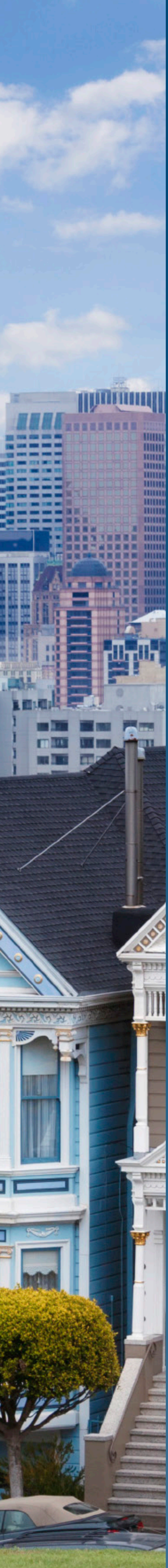
California Bankers Association

Economic Impact Study

October 2024

CALIFORNIA BANKERS ASSOCIATION

BEACON ECONOMICS



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Key Terms

Term	Definition
Direct Effect	The output of goods or services resulting from immediate spending. These expenditures occur in a variety of categories, including direct hiring by banks, and intermediate input purchases such as electricity, software or office supplies.
Indirect Effect	The additional output of goods or services generated by supply chain interactions. For example, when a bank purchases software from a firm in Silicon Valley, the firm will then hire software engineers or purchase additional equipment to meet demand, thereby generating an indirect impact.
Induced Effect	The additional output of goods or services generated by households spending their income.
Secondary Effect	The sum of indirect and induced effects.
Total Impact	The sum of direct, indirect, and induced effects.
Multiplier	The multiplier indicates how economic activity in one sector stimulates additional activity across other sectors. Multipliers are a measure of an industry's connection to the wider local economy by way of input purchases, payments of wages and taxes, and other transactions.

Term	Definition
Employment	The number of jobs supported through spending.
Labor Income	The value of all forms of employment income paid for all types of impacts, including health benefits, bonuses, etc.
Gross State Product (GSP)	A state-level version of Gross Domestic Product (GDP) (i.e., the market value of production in California less the value of goods and services used to make those final goods and services).
Output	The total value of production generated through bank spending, including the value of intermediate inputs (i.e., the goods and services used in the production of goods and services, raw materials, energy, and other production inputs).
Multi-Region Input-Output Analysis (MRIO)	Type of analysis examining trade between regions and commuting patterns to quantify how changes in production or income in one area influence demand in other areas, highlighting the economic interdependence between regions.
Industry Contribution Analysis (ICA)	The method used to estimate the value of an Industry or group of Industries in a Region, at their current levels of production.

Executive Summary

California's banking industry drives economic activity and social development throughout the state. As financial intermediaries, California's commercial banks contribute to broader economic growth, enabling business expansion and job creation.

California has more commercial banking establishments than any other U.S. state, **its 6,798 establishments accounting for 8.5% of all such establishments nationwide.**

Economic and Fiscal Contributions

Through its operational activities, the California banking sector generates significant economic and fiscal impacts across the state. Beacon Economics estimates that banking sector operations support over **$118.3bn in total economic output, $81.9bn in Gross State Product (GSP), and support the employment of over 270,000 workers in various sectors.** The ripple effects of commercial banking activity touch many parts of the state economy, including supporting economic activity in sectors such as Real Estate, Health Care, and Professional Services, driving growth through indirect (business-to-business purchases) and induced effects (employees spending from wages).

Fiscal impacts are also significant, with banks generating approximately **$5.4bn in state and local tax revenue and $7.6bn in federal tax revenue.**

	Commercial Bank Direct Impacts	Total Economic Impacts (Direct + Indirect + Induced)
Jobs Supported	101,583	270,366
Labor Income	$19.5 B	$32.3 B
Gross State Product	$61.3 B	$81.9 B
Economic Output	$84.3 B	$118.3 B
State and Local Tax Revenue	$3.2 B	$5.4 B

Multiplier Effects

Understanding the multiplier effect is just as important as knowing the total impact, as it helps estimate the broader economic outcomes when banking activities change.

The multiplier effect demonstrates how the initial economic impact of spending or investment (for example, opening a new bank branch) ripples through the local economy. Commercial banking has strong employment, labor income, and economic output multipliers, underscoring its strong linkages to the state's economy. This means that changes in commercial banking operations **translate into significant indirect and induced impacts across other sectors.** As a result, the operational activity of commercial banks reverberates more powerfully through the local economy, amplifying the overall contribution.

