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California Legislature

Select Committee on Economic Development and Technological Innovation

February 5th, 10:30am - 1:30pm

Examining California Industrial Policy: Manufacturing and Economic Development

Purpose of the Hearing

This Senate Select Committee on Economic Development and Technological Innovation informational hearing will discuss current status and future trends of the development of high-tech manufacturing facilities within the state. The committee will hear from industry experts, labor groups, and other stakeholders on the barriers manufacturers face, and how to ensure California remains dominant nationally and globally in manufacturing and technology development.

Background

Manufacturing Employment History

California's manufacturing sector has experienced declines in employment in recent years, even as the broader labor market recovered post-pandemic. As of December 2024, California had about 1.29 million manufacturing jobs, down approximately 45,700 jobs from a year earlier. California's factory payrolls shed jobs in most months through 2024, with a -1,300 drop in December 2024 alone.[1] Over that year, the sector contracted ~3.2% in California even as total nonfarm employment grew ~1%. This placed California behind the nation in manufacturing employment recovery and growth. The state had

[1] California Employment Development Department

nearly 1.97 million manufacturing jobs in 1990, but only about 1.3 million in 2024 - a result of decades of automation and offshoring. Roughly 24% of those jobs are concentrated in the Bay Area, and more than 33% are located across Los Angeles, Anaheim, and Long Beach.[2] While output in certain industries has grown, structural factors have limited job growth.

Manufacturing Employment Dynamics Today

Manufacturing has historically presented a pathway for non-college graduates to achieve economic mobility and stability, though trends in recent years indicate that is changing. Manufacturing wages in California remain high in absolute terms with weekly earnings through September of 2025 averaging $1,678.50 (~$87,000/yr)[3] which is roughly 23% higher than the state average across all industries,[4] and 18% higher than the national average earnings in the manufacturing sector.[5] However, since the beginning of 2023, the growth rate of the 12-month employment cost index (ECI) - a weighted index comparing compensation today to compensation in the previous year - for non-farm workers in the Los Angeles and Bay Area regions private sector which, as mentioned earlier, have the highest concentration of manufacturing jobs in the state - has fallen 1.2 and 0.7 percentage points respectively.[6] With West-region CPI inflation running steadily just below or at 3% over the past year, these compensation shifts have brought the ECI closer to inflation, suggesting stagnant or slightly downturned wage growth for the manufacturing workforce in relative terms.[7] This is also supported by constant dollar ECI, which has remained under 1% since the end of March 2024 in line with broader macroeconomic signs of a softening labor market that has alleviated some of the upward inflationary pressure wages have had since COVID. To that effect, the Federal Reserve is

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[2] BLS 2023 Average State and Metro Area Employment, Hours, & Earnings
[3] California Employment Development Department: Hours and Earnings Data
[4] BLS: Usual Weekly Earnings of Wage and Salary Workers
[5] Table B-3. Average hourly and weekly earnings of all employees on private nonfarm payrolls by industry sector, seasonally adjusted - 2025 M09 Results
[6] BLS 12 month percent change in compensation in private industry by metropolitan statistical area
[7] BLS Western Region CPI-U

expected to pause rate cuts until June of 2026.[8] Due to the high levels of union penetration in California, it's also important to note that when comparing national private industry compensation over this period by bargaining status, nonunion private industry labor compensation over the last 12 months has fallen by 0.9% compared to a 0.9% *increase* by their union counterparts.[9]

Conditions Manufacturer's Face Today

For manufacturers, modest interest rate cuts and tariff pressures on supply chains for raw material inputs has remained a significant challenge. The U.S. Chamber of Commerce estimates raw material inputs comprise 56% of all imported goods.[10] The United States currently imports over 74% of its rare earth oxides which makes high-tech manufacturing startups particularly exposed to both market volatility, and reliance on foreign mining.[11] From 2022-2023, manufacturing business starts fell below other business starts, at approximately 2 starts for every 100 existing manufacturing businesses - below the national median. Beyond these market conditions, California manufacturers face other challenges; not least of which is the state's regulatory and cost environment. The median number of regulatory constraints for manufacturing in the state is 3,823, as compared to a national median of 1,055.[12]

