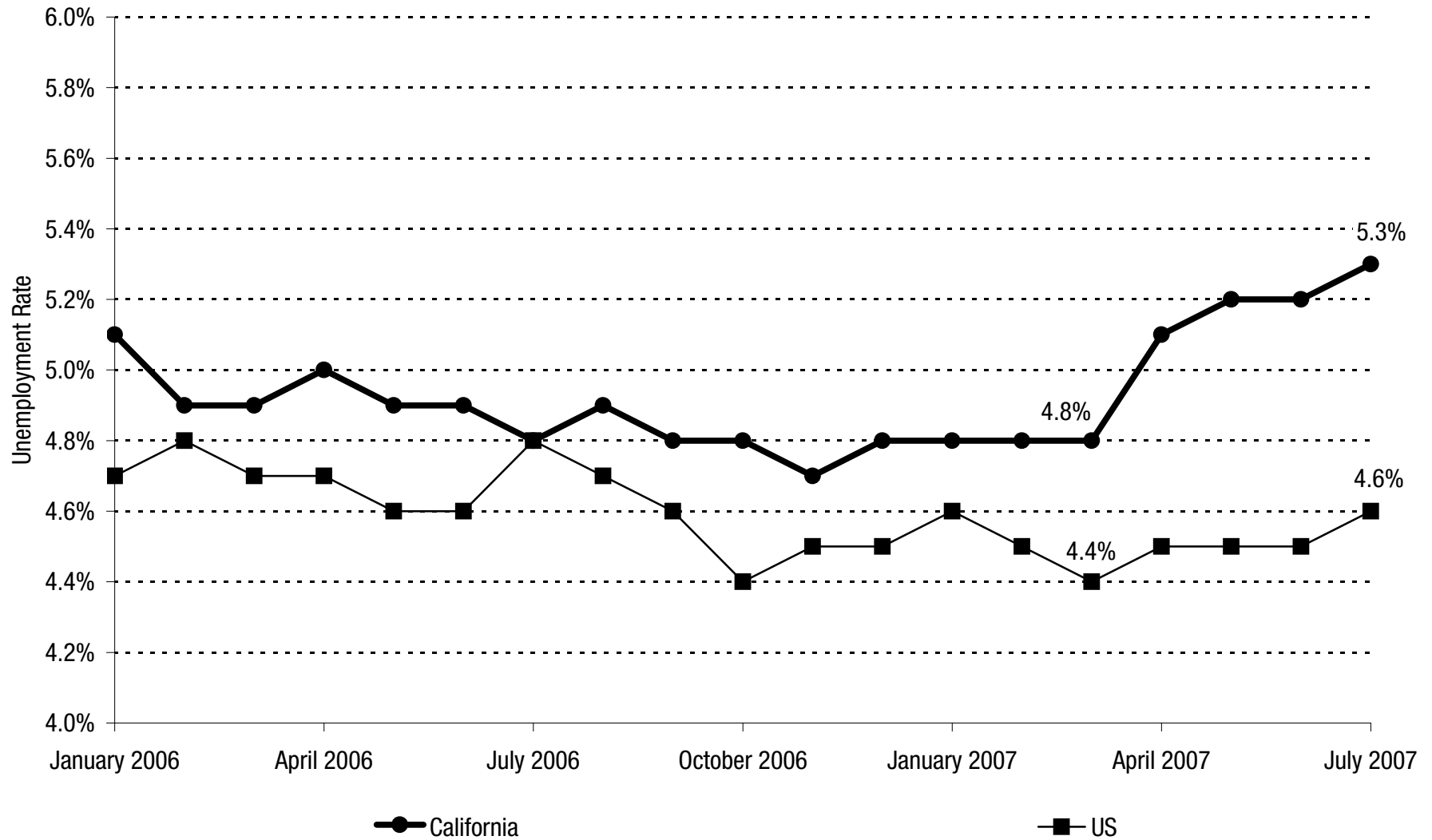
Labor Day presents an opportunity to assess the status of California's workers and their families. This Labor Day, the state's workers face a mix of promising and troubling trends. Newly released income and poverty data show that in 2006, California's families finally began to regain ground lost during the 2001 recession and the weak economic recovery that followed. However, in recent months, California's unemployment rate has increased sharply and job growth has slowed, reflecting, in part, the downturn in the housing market. Housing-related industries – a major driver of the state's job growth during the early years of this decade – have lost jobs during the past year and recent developments suggest that the decline has yet to bottom out. The key question in coming months is whether the continuing slowdown in housing will spread to the broader economy.