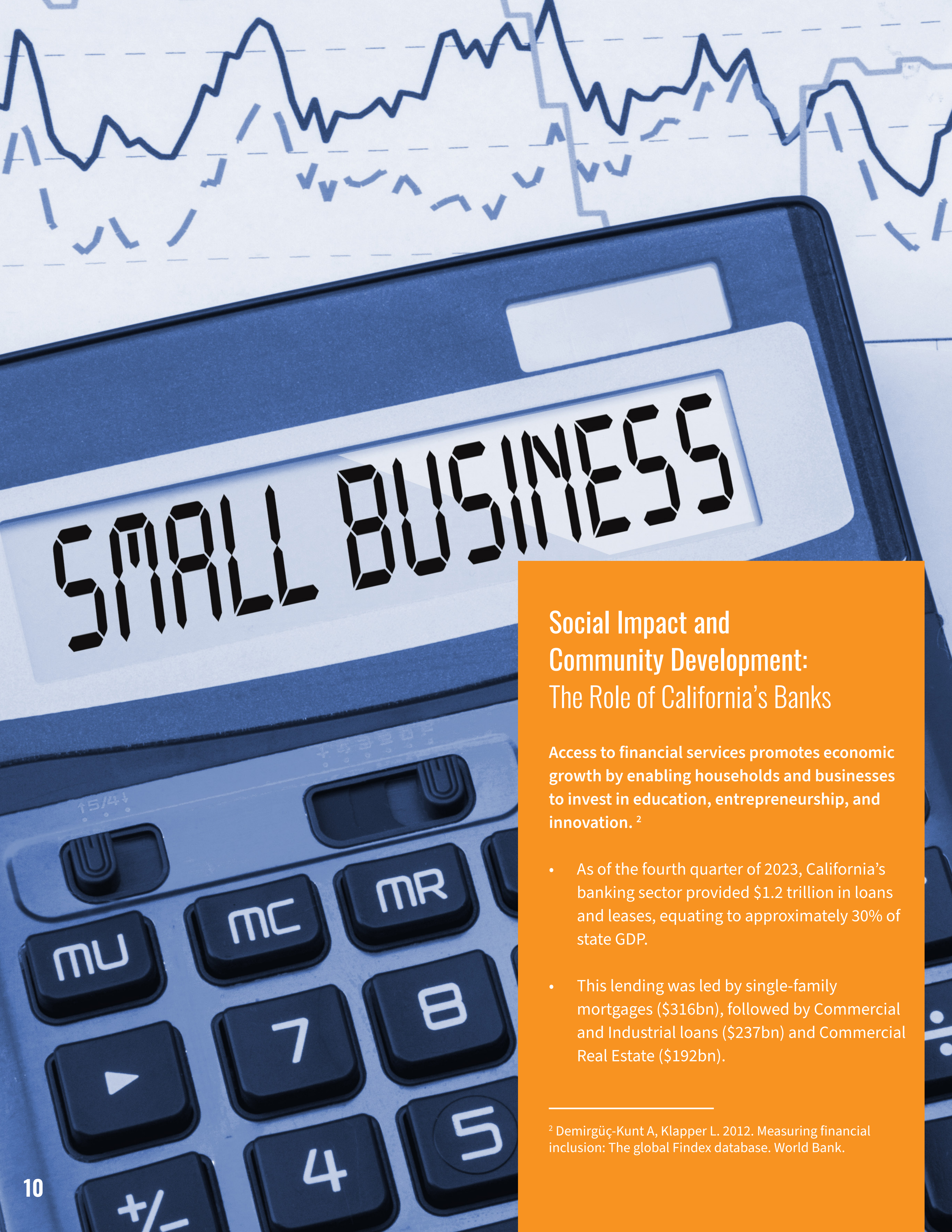
		Banking Industry Multiplier
Employment	Every direct job in the banking industry supports 1.66 additional jobs in the local economy.	**2.66**
Labor Income	For every dollar of direct labor income in the banking industry, another 65 cents of labor income is generated in the local economy.	**1.65**
Output	For every dollar of output in the banking industry, a total of 40 cents of economic activity is generated in the local economy.	**1.40**

Wages, Employment, and Workforce Demographics

California's banking sector is a strong component of the workforce, employing 103,961 people, or 7.5% of all commercial banking sector employees in the United States.

	California	
Employment	**103,961**	**7.5% of U.S. Banking Industry**
Average 2023 Annual Wage	**$141,000**	**60% higher than the State average annual wage** **24% higher than U.S. Commercial Banking Industry**

The industry fosters a diverse workforce and creates economic opportunity with its emphasis on higher education and high-paying careers. Its balanced gender representation in key roles, equitable racial and ethnic distribution, and the concentration of well-educated, competitive wages and career advancement underscores the role the banking sector plays in supporting both the state's economy and its workforce.



Social Impact and Community Development:
The Role of California's Banks

Access to financial services promotes economic growth by enabling households and businesses to invest in education, entrepreneurship, and innovation. [2]

- As of the fourth quarter of 2023, California's banking sector provided $1.2 trillion in loans and leases, equating to approximately 30% of state GDP.
- This lending was led by single-family mortgages ($316bn), followed by Commercial and Industrial loans ($237bn) and Commercial Real Estate ($192bn).

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[2] Demirgüç-Kunt A, Klapper L. 2012. Measuring financial inclusion: The global Findex database. World Bank.

Financial access is key to reducing income inequality,[3] [4] providing underserved low- and moderate-income (LMI) communities with credit and capital for sustainable growth.

