



NEW ZEALAND
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California dreaming: Golden State economic review

MARKET INTELLIGENCE REPORT

Report

California's large and diversified economy remains strong despite challenges caused by the increased cost of living and a tight housing market. The state's growth has outpaced the US as a whole and is inching towards surpassing Japan as the fourth largest economy in the world. Innovation technologies, including in AI, space, and clean tech continue to drive economic development in the state, alongside its powerhouse industries of agriculture, manufacturing, the screen sector, education and tourism.

All that glitters in the golden state

Estimated at US\$3.89 trillion (NZ\$6.36 trillion) (2023), California's economy is the largest of the US's 50 states, contributing 14% to the country's GDP, and growing at a faster rate than the US as a whole. If considered a standalone country, California would rank among the top economies globally, following the US, China, Japan, and Germany – ahead of both India and the UK. And while California accounts for just 11% of total jobs nationally, it accounts for as much as one-third of the nation's job growth over the last decade.

The state is the primary gateway for New Zealand ventures in the US. Accounting for almost one fifth of New Zealand-US two-way goods trade, and receiving more than a third of New Zealand's goods through its ports, it is the largest importer of New Zealand products among all US states and the key port of entry for New Zealanders entering the country. California leads the US economy in a wide array of industries, including agriculture, manufacturing, logistics, tourism, and technology. Accordingly, the state carries significant importance across a breadth of New Zealand interests and industries from tech and innovation, to film, investment attraction, academic linkages and green tech, among others.

New Zealand contributed 3,622 jobs and US\$371.8 million in wages to California in 2023, through 80 establishments. Manufacturing is the strongest sector, closely followed by wholesale trade. Geographically, almost two thirds of these New Zealand-induced jobs are in the Bay Area, while Southern California follows with 37%, and Los Angeles County at 15.7%.

Remarkably, Southern California's \$1.8 trillion economy alone (consisting of Los Angeles, Orange, San Diego, San Bernardino, Riverside and Ventura counties – and not taking into account San Francisco or the Bay Area) is almost as big as Brazil, the world's 11th largest economy. Reporting in the San Diego Union Tribune, drawing on World Bank

international business statistics for 2022, puts this economic heft into perspective:

- Los Angeles County: \$913 billion – just above #19 Turkey (ranks first among US counties, ahead of New York (Manhattan) and Cook (Chicago)).
- Orange County: \$314 billion– just above #45 Romania.
- San Diego County: \$296 billion– just above #47 Czech Republic.
- San Bernardino County: \$123 billion– just below #61 Ethiopia.
- Riverside County: \$115 billion– on par with #62 Slovakia.
- Ventura County: \$62 billion– just above #85 Slovenia.

What next? California's economic forecast

California had seen forecast reporting of a weaker economy in early 2024, followed by a return to trend growth rates in 2025, and no recession. Throughout 2023, the state's economy stood at a fork in the road similar to that of the nation, and the possibility of a short-term recession loomed. However, the state's economy persevered, thanks in part to higher than expected consumer spending and stimulative fiscal policy. Forecasts also indicate that in 2024, California will be building above the historical average, with increasing rates of building permits, revealing a particular resilience in trying times in the state.

The employment picture in California looks different now than it did pre-pandemic, regardless of which measure one considers. Jobs were lost in some sectors and created in others, while others simply moved out of state due to remote work. Many of the new jobs are in different sectors than those where job loss was most acute. In logistics, technology, construction, durable goods manufacturing and healthcare, job creation has made up for job losses in other sectors. Increased international migration and accelerated onshoring of technical manufacturing have also been reported as stimulating further economic growth.

After last year's significant surplus, California's recently released state budget accounts for a deficit, partly due to a delay in 2022-2023 tax collection. The budget maintains investments into addressing the homelessness crisis and its climate commitments, while further considering the delays and reductions that may come at the expense of enforcing its ambitious climate programme.

The economic dynamics of California at a regional level...

