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California Leads U.S. Economy, Away From Trump.

Whatever the president says, this state does the opposite. It's working.

To justify his executive orders nullifying policies protecting people from climate change, hazardous working conditions and persecution because of their religion or citizenship status, President Donald Trump during a Feb. 16 press conference said: "To be honest, I inherited a mess. It's a mess. Jobs are pouring out of the country." He later told the Conservative Political Action Conference that regulations are "crushing our economy."

That's a claim worth exploring. Look at California, which is one-eighth of the U.S. population with 39 million people and one-seventh of the nation's gross domestic product of \$2.3 trillion. Far from being a mess, California's economy is bigger than ever, rivaling the U.K. as No. 5 in the world, when figures for 2016 are officially tabulated.

California is the chief reason America is the only developed economy to achieve record GDP growth since the financial crisis of 2008 and ensuing global recession, according to data compiled by Bloomberg. Much of the U.S. growth can be traced to California laws promoting clean energy, government accountability and protections for undocumented people. Governor Jerry Brown, now in his fourth term, considers immigrants a major reason for the state's success: "39 percent of us are Latino and the majority are from Mexico," he said in a March 2 interview in his Sacramento office.

In the stock and bond markets, where investors show no allegiance to political parties, California has outperformed the rest of the U.S. the past five years, especially since the Nov. 9 election, when Trump became the fifth person to win the Electoral College and lose the popular vote. California's creditworthiness keeps getting better, measured by the declining premium global investors must pay to ensure against depreciation of the state's debt obligations. That premium has diminished more than for any other state since 2012, according to data compiled by Bloomberg. California, whose voters favored Hillary Clinton two to one, outperformed Treasury bonds since the November election. Texas, which is the second-largest state in population and which supported Trump, became cheaper compared to Treasuries and California in the market for state and local debt since the November election. Investors see security in the state with more protections for immigrants and more regulations.

California's borrowing cost is 0.15 percentage points lower than the average for states and municipalities and has declined to just 0.24 percentage points more than the U.S. pays on its debt, down from 1.97 percentage points in 2013.

At the same time, bonds sold by California's municipalities produced a total return of 2.3 percent since November, outperforming the benchmark for the U.S., according to data compiled by Bloomberg. The growing popularity of bonds sold by California issuers is a consequence of the state's more rigorous regulation of the market, specifically legislation signed by Brown last year, creating greater transparency and accountability for issuers of California debt.

No state or country has created as many laws discouraging fossil fuels and carbon while promoting

clean energy. That convergence of policy and voter preference is paying off in the stock market.

California is home to 20 of the 130 companies in North America and South America that meet the standard classification of clean energy. These 20 companies produced a total return of 45 percent during the past 12 months, beating the clean energy benchmark's 13 percent, the S&P 500's 19 percent and the S&P 500 Energy Index's 6 percent.

California clean energy companies reported annual revenue growth of 26 percent, almost three times the benchmark, and they turned more revenue into profit with an average gross margin of 46 percent, compared to 41 percent for the benchmark. California companies also spent 13 percent of their revenue on research and development compared to 8 percent for the benchmark. Jobs at clean energy companies in California increased 14 percent last year, double the average rate for the industry. Analysts surveyed by Bloomberg say these 20 stocks will gain only 1 percent during the next 12 months, because they achieved their target valuations much sooner than predicted. Tesla Inc., the Palo Alto-based manufacturer of electric vehicles, appreciated 60 percent since Trump's election and is now worth more than \$50 billion, greater than Ford Motor Co.'s \$45 billion market capitalization and almost as much as General Motors Co.

"We have a goal of a million and a half electric vehicles by 2025 and that's quite a steep curve to get there," Brown said in the interview in March. "No matter what Trump says, China, the world, the academies of science and all the major countries have all recognized climate change. Certainly, businesses acknowledge they have to make these investments. California is well on its way."

Technology driving the clean energy boom is the reason California companies lead most of their peers in U.S. The 467 California-based firms in the Russell 3000 Index produced a total return of 185 percent since 2012, easily surpassing the 94 percent for the index, according to data compiled by Bloomberg. Analysts also are more bullish on companies in California than the rest of the U.S., predicting a 12-month average total return 12 percent (income plus appreciation) versus 9 percent, according to data compiled by Bloomberg.

Behind such a favorable outlook is the diversity of the California economy, which grew \$42.3 billion during the first three quarters last year. That's almost as much as the next two fastest-growing states, New York and Florida, combined.

California's revenue from agriculture, forestry, fishing and hunting totaled \$39 billion in 2015, plus \$279 billion from manufacturing. The trailing 12-month revenue from California technology companies is \$720 billion, or 54 percent of the U.S. industry, according to data compiled by Bloomberg.

The capitalist juggernaut that is California helps explain why the state's per capita income increased 9.5 percent since 2015, the most of any state and the most since 2012, according to data compiled by Bloomberg. Far from losing jobs overseas, California keeps creating them with an unemployment rate declining to 4.9 percent from 5.7 percent in 2016, faster than the national average.

None of this is lost on the residents of California. They are proudly enacting policies in opposition to Trump's. The legislature became the first to vote to become a sanctuary state, and supported raising gas taxes and vehicle registration fees to improve infrastructure. While Trump gets the lowest approval of any new president after 100 days and the Republican Congress does worse, the politics of California are the opposite. A recent University of California Berkeley Institute of Government Studies poll found 57 percent of California's registered voters approve of the legislature's job performance. Brown gets 61 percent approval.

If that's a "mess," Trump could only hope for more of it.

Bloomberg View

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(With assistance from Shin Pei.)

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