- In 2022, banks provided $34.7bn in Community Reinvestment Act (CRA) small business loans and $334 million in loans to small farms, illustrating their role in fostering economic development across the state.
- California accounts for 15% of all CRA-designated small business and farm loans nationwide.

Beyond direct CRA lending, California's banks engage in community development through Community Development Financial Institutions (CDFIs). While partnerships are the most common form of engagement, some banks also pursue CDFI certification. Both approaches help expand access to capital and support economic growth in disadvantaged communities. Since 1997, **California CDFI-certified banks alone have been awarded $1.3bn, representing 15% of the total $8.5bn granted to CDFIs in the state.**

While these awards to CDFI-certified banks are substantial, **the full contribution of banks to community development is far more extensive. Banks are key partners of CDFIs, serving as the largest providers of private capital through direct loans, equity investments, and grants.** [5]

- Nationally, between early 2020 and 2022, the eight U.S. Global Systemically Important Banks[6] invested more than $9.2bn in CDFIs.[7] Beacon Economics estimates that around 15% of this investment—or roughly $1.38bn—may have gone to support CDFIs in California. While this represents a significant contribution, the total capital flowing to CDFIs is even larger when accounting for investments from other local and regional commercial banks.

These partnership investments help address capital gaps faced by CDFIs, enabling them to scale their services and meet the growing demand for financing in underserved areas. Through these efforts, banks support small business lending and start-up financing. They fund projects that strengthen families, along with other initiatives that encourage economic development in distressed communities.

As capital requirements increase, the role commercial banks play in the economy becomes even more essential. This report highlights the **multifaceted contributions** of California's banking sector to the state's economic and social makeup. The findings demonstrate how banks drive economic activity and support job creation, while generating significant tax revenues and supporting community development.

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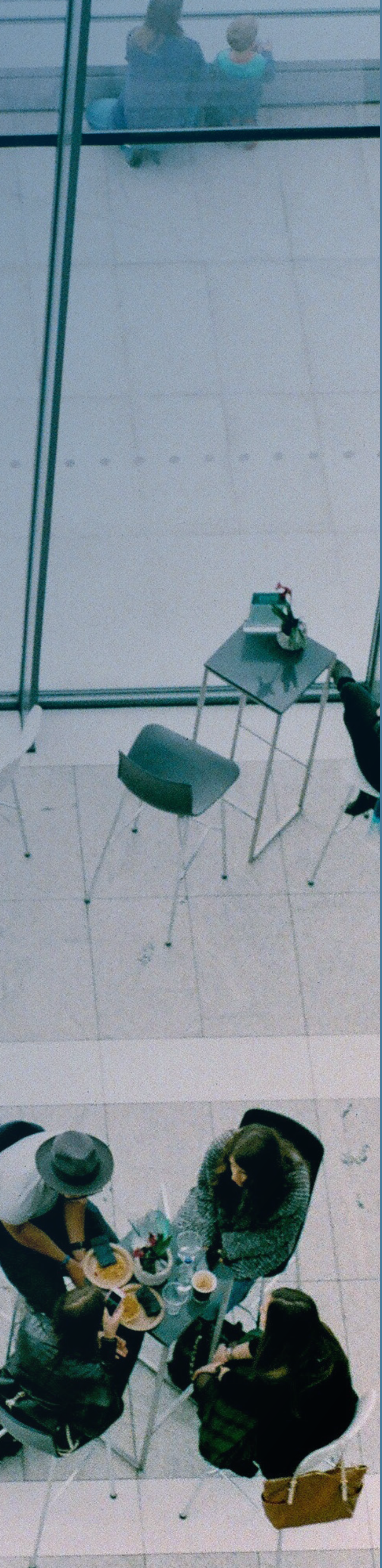
[3] Konstantakopoulou I. 2023. Financial Intermediation, Economic Growth, and Business Cycles. Journal of Risk and Financial Management. 16(12).[4] Demirgüç-Kunt A, Klapper L. 2012. Measuring financial inclusion: The global Findex database. World Bank.
[4] Beck, T., and Levine, R. (2005). Legal institutions and financial development. In Handbook of new institutional economics (pp. 251-278). Boston, MA: Springer US.
[5] AERIES, 2023. CDFI Loan Fund Capitalization: The Continued Importance of Bank-CDFI Partnerships.
[6] The eight U.S. Global Systemically Important Banks: Bank of America, Citigroup, JPMorgan Chase and Co., Wells Fargo, Goldman Sachs, Morgan Stanley, State Street, and Bank of New York Mellon (BNY Mellon).
[7] Financial Services Forum. (n.d.). The largest U.S. banks are invested in CDFIs.

Introduction

California's banking sector plays a vital role in both the state economy and the well-being of its communities. As financial intermediaries, commercial banks facilitate the allocation of capital to productive uses. By mobilizing deposits from savers and extending loans to businesses and individuals, banks ensure the operational flow of the economy, enabling enterprises to grow, creating jobs, and driving economic development. [8,9]

[8] Konstantakopoulou, I. 2023. Financial Intermediation, Economic Growth, and Business Cycles. Journal of Risk and Financial Management. 16(12).