California experienced a pre-pandemic decline in in-migration over five years. Some analysts point to taxes, regulations, living costs, and quality of life as possible reasons for this. Of those who moved from 2015 to 2019, 46% headed to just five states—Texas, Arizona, Nevada, Washington, and Oregon. Texas, once known as the oil and energy

production state, is attracting major innovative talent – and Silicon Valley vs Austin seems to be a growing competitive theme for California.

Employers in California acknowledge the state's strengths, citing a highly educated and motivated workforce, a diverse economy encompassing innovation hubs, and strategic proximity to Mexico and the Asia Pacific. But they recognise that high taxation contributes to the temptation to leave the state; though post-pandemic, many are no longer as ready to face the expense of relocating.

Central Valley: Agriculture and critical minerals

Industry clusters in California also play a pivotal role in influencing productivity, wages, and living costs. The agricultural powerhouse of Fresno in the Central Valley sees large out-migration despite its vital role in California's economic landscape, as Fresno remains lesser known in the shadows of Los Angeles and San Francisco. Due to the area's resources, California has been labelled as the "Saudi Arabia of Lithium", having one of the world's largest known reserves and enough lithium to power more than 50 million electric vehicles batteries within just a few years. But first, it must be extracted from hot geothermal brine loaded with toxic material, a process that's never been done before at scale.

San Francisco: AI, innovation and inward investment

Research by the California Policy Lab shows that San Francisco has lost the most workers to migration since the COVID-19 pandemic, despite paradoxical increases in employment and productivity. Despite considerable tech layoffs, this did not put a dent in the big picture, boasting 12 months of job growth in 2022. The reason for this is AI, with 75% of US AI firms located in San Francisco. The region, a breeding ground for unicorn companies (start-ups hitting \$1 billion revenue) and currently home to 33 companies with \$5 billion revenue or more, witnessed a tech employment re-shuffle, as laid off workers were rapidly re-hired.

Through these times, virtual work trends persisted. So much so that office occupancy rates remain at 35% of pre-pandemic levels in central San Francisco. Of those who moved out of the city, 80% of them didn't leave the state, but moved far enough to impact local transit. Downtown's Bay Area Rapid Transits (BART) ridership fell to 33% of pre-pandemic levels.

Los Angeles - strikes roar but jobs soar

In the sprawling tapestry of Los Angeles County, boasting 88 cities, over 10 million residents, and an economy rivalling Saudi Arabia's, the county also champions California's image of resilience. Despite facing a symphony of strikes in 2023 – labourers, hotel staff, healthcare professionals, port workers, local government employees, Hollywood creatives, and Cal State University staff – the county hit a record-high 4.69 million workers, rebounding from the pandemic with 74,900 new jobs in 2023. Unemployment, now at 5%, has reduced from 5.8% in 2022 and inches closer to pre-pandemic levels of 4.6% in 2018-2019. Reports also suggest that Los Angeles' economy is reaching over \$1 trillion, and is set for further stimulus in hosting the FIFA World Cup 2026 and Olympics 2028.

Ports of Long Beach and Los Angeles - Twin port complex

The Port of Long Beach, a linchpin for global trade, helps drive California's economic success, and is a key gateway for New Zealand supply chains. The Port receives a steady influx of New Zealand goods, predominantly beef and wine.

The Port of Los Angeles is the US's busiest port, closely followed by the Port of Long Beach, forming a twin-port complex that ranks as the world's ninth busiest. The maritime juggernaut handles 38% of all US imports and 28% of exports. The Port of Long Beach accounts for one-fifth of the county's employment sector and 576,000 jobs in Southern California. Looking into Long Beach's economic horizon for 2024, expectations are optimistic, forecasting smooth operations, container volumes normalising, and minimal congestion.

Long Beach: "Space Beach"

Long Beach is home to a number of space firms, including Rocket Lab, which has recently opened a second facility there. The 'Space Beach' hub is a priority for Long Beach, giving rise to opportunities for New Zealand to continue its partnership in aerospace connections. And the region's 'Grow Long Beach Initiative', aims to further this space focus and increase diversity of Long Beach's revenue streams beyond oil dependence.

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