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Economics

# The California Economy Isn't Just a U.S. Powerhouse

**There are good reasons why one American state leaves big countries like France and Italy in the rearview mirror and overtook the U.K. last year.**

NatEquity comments: One eighth of the U.S. population lives in California, the 5th largest economy in the world. NatEquity's market are senior homeowners living in single family coastal suburban homes that have not been on the market for 35-years but will be resold over the next 10-years. During that 10-year period 18,000 contracts on homes worth $32 billion will mature, leaving 40,000 occupant managed contracts on homes worth $77 billion. Owning this low LTV portfolio expected to yield 18-22% is compelling given the economic engine Winkler summarizes below.

Extract from Winkler article: Just about every measure of growth shows that the Golden State is peerless among developed economies for increasing population, expanding gross domestic product, improved joblessness, rising personal income, investment in innovation, and wealth created by its stocks and bonds.

As the U.S. recovered from the 2008 financial crisis, California has been leapfrogging economies of nations with greater populations, such as Brazil and France. The British currency's depreciation accelerated the trend. Within the U.S., where critics never tire of accusing the state of undermining business with abundant taxes and regulations, California GDP is 60 percent bigger than No. 2 Texas. None of the Group of Seven highly industrialized nations could beat California's annual 3 percent growth in the most recent period for which such statistics are comparable, according to data compiled by Bloomberg.

California's prosperity owes much to its appeal as a destination for worldwide companies pursuing innovation, especially in the technology and health-care industries. Of the 5,440 corporate locations in the state, 17 percent are research and development facilities, according to data compiled by Bloomberg. That ratio easily beats the 10 percent for the U.S., China's 13 percent, Japan's 11 percent and Germany's 16 percent.

Investors in stocks and bonds are reaping a unique bonanza from California. Debt securities sold by the government of California returned (income plus appreciation) 4.7 percent during the past 12 months. That's equivalent to 6.5 percent after adjusting for the tax benefit and handily beats the 3.9 percent total return from the U.S. Comparable debt for China, Japan and Germany lost 0.3 percent, 2.9 percent and 5.5 percent during the same period, according to the Bloomberg Barclays Indexes.

During the past decade, California's publicly traded companies returned 420 percent. By comparison, the S&P 500 gained 239 percent, China's CSI 300 index advanced 57 percent, Japan's TOPIX climbed 70 percent, and Germany's DAX appreciated 121 percent. The

California shares also outperformed markets in those four countries over five years, three years, two years and one year. Lest anyone think the performance of Golden State shares is only about technology, they will find that California energy companies outperformed the Russell 3000 by 26 percent; communications firms by 23 percent; industrials by 11 percent and the consumer industry by 7 percent, according to data compiled by Bloomberg.

And if anyone wonders why corporate California does so much better with investors than its counterparts elsewhere in the U.S. and the world, they will find the answer in superior margins. Revenue for more than 800 publicly traded companies in California during the past year increased 23 percent, beating the 14 percent for the rest of the U.S., 19 percent for China, 10 percent for Japan and 3 percent for Germany. When California companies turned $100 of sales into $57 of gross profit, they topped the $49 average for the U.S., $35 for China and $39 for Japan and Germany. What did corporate California do with its robust earnings? It created more jobs, increasing its employees by 15 percent, twice the average for corporate America, almost double China's 8 percent, more than seven times Japan's 2 percent and almost quadruple Germany's 4 percent.

Extract from Matthew A. Winkler article with introductory comments by

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