Newly released Census Bureau data show that incomes have increased and poverty has declined. California's median household income increased to \$55,318 in 2006, up by \$1,866 from the previous year, after adjusting for inflation. This increase means that the state's 2006 median household income surpassed its inflation-adjusted 2001 level by \$1,494 (2.8 percent).¹ In addition, the share of Californians with incomes below the federal poverty line declined from 13.2 percent in 2005 to 12.2 percent in 2006. This marks the first year that the state's poverty rate has fallen below its 2001 level.² However, the child poverty rate remained higher in 2006 than in 2001. More than 1.7 million California children (18.1 percent) lived in families with incomes below the poverty line in 2006, a slight improvement from the 2005 rate of 18.5 percent.³

California's unemployment rate has increased sharply in recent months. The state's unemployment rate reached 5.3 percent in July 2007 – its highest level in nearly two years – up from 4.8 percent just four months earlier. This increase means that 84,900 more Californians were looking for work in July than were in March – a 9.7 percent increase. The recent rise in the state's unemployment rate follows a 14-month period of relative stability between February 2006 and March 2007 in which the unemployment rate averaged 4.8 percent.

The national unemployment rate also trended upward slightly during the past four months, but remains relatively low. The US unemployment rate rose from 4.4 percent in March 2007 to 4.5 percent in April, where it held steady through June, then ticked up to 4.6 percent in July. Despite this recent increase, the national unemployment rate has remained below 4.8 percent since August 2006.

California's Unemployment Rate Increased in Recent Months



Source: Employment Development Department and US Bureau of Labor Statistics

A downturn in the housing market has helped to slow California’s job growth. Between July 2006 and 2007, California lost nearly 17,000 housing-related jobs, a 2.2 percent decline.⁴ This decline marks a reversal from the early 2000s, when the state gained tens of thousands of housing-related jobs each year. In fact, six in 10 jobs created between 2000 and 2005 (59.4 percent) were in housing-related industries, even though only 3.7 percent of the state’s jobs were in these industries in 2000.⁵ Job losses in housing-related industries during the past 12 months have helped to slow California’s job growth. The number of nonfarm jobs in the state increased by 1.3 percent between July 2006 and 2007, down from a 1.9 percent increase during the prior year.⁶

The recent “credit crunch” suggests that job losses in housing-related industries have yet to bottom out. Lenders have imposed stricter standards on homebuyers in response to a sharp rise in the number of homeowners defaulting on their mortgages.⁷ This will make it harder for potential homebuyers to purchase homes and could cause demand for housing to wane further. The key question in coming months is whether the continuing slowdown in housing will spread to the broader economy.⁸

A weakening job market follows on the heels of relatively modest employment growth during the current economic recovery. Five years into the economic recovery, the state’s employment rate – the share of Californians age 16 to 64 who are employed – remained relatively low.⁹ In 2006, 70.0 percent of working-age Californians were employed, compared to 71.9 percent in 2000. This means that 440,000 more Californians would have been working in 2006 if the state had the same employment rate as in 2000. After bottoming out in 2003, the state’s employment rate began to rise, but then was flat between 2005 and 2006.¹⁰

Many California workers’ wages lost purchasing power late into the recovery. The inflation-adjusted hourly wage of the typical California worker – the worker exactly at the middle of the earnings distribution – declined by 2.2 percent per year, on average, between 2004 and 2006, after having increased by an average of 1.4 percent per year between 2000 and 2004.