[9] Levine, R. 2005. Chapter 12 Finance and Growth: Theory and Evidence. In: Aghion, P., Durlauf, S.N., editors. Handbook of Economic Growth [Internet]. Elsevier; p. 865–934.



This report begins by examining the economic impacts of California's banking sector. Using input-output analysis with an IMPLAN model, Beacon Economics analyzes how the sector supports economic activity, employment, and tax revenues across the state. The study emphasizes the interconnectedness of California's banking sector with broader economic systems. Beacon Economics quantifies the direct, indirect, and induced ripple effects that banking activities support across multiple industries, particularly in sectors such as Real Estate, Health Care, and Professional Services. Understanding these intricate linkages is crucial, as they highlight how one sector can support economic growth in many others.

Next, the report analyzes the fiscal contributions the banking sector makes to local, state, and federal governments. Following this, the analysis examines wages, occupations, and the demographic composition of the sector's workforce. By understanding who comprises that workforce, and how they are compensated, the report sheds light on the sector's role in creating economic opportunities.

The banking industry's social contributions are explored through a look at deposit volumes, loan distributions, and community investments. The report emphasizes the sector's role in promoting community development, not only through CRA lending and CDFI partnerships but also as a contributor to the economic health of California's distressed communities. Banks are shown to actively support these communities as meaningful contributors to California's economic and social well-being.

Key Findings:

- **Economic Output:** Annually, California's banking sector contributes approximately **$118bn** in total economic output, with ripple effects across several sectors, including Real Estate, Finance, and Professional Services.

- **Employment Impact:** Each year, the banking industry directly and indirectly supports **over 270,000 jobs** across various sectors by year. This includes direct employment within banking institutions and secondary jobs created through the sector's operations.

- **Fiscal Contributions:** The sector generates every year approximately **$5.5bn** in state and local tax revenue and **$7.7bn** in federal tax revenue, a figure that includes corporate profits tax, sales tax, and payroll contributions to programs like Social Security and Medicare.

- **Multiplier Effect:** The multiplier effect measures how commercial banking operations stimulate additional economic activity across other industry sectors for every dollar spent. For example, if a branch expands its operations, the total impact would be the initial investment multiplied by the multiplier effect. Understanding this effect is as important as knowing the total impact, as it helps estimate the broader economic outcomes when banking activities increase or decrease. Commercial banks create ripple effects by purchasing goods and services, paying wages and taxes, and as bank employees spend their income, further stimulating the economy.

- California's commercial banking sector has a strong multiplier effect that drives growth across multiple parts of the economy. For every dollar a commercial bank employee earns, another 65 cents in wages flows into the pockets of workers in other industries. Every dollar produced in output by commercial banks supports an additional 40 cents in economic activity for businesses and communities statewide. Each commercial banking job also supports over 1.6 additional jobs in sectors like Real Estate, retail, and services.

- **Wage and Income Growth:** Average annual wages in California's commercial banking sector reached **$141,000 in 2023,** reflecting a **24% premium** compared to the national average for commercial banking roles.

- **Financial Inclusion and Capital Access:** The banking sector in California supports an estimated **$1.2 trillion in loans and leases** as of the fourth quarter of 2023, representing approximately **30% of the state's GDP.**

    - Single-family mortgages led lending activity at $316bn, followed by Commercial and Industrial loans ($237bn) and Commercial Real Estate loans ($192bn).

- **Community Development:** In 2023, California banks issued **$83.3bn in small business loans** under the Community Reinvestment Act (CRA), along with **$11.1bn in loans to small farms.** These contributions stimulate economic growth in underserved areas.

- **CDFI Partnerships: Banks in California are the largest providers of capital to Community Development Financial Institutions (CDFIs)**, contributing through direct loans, equity investments, and grants. These partnerships bridge capital gaps, enabling CDFIs to offer expanded services like small business lending, start-up financing, and funding for community development projects.

Methodology

Data Sources

To analyze the contributions and impact of commercial banking activity in California, Beacon Economics employed a comprehensive range of public and private data sources. The following table provides a brief overview of those data sources and how they were used.

Data Source	Data Set and Vintage	Data Description	Purpose
U.S. Bureau of Labor Statistics	Quarterly Census of Employment and Wages (QCEW) – 2022	Quarterly count of employment and wages covering 95% of U.S. jobs. Data is available by sector and various geographies including county and MSA.	Commercial banking sector wage and employment data for California.
IMPLAN	Imputed Census of Employment and Wages data – 2022	IMPLAN's CEW data series is a fully-disclosed, imputed data set that includes establishment count, employment, and wages for all sectors[10] at the county level for the entire United States. The source data is the BLS Census of Employment and Wages (CEW)	Source of primary county-level inputs for economic impact models . The BLS and other federal agencies suppress data at a sub-state level if it can be used to identify individuals or businesses. To overcome this, IMPLAN employs a bi-proportional matching, or the bi-proportional RAS algorithm, to fill in data gaps. Due to data constraints, Beacon Economics collected only employment and wage data for commercial banks[11] as exogenous variables.

