California's High Unemployment Rate Account for its Great Housing Cost

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Abstract. According to the classic macro-economics, a region with higher GDP would have a lower unemployment rate. However, the unemployment rate in California, the state often gets the greatest GDP amount in the US, often exceeds the one in Texas. It contradicts the standpoint above. Inspired by an article written by Joe Weisenthal, I suspect it has something to do with the different house prices in California. The following article will explain the relationship between the unemployment rate and the housing price in a region.

Keywords: Employment Rate; GDP.

1. Introduction: California's High Housing Price

California's GDP perennially reminds higher than Texas. A suitable environment, perfect industrial system, and developed economy have attracted a lot of people to settle down. However, as we all know, living in a decent, affordable and affordable home is one of the most important determinants of well-being for all. Housing determines our access to work, education, recreation and purchasing power as it affects our lives in many important ways. Unfortunately, whether people buy or rent, homes in California are often more expensive than homes in Texas. For example, in 2015, house price in Cal. was nearly four times like that in Texas and has largely surpassed twice the American average [1][2] [3].

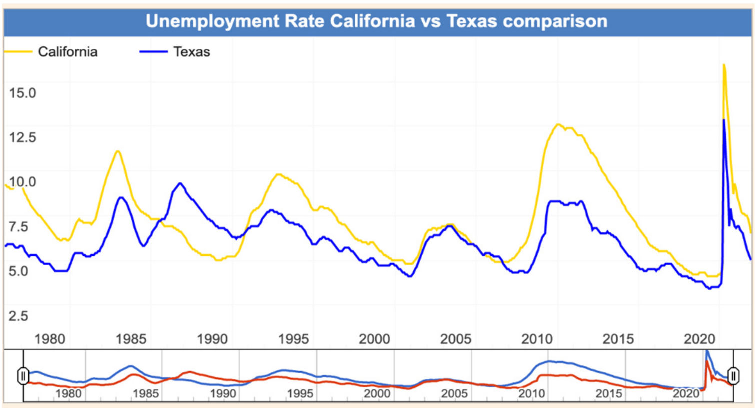

Fig 1. Unemployment Rate California vs Texas comparison

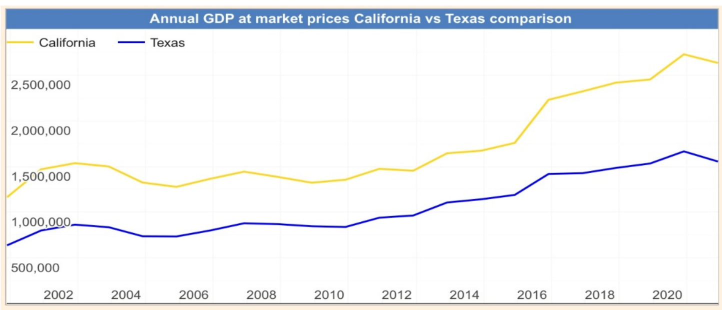

Fig 2. Home Prices Higher in California Than in Other Large States Annual GDP at market prices