California's manufacturing contributed ~$397 billion in annual gross domestic product output in 2023.[13] Manufactured goods comprise 87% ($159 billion) of California exports - the driving sectors of which are primarily computer equipment, semiconductors, instruments, and aerospace products and parts.[14] These manufacturing niches offer significant potential for growth due to the convenience firms value in manufacturing facilities being near to their research and development teams. As of 2023, the top

[8] Governor's Budget Summary 2026-27
[9] BLS Compensation in Private Industry by Bargaining Status, 12 Month Percent Change
[10] Tariffs Up, Manufacturing Down: How U.S. Factories Are at Risk
[11] National Energy Technology Laboratory: Rare Earth Elements – A Subset of Critical Minerals
[12] Policy Brief: Business Regulation and Business Starts in California
[13] State Economic Blueprint - California Jobs First
[14] PPIC: The Role of Trade in California's Economy as Tariffs Loom

manufacturing subsectors in California were electronic instruments (comprising 7.13% of all manufacturing), aerospace products and parts (6.99%), semiconductors and electronic components (6.64%), medical equipment and supplies (4.6%), and pharmaceutical and medicine manufacturing (3.48%).[15] Analysis from 2022 indicated that high-tech manufacturing accounted for 36.9% of manufacturing in the state, as compared to 18.5% nationally.[16] Federal tax policy and supply chain priorities also influence California's industrial base. After the passage of the Inflation Reduction Act in August of 2022, $3.75 billion in private investments across 17 clean energy manufacturing projects were announced in California. However, since January 2025, three projects totaling $2.2 billion in investments have been cancelled.[17] This underscores the need for coordinated state policy to drive investment in the absence of federal dollars.

There is a growing concern around how conducive California's business environment is to cultivating a resilient and diverse manufacturing economy. Roughly half of the headquarters that left California between 2011 and 2021 were in manufacturing, wholesale trade, or business services. Approximately 22% of the headquarters that left in that period were manufacturing firms.[18] Additionally, while California has the largest absolute number of manufacturing jobs in the country, they only account for about 7% of our workforce, the 32nd highest share nationally;[19] this is less than half of what it was in 1990, when manufacturing accounted for 15.7% of statewide nonfarm employment.[20]

Policy Implications

The potential scale of the high-tech manufacturing sector demands sustained investments in training, apprenticeships, and upskilling aligned to high-value segments (e.g., semiconductors, aerospace, and additive manufacturing). The decline in manufacturing

[15] California EDD: Long Term Industry Employment Projections (Baseline Year 2023)
[16] CMTC: California's Manufacturing Network (analysis from Beacon Economics)
[17] Clean Economy Works | Tracking New Clean Energy Projects Across U.S. | E2
[18] PPIC Report: Are Company Headquarters Leaving California?
[19] California Business and Economic Development
[20] BLS: Western manufacturing employment: trends and peaks over 30 years : Monthly Labor Review

employment and the relocation of research and development functions underscore the importance of regulatory clarity, predictable permitting, and collaborative development. Due to the fact that manufacturing represents a smaller share of California’s overall employment than in many states, localized contractions can disproportionately impact regional economies and supply chains. Additionally, energy-intensive manufacturing projects which leave California risk consuming energy produced from sources which run contrary to the state’s climate goals.

Opportunities for Growth

In many technology-intensive industries, the line between manufacturing and engineering is increasingly blurred, meaning that despite the higher costs of labor, land, and regulatory hurdles, companies in these industries still have real incentives to try to select manufacturing sites near their research and development teams. California’s strengths in computer equipment, semiconductors, instruments, and aerospace research point to opportunities for expanding manufacturing capacity and supplier ecosystems. Targeted support for trade infrastructure, logistics efficiency, grid capacity, utility coordination, and export promotion could amplify job creation. Stackable credentials, credit for prior learning, and employer-union partnerships can accelerate transitions into higher-wage manufacturing roles.