[10] Sectors are defined using the North American Industry Classification System (NACIS) at the 6-digit level. For more information on NACIS please see: https://www.census.gov/naics/
[11] Beacon Economics used the North American Industry Classification System (NACIS) code 522110 Commercial Banking to define commercial banks in California.

Data Source	Data Set and Vintage	Data Description	Purpose
U.S. Census Bureau	American Community Survey Public Use Microdata Sample (ACS PUMS) – 2022	PUMS is a dataset that offers a detailed sample of the individual-level responses collected through the American Community Survey (ACS). It allows for the creation of custom estimates not available in pre-tabulated ACS data[12].	PUMS microdata includes rich demographic data by occupation enabling Beacon Economics to analyze demographic and occupational trends in California's commercial banking sector.
FDIC	Summary of Deposits (SOD) – 2022 Loan Data – 2022	The SOD is an annual survey of branch office deposits as of June 30th for all FDIC-insured institutions[13].	Deposit data were used to estimate California's share of deposits relative to the United States and individual county's share of deposits relative to California. Loan data was used to analyze the type and composition of commercial bank lending in California.
Federal Financial Institutions Examination Council (FFIEC)	Call Reports – 2022	The Call Report is a quarterly report of a financial institution's condition and income that is used for multiple purposes, including assessing the financial health and risk profile of the institution. Call Report refers to the FFIEC 031 and FFIEC 041 Call Reports[14].	Beacon Economics estimated California's share of activities relative to the United States and used the estimated shares to calculate loan activities based on FFIEC's Call Reports. Beacon Economics estimated the lending activity in the state that includes loans made by California-based banks, as well as an estimate of lending made by out-of-state institutions.

[12] For more information on PUMS data sets please see: https://www.census.gov/programs-surveys/acs/microdata.html
[13] For more information on SOD and the FDIC survey process please see: https://www.fdic.gov/resources/bankers/call-reports/call-summary-of-deposits.html
[14] For more information please see: https://www.ffiec.gov/reports.htm

Data Source	Data Set and Vintage	Data Description	Purpose
U.S. Treasury Department	Community Development Financial Institutions Funds	CDFI Fund produces annual research reports and data tables based on the analysis of source data derived from CDFI Fund awardees and allocations. [15]	Beacon Economics utilized CDFI and CRA loan data on amounts and awardees to analyze the social impacts of CDFI-based lending in California.

Input-Output Modeling

To generate the total economic and fiscal contributions of commercial banking in California, Beacon Economics used IMPLAN (Impact Analysis for Planning), a state-of-the-art input-output modeling system that estimates how certain expenditures correlate and affect other industries in a regional economy. IMPLAN expands on the traditional input-output (I-O) approach to include transactions among industries and institutions and among institutions themselves, thereby capturing all monetary market transactions in a representative period. This specific report uses the IMPLAN web model. For more information on the IMPLAN modeling process, visit IMPLAN.com.

Impact studies assume that any increase or change in spending has a direct effect, an indirect effect, and an induced effect.

- **Direct effects** – The output of goods or services resulting from immediate or direct spending by a bank. For example, when a bank opens a new branch in a city of California and hires staff such as tellers and loan officers, the salaries and operational costs of running the branch (rent, utilities) are the direct effects of that spending.

- **Indirect effects** – The additional output of goods or services generated by business-to-business interaction with suppliers of direct inputs, as well as the suppliers of the suppliers. For example, the bank's spending on technology services, security, and maintenance contracts supports other businesses. These suppliers, in turn, purchase goods and services from other vendors, such as the software industry and equipment manufacturers, creating a ripple effect across the supply chain.

[15] For more information on the CDFI Fund and program please see: https://www.cdfifund.gov/research-data

- **Induced effects** – The additional economic activity resulting from employees spending their wages in the local economy. For example, as bank employees and those working for the bank's suppliers spend their salaries on housing, groceries, healthcare, and entertainment, this spending supports additional jobs and income in retail, healthcare, and other consumer-facing industries, which further stimulates consumer spending and economic growth.

Indirect and induced effects are also known as "ripple" or "multiplier" effects, as initial direct expenditures generate sequential rounds of spending in the economy. The sum of the direct, indirect, and induced effects is the total impact.

Direct + Indirect + Induced = Total Impact

This study uses a point-in-time approach to estimate the economic contributions of California's commercial banking industry, meaning all estimated spending is assigned to the year in which it occurred. While the dollar year is important in rebasing nominal expenditures and revenue, the model's core I-O tables use 2022 data, the most recent available. The study then uses four common economic indicators to analyze the impact of spending flows as they ripple through the economy: economic output, employment, labor income, and state and local tax revenues:

Economic output refers to the total value of production or economic activity generated by commercial banking operations in California, including the value of intermediate inputs (required goods and services needed to provide commercial banking services—intermediate inputs are entirely consumed).

Gross State Product (GSP) refers to the final market value of goods and services produced in a given state. The GSP of an individual sector represents its contribution to GSP.