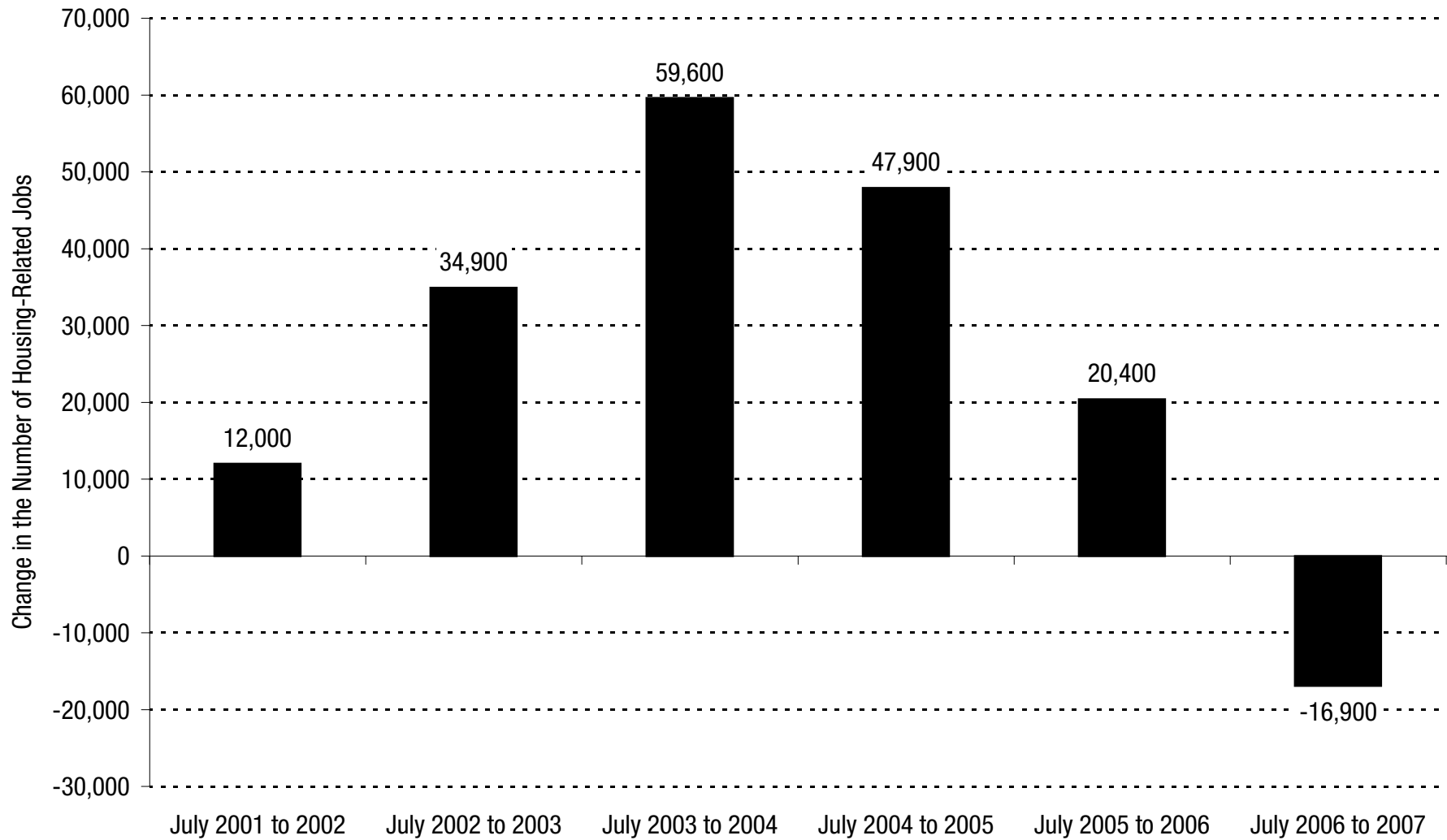
Many California Workers’ Wages Lost Purchasing Power in Recent Years			
	Hourly Wage by Percentile (2006 Dollars)		
	20th	Median	80th
2000	\$9.55	\$17.29	\$29.31
2004	\$10.45	\$18.22	\$31.09
2006	\$9.97	\$17.42	\$30.75
	Average Annual Percent Change		
2000 to 2004	2.4%	1.4%	1.5%
2004 to 2006	-2.3%	-2.2%	-0.6%
2000 to 2006	0.7%	0.1%	0.8%

Source: CBP analysis of Current Population Survey data

The hourly wage of California’s low-wage workers – those with earnings at the 20th percentile of the distribution – and the state’s high-wage workers – those with earnings at the 80th percentile of the distribution – also lost purchasing power late into the recovery. Low-wage workers’ inflation-adjusted hourly wage declined by 2.3 percent per year, on average, between 2004 and 2006, offsetting gains during the previous four years. In addition, high-wage workers’ inflation-adjusted hourly wage declined by an average of 0.6 percent per year between 2004 and 2006.

