

*Bill Watkins*

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This forecast is the most optimistic we've had for California in CERF's existence. There are a couple of reasons for this. One is the big upgrade to the United States forecast, mostly a result of lower oil prices. The other is California's tech sectors. California retains its leadership position in most tech industries, and that leadership is currently serving the state well. Annualized GDP growth should exceed three percent in most quarters throughout the Forecast horizon.

We're a bit concerned that this growth will cause a relaxing of pressure to improve economic opportunity for the many Californians not able to share in the tech sectors' bounty. It is similar to the water situation. California needs water, and we hope it rains. Still we're concerned that a rainy winter will cause Californians to abandon needed reforms in our water system and pricing.

Water is the big question mark in forecasting California's economy this year, and this forecast implicitly assumes that the drought does not become worse. That is, it assumes rain, but not in Biblical quantities. So far, that appears to be a reasonable assumption. We've had one big storm and another is expected as we write this.

Still, it wouldn't be the first time that the winter looked good in December, but disappointed in the remaining months of California's rainy season. By contrast, in the Winter of 1990-1991 it had only snowed 52.3 inches through February at Mammoth. In March, the mountain received 176 inches of snow. There is always hope.

If we don't get enough snow and rain this Winter to at least maintain California's current water position, Californians could really see some economic pain. Already some agricultural communities in the Central Valley have imposed draconian water restrictions and suffer extraordinary unemployment. Without rain, next year will be far worse. Our reservoirs and aquifers have far less water in reserves than they did just a year ago, meaning we've pretty much run out of reserves.

No rain would also incite more discord among Californians. A lot of that discord is unnecessary. As my colleague Matthew Fienup likes to say, there is a difference between a drought and a

water shortage. A drought occurs when it doesn't rain or snow. A water shortage occurs when the price of water is too low.

Instead of extensive regulation, rationing, intrusive policing, shaming apps, and water allocations based on political power more than economics, California's water issues could be more efficiently dealt with by capping aquifer withdrawals at sustainable levels and allowing those with water rights to resell the water at market prices.

Unfortunately, we're more likely to see buckets of rain than we are to see California with efficient markets in water. So, we pray for rain. If we get rain, California will probably have a good year. If not, well...

As it is, we'll be watching rainfall and snowfall amounts. If we don't get what we need, we'll have to incorporate the lack of rain into our forecast.