Employment represents the number of part-time, full-time, and temporary jobs supported by bank operations. Employment figures are not a full-time equivalent number.

Labor income represents the value of all employment income paid, including fringe benefits such as health care, retirement (pensions), and other employment benefits.

Federal, state, and local tax revenue represents the estimated amount of tax revenue generated by the economic activity occurring in the region.

Finally, this study uses a Multi-Regional Input-Output (MRIO) modeling approach. The MRIO analysis builds on standard I-O analysis by expanding the effects of expenditures beyond a single region to capture changes in demand in other regions that would otherwise be “leaked” out of the model. In a MRIO analysis, the direct effect in one region triggers indirect and induced effects in others. The results of the analysis reveal the effects of a change in one or several economic activities on an entire economy, as well as the economic interdependence of regions. To set up the analysis, each of California’s 58 counties were included in the model, even if no commercial banking activity occurred in a particular county. Results of the model are at the county level, which were then aggregated to create a total impact at the state level.

Limitations

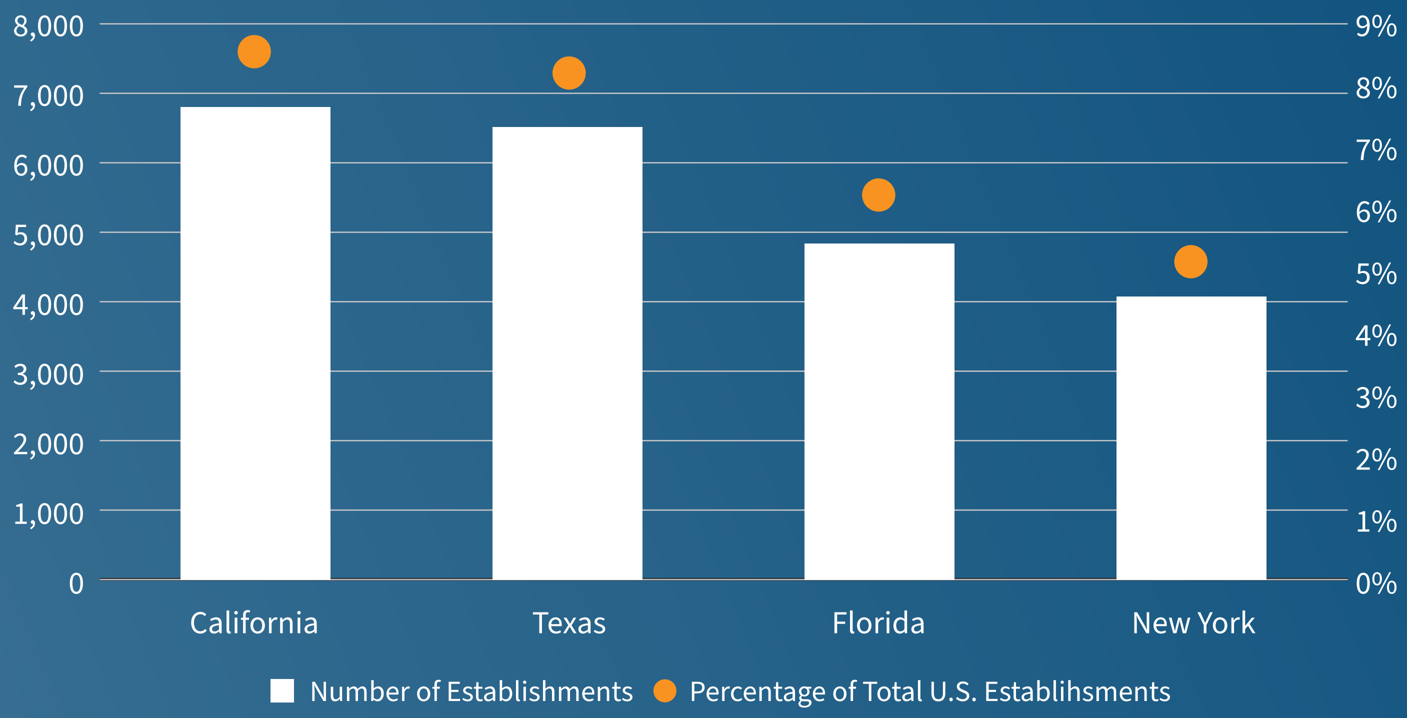
Input-output modeling is an important tool for understanding how certain activities and projects interact with and affect a local economy. However, some limitations apply. IMPLAN estimates impacts assuming that the relationships of the current data year are maintained. Thus, IMPLAN datasets are a snapshot in time of the economy. While estimates of economic activity related to specific demand changes, and their associated supply linkages can be estimated with IMPLAN, the software cannot predict what the total employment in a state will be five years from now. The economy of even a small region is constantly in flux, affected by myriad decisions made across businesses and households, by policies, and even by environmental factors, which can determine whether a region thrives, stagnates, or declines. To project what an economy will look like five years from now would mean predicting all future demands for consumption and recognizing all new commodities and technologies that will be available. The availability of resources locally to meet that demand would also need to be known.

