How Harsh is California’s Recession?

California, the largest and richest state, matters to the national economy. Its population of 37 million accounts for 12 percent of the nation’s population and its gross state product of nearly $2 trillion represents 16 percent of the nation's economic output. California’s median household income of $61,000 is $1,700 greater than the national average.

While the United States has rebounded from a deep contraction, California continues to struggle with a severe recession. In the recession of 2008-2009, the deepest since the Great Depression of the 1929-33, the U.S. economy experienced five quarters of negative growth, four of which were consecutive. Its road to recovery began with two quarters of positive growth, 1.6 and 5.0 percent in the last two quarters of 2009, respectively. During the same recessionary period, California’s economy also recorded five quarters of negative growth, four of which were consecutive. California's volatile growth path showed an expansion of 2.1 percent in the last quarter of 2009.

![Growth Rate Graph](image)

During this recessionary time, the national unemployment rate doubled from 5.0 to 10.0 percent. In the meantime, California’s unemployment rate more than doubled from 6.0 to 12.3 percent. It will take at least three years of sustained growth for such high unemployment rates to reach the pre-recession rates.
Several factors contributed to the national recession:

- Dim consumer confidence and weak consumer demand
- Declining business investment and massive labor layoff
- Real state speculation and easy-to-get mortgage loans, creating a “housing-bubble”
- Bursting of the “housing-bubble,” resulting in massive loss of equity and ever-increasing mortgage default and foreclosure
- Credit market meltdown and rising bank failure
- Automobile industry recession
- Volatile and falling Stock Market
- Reduced demand for U.S. exports and increased capital outflow
- Mounting federal budget deficit and accumulating national debt

Additionally, California’s recession has been aggravated by enormous government budget deficit. As a quick fix, the state’s budget was balanced by higher taxes and fees, deep public spending cuts, and increased public debt at higher AA interest rates. Without fundamental budgetary reforms in Sacramento, the state’s fiscal crisis would continue in future years.

Sources:
www.economagic.com