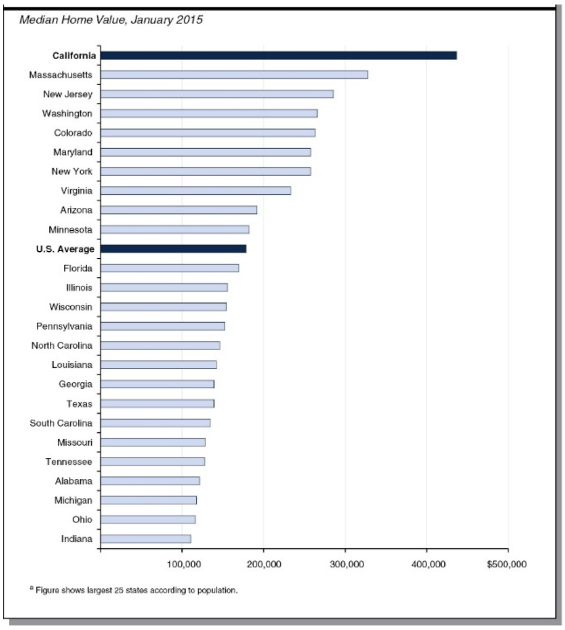

Fig 3. California vs Texas comparison

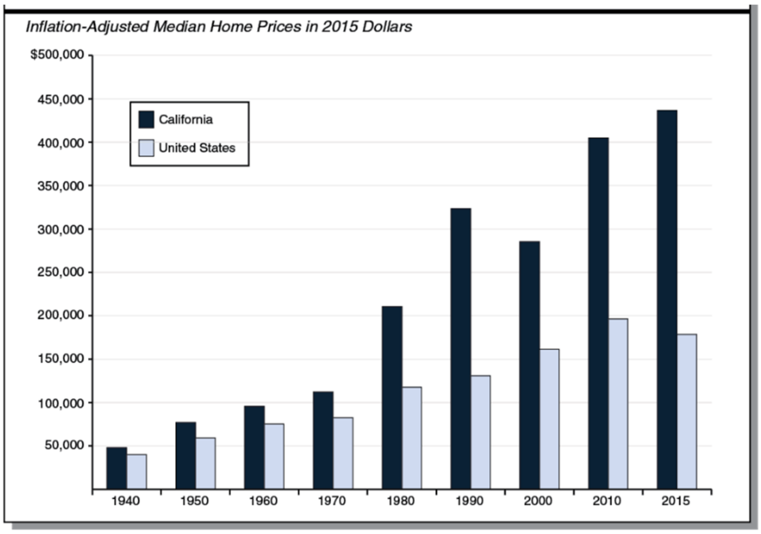

Fig 4. California Home Prices Have Grown Much Faster Than U.S. Prices

Meanwhile, California is also one of the fastest-growing regions in housing prices. It has surpassed the national average growth rate since 1940, and the gap has been widening from then on.

Faced with high housing prices, many families struggle to find affordable housing that meets their needs. Under this situation, many families make big compromises to stay here. To pay the huge rent, they increase their job hours, cut their entertainment, and even start to save on food and clothing. Still, sometimes they are not able to pay for the living expenses. Therefore, many people have left California to other states with relatively low house prices. I suspect that this frequently changing of residents might have some influence on the high unemployment rate of California, and a chart made by Joe Weisenthal illustrates my viewpoint. The chart shows California's relative unemployment rate (red line) vs. a blend of California housing data points. As shown in the chart, from the 1990s to 2010s, as housing improves, the unemployment rate approximately increases; as housing descends, the unemployment rate generally decreases.

2. Analyse: Crowded Housing

Fig 5. Shaded areas indicate US recessions

[4] According to the NCBI, oversized households, measured as rooms, bedrooms or floor area, exceed the number of residents, lead to physical and mental health problems. It is well known that housing prices in California are very high. To pay the bill, some people decided to live with others in a small flat and share the rent. Some families might choose to live in a remote and narrow house for its cheaper price. As a result, overcrowded housing becomes a familiar problem in California. [5] According to the study, 6.3 million Californians, or 16%, live within overcrowded housing. One-third of these were over-represented. California has the second highest rate of households in the country, more than double the national average.

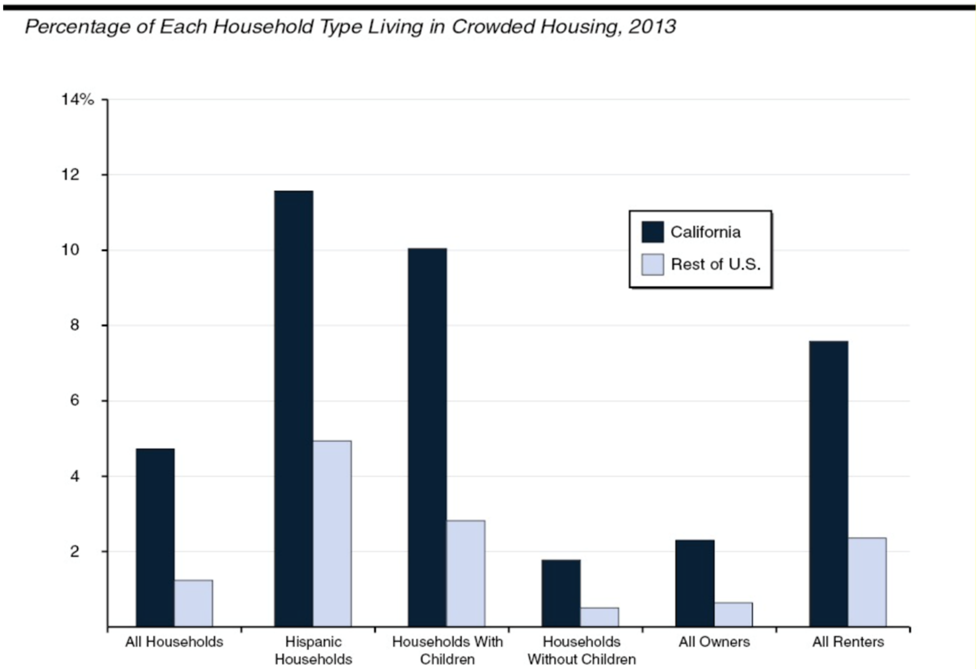

Fig 6. Crowding Rates Higher in California, Even Among Same Household Types

[6] In 2013, California had much higher crowding rates in every kind of household rate than the rest of the US.