The Importance of the Banking Industry in California

Commercial banks fuel economic growth by efficiently allocating capital to productive uses. By extending credit to businesses and individuals, banks stimulate broader economic activity. Individuals can use loans to purchase homes, cars, or other goods, while businesses can invest in new equipment, expand operations, and hire more employees. This increased economic activity creates ripple effects that benefit the wider economy. [16]

California is home to the highest number of commercial banking establishments[17] in the United States, its 6,798 establishments accounting for 8.5% of all such establishments nationwide. Texas comes second with 6,513 establishments, followed by Florida with 4,838, and New York with 4,074.

Comparison of Commercial Banking Establishments Among Top U.S. States
Figure 1



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), 2023; Analysis by Beacon Economics.

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[16] Levine, M.R. 2021. Finance, growth, and inequality. International Monetary Fund.
[17] Bank establishments refer specifically to the economic units at a single physical location where banking services are offered to customers. It is important to note that this is distinct from bank institutions, which refer to the financial entity.

California's commercial banking sector employs approximately 104,000 people, representing 7.5% of the total U.S. employment in the sector.

The average annual wage for employees in the sector is $141,000, which is 60% higher than the state average and 24% higher than the national banking industry average. This figure highlights the competitive compensation and the vital role that these institutions play in the state's economy.

Commercial Banking Establishments
Figure 2

	California	% of U.S. Banking Industry
Establishments[18]	6,798	8.5%
Employment	103,961	7.5%
Average 2023 Annual Wage	$141,000	60% higher than the state average 24% higher than U.S. Commercial Banking Industry

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), 2023; Analysis by Beacon Economics.

[18] Bank establishments refer specifically to the economic units, at a single physical location where banking services are offered to customers. It is important to note that this is distinct from bank institutions, that refers to the financial entity.

Economic and Fiscal Contributions of California's Banking Sector

Economic and Fiscal Contributions of Commercial Banking Operations in California

California commercial banks support thousands of jobs and provide businesses and individuals with access to capital, contributing billions of dollars to the state's economy annually. Banks generate tangible economic benefits through their own business activities and operations. They directly employ a large workforce (direct employment) and purchase goods and services needed for their operations, such as compliance services, facilities management, and technology infrastructure. This spending generates increases in demand that ripple through the state's economy, creating significant indirect economic impacts.

Additionally, because the banking industry in California pays higher-than-average wages, the effects of employees spending their income—known as induced impacts—are even greater.

To estimate the total economic and fiscal contributions (direct, indirect, and induced) of commercial banking in California, Beacon Economics used spending by banks as the key input. In other words, the analysis looked at how dollars spent locally by banks drive economic benefits as they circulate through the state economy.[19]

The contributions of commercial banking to California's economy are significant. Beacon Economics estimates that commercial bank operations contribute approximately **$84.3bn in direct economic output** to the State of California (real 2024 dollars) and **$61.3bn in GSP.** Furthermore, bank operations support over **270,000 jobs**, either directly or through indirect and induced effects. They also contribute **$32.3bn** in total labor income to California residents (real 2024 dollars) and generate **$5.4bn in state and local taxes** (real 2024 dollars) (Figure 3).

[19] For a detailed discussion on input-output modeling, see Miller R.E., Blair P.D. 2009. Input-Output Analysis: Foundations and Extensions. Second Edition. New York: Cambridge University Press.