California’s highest-income taxpayers have experienced strong gains in recent years. Although many workers’ hourly wages began to trend downward in 2004, the state’s highest-income taxpayers experienced strong gains in adjusted gross income (AGI) – income reported for tax purposes, which includes earnings from work as well as income from other sources, such as investments. The average AGI of the top 1 percent of taxpayers increased by 18.6 percent between 2004 and 2005, after adjusting for inflation, while that of the top 20 percent of taxpayers rose

The Number of Housing-Related Jobs Declined Between July 2006 and 2007



Source: CBP analysis of Employment Development Department data

The Share of Employed Californians in 2006 Remained Below Its 2000 Level



Source: CBP analysis of Current Population Survey data

by 9.1 percent. In contrast, the inflation-adjusted average AGI of the middle fifth of taxpayers declined by 0.4 percent.

California's Highest-Income Taxpayers Experienced Strong Gains, 2004 to 2005			
	Average Adjusted Gross Income (2005 Dollars)		
	Middle 20%	Top 20%	Top 1%
2004	\$34,698	\$198,910	\$1,409,542
2005	\$34,561	\$217,021	\$1,671,563
Percent Change			
2004 to 2005	-0.4%	9.1%	18.6%

Source: Franchise Tax Board data

Alissa Anderson Garcia prepared this Policy Points. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

¹ See California Budget Project, *Poverty Declines, Incomes Increase: California Finally Recovers Ground Lost During a Weak Recovery* (August 2007).

² Neither of these changes was statistically significant.

³ Neither of these changes was statistically significant.

⁴ Housing-related industries include residential construction, residential specialty-trade contracting, and real estate.

⁵ CBP analysis of Employment Development Department data.

⁶ CBP analysis of Employment Development Department data. In addition, the recent slowdown in job growth reflects weak gains in wholesale and retail trade and professional and business services as well as job losses in information.

⁷ The number of foreclosures in the state has risen recently, in part, because a sizeable number of homebuyers financed the purchase of their homes with nontraditional mortgages, such as adjustable-rate mortgages with multiple payment options and introductory interest rates that have begun to expire, or subprime mortgages – home loans made to people with weak credit histories. In response, more than half of banks surveyed recently have tightened lending standards on subprime mortgages and approximately four in 10 have tightened standards on nontraditional mortgages. In addition, one in seven banks has tightened standards on “prime” loans, which include loans made to borrowers with strong credit histories. Board of Governors of the Federal Reserve System, *The July 2007 Senior Loan Officer Opinion Survey on Bank Lending Practices* (August 13, 2007), downloaded from <http://www.federalreserve.gov/boarddocs/SnLoanSurvey/200708/fullreport.pdf> on August 17, 2007.

⁸ The tightening of credit has led some experts to conclude that the nation faces an increased risk of a recession. If stricter lending standards spread to other types of loans besides mortgages, it will be more difficult for consumers and businesses to borrow money for purchases – potentially dampening consumer spending and preventing businesses from expanding. Moreover, as home prices have stabilized and, in some places, declined, many homeowners have lost the ability to finance purchases by cashing out equity from their homes. Consumer spending was a major driver of growth during the early 2000s, in part, because homeowners used the equity from rapidly appreciating home values to supplement their incomes.

⁹ The recession ended in November 2001.

¹⁰ Recent employment rate trends contrast with trends in the annual unemployment rate. In 2006, California’s unemployment rate was 4.9 percent – the same as in 2000. However, the unemployment rate counts people as unemployed only if they have looked for work in the past four weeks. Therefore, it fails to capture “discouraged workers” – workers who want to work but have given up their search for employment. In contrast, the employment rate includes discouraged workers as part of the jobless population.