Too many houses will cause all kinds of problems. Before the epidemic, crowded housing affected health and educational outcomes.

[7] According to the LAO, overcrowded residents generally have higher levels of educational and behavioral health problems than those who do not live in overcrowded housing. For adults, crowding will increase their pressure and make them more aggressive, which will break up their social interchange and weaken relationships with their children. Being in crowded places has more negative effects on children. Researchers found that children in overcrowded homes scored lower on standardized math and reading tests. The availability of learning environments and the absence of distractions appear to affect academic achievement. Too many people can also disrupt sleep and affect mood and behavior. As a result, children in overcrowded homes are also more likely to have behavior problems at school. The pandemic deteriorated these problems. People are more likely to be affected when they stay with others in a small place. [8] "Some people are more affected, which reflects the inequalities in our society," said Justin Feldman, a social epidemiologist in the Department of Population Health at NYU School of Medicine. Once they were sick, their work and study status will certainly be affected, which might lead to a serious outcome, like amerce or losing a job. With or without the epidemic, crowded houses can have a very bad impact and experience. Many people who were reluctant to squeeze into small houses chose to leave California to rent large houses in areas with low housing prices and live a relatively comfortable life before the pandemic. After the event, more people will end this crowded life for their health and life safety.

3. Consequences: Obstacles to Development

3.1 Firms

Of course, every year, a lot of people come to California and try to find their opportunities. However, every year, many people also abandon their fantasies and leave California for their high living expenses. A high fluid population will make it difficult for companies to hire employees.

First, labor costs are their main operating costs for most businesses. The company spends a lot of money to arrange interviews and job training for employees. The time it takes for employees to gradually become familiar with the work process and master various skills is also a considerable cost. Therefore, an experienced employee is a valuable resource for the company. A resignation of experienced staff means that the company has to spend additional money and time to cultivate a new staff, which is very disadvantageous for the development of the company.

Second, where the cost of living is high, businesses typically have to pay workers higher wages because they need additional income to offset the cost of living. The cost of living in California is one of the highest in the world mainly because of the high cost of living in California. However, not every company can provide such high wages, especially those undeveloped, small firms. When these small companies cannot offer sufficient salaries to their employees, or other larger firms promise better terms, many employees will choose to leave.

So, for many small companies, California's high cost of living means it's hard to hire or retain talented employees. [9] In a 2014 Silicon Valley Leadership Group survey of more than 200 businesses, 72 percent of executives cited "employee housing costs" as the most important challenge facing Silicon Valley businesses.

3.2 State

Rising housing prices favor Californians in more manufacturing cities. In general, downtown businesses and workers are more economically viable than other regions. (Economists use the term "rich economies" to describe these regions. Agglomerated economies increase labor productivity as population density increases.) Higher productivity leads to more economic output per worker a bringing about greater economic growth in the region. Under normal circumstances, these economic opportunities attract new workers from other regions. In general, this would result in a significant increase in population in state capitals. However, the spike in housing costs in recent decades has made this much less so. Many potential workers to offset their high housing costs. Many potential workers have to give up the chance to work in those most productive areas because they are unable to offer the high cost of living. As a result, California's major industrial cities grew faster than others. If more workers lived in the state's high-productivity cities and created profits more efficiently, the state's economic activity would be greater than it is today. [10] Recent research provides a helpful guide to the magnitude of this effect. University of California Economists from the University of Berkeley and the University of Chicago recently estimated that annual US economic output — the total value of goods and services produced each year — would fall 13 percent below today's levels due to "increased housing restrictions." is," they said. Supply in manufacturing cities".

4. Solution

One way to decrease unemployment and improve the economy is to lower California house prices. It seems quite straightforward cause the fastest way to lower house prices is to build more homes. However, the value of the exciting housing, the location of new adding houses, and the subsequent environmental effects… All the factors should be carefully concerned. It's unwise to simply add some houses. Despite the new construction, the state government can also think about the possibility of lowering the current housing price or offering employment loans for those in difficulty. Anyway, whatever the method, the housing cost in California should indeed be lower.

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