Comparison of Commercial Banking Establishments Among Top U.S. States
Figure 3

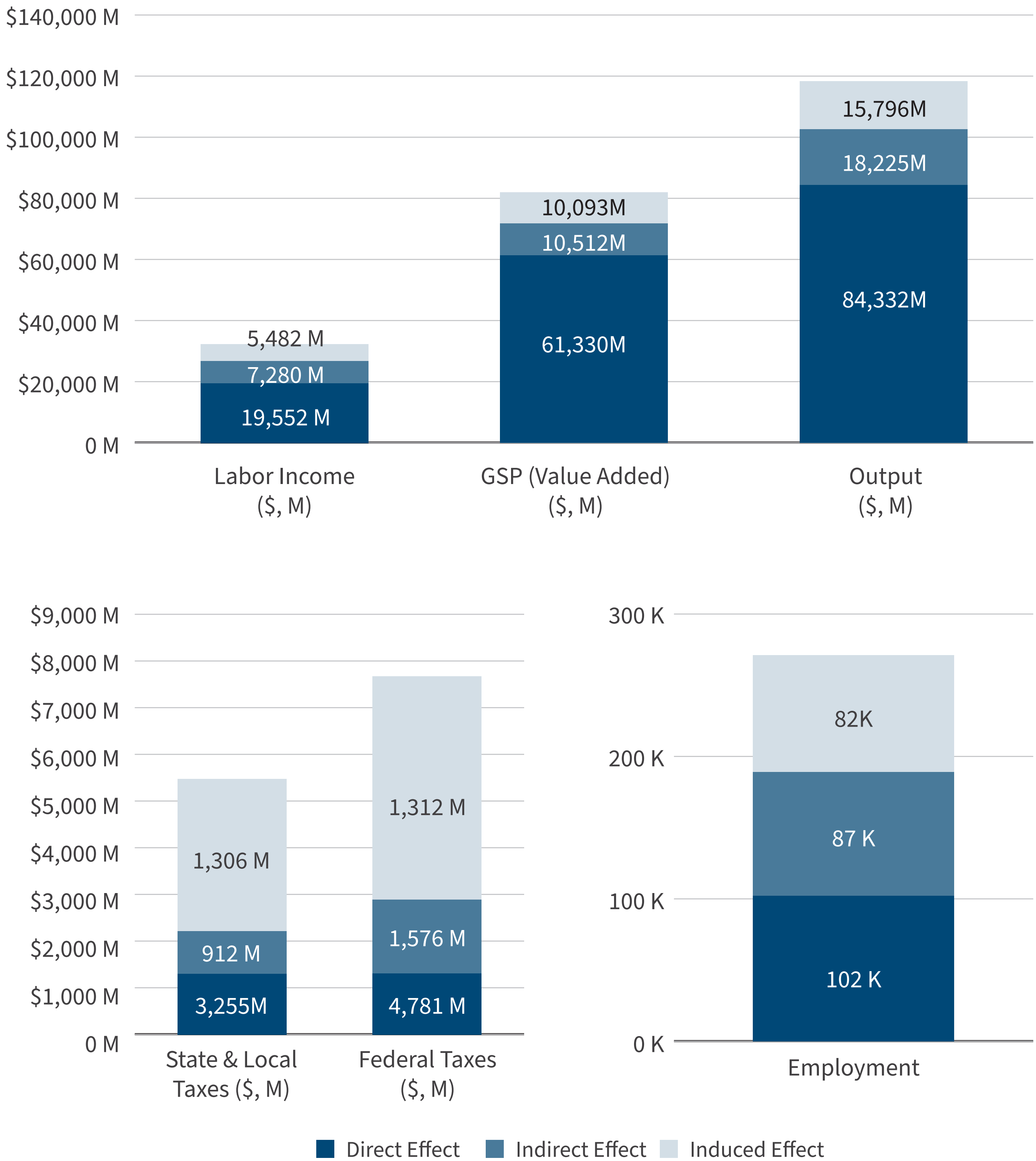
	Commercial Bank Direct Impacts	Total Economic Impacts (Direct + Indirect + Induced)
Jobs Supported	101,583	270,366
Labor Income	$19.5 B	$32.3 B
Gross State Product	$61.3 B	$81.9 B
Economic Output	$84.3 B	$118.3 B
State and Local Tax Revenue	$3.2 B	$5.4 B

Source: IMPLAN; Analysis by Beacon Economics.
Note: Real 2024 dollars

The secondary impacts of commercial bank operations on California's economy (the ripple effect of dollars flowing through the economy) are substantial (Figure 4). Beacon Economics estimates that California Banking operations contribute the following to the economy annually:

- **Employment:** Supporting an additional **86,816 indirect jobs and 81,967 induced jobs.**
- **Labor Income:** Generating **$7.2bn in indirect labor income and $5.4bn in induced labor income.**
- **Gross State Product:** Contributing **$10.5bn to California GSP through indirect effects and $10.0bn through induced effects.**
- **Economic Output:** Contributing **$18.2bn to overall economic output in California from indirect effects and $15.7bn from induced effects.**
- **State and Local Taxes:** Generating **$912mm in state and local tax revenue from indirect economic activity and $1.3bn from induced economic activity.**

Economic Contributions of Banking Operations in California, 2022
Figure 4



Source: IMPLAN; Analysis by Beacon Economics

These indirect and induced effects are produced by the multiplier capacity of the commercial banking sector. Understanding the multiplier effect is as important as knowing the total impact, as it helps estimate broader economic outcomes when banking activities change (increasing or decreasing).

The multiplier effect demonstrates the intensity of the initial economic impact of spending or investment as it ripples through the local economy. This intensity varies from sector to sector, depending on factors such as the supply chain, wage levels, and expenditure patterns from employees. For instance, when a bank opens a new branch, it directly hires employees, purchases supplies, and rents a building. These initial expenditures create indirect effects as suppliers purchase other goods and services to meet initial demand and induced effects as employees spend their wages on goods and services locally. Generally, stronger local supply chains and higher wages lead to higher secondary effects. This process, known as the multiplier effect, amplifies the overall economic impact of the initial investment

Notably, **commercial banking has a higher employment, labor income, and economic output multiplier than the average of all sectors in California.** This suggests that banking operations are closely linked to other regional industries. These stronger linkages result in greater overall impacts, meaning commercial banking activity reverberates more powerfully through the state economy, generating larger indirect and induced impacts (Figure 5).

As discussed, commercial banking operations benefit other industry sectors of the local and state economy through the "multiplier effect." Every dollar spent on operating commercial banks creates significant additional economic activity, as banks purchase intermediate inputs from California businesses to meet demand and households spend their earned income.

In terms of output, every dollar spent by a commercial bank will generate an additional $0.40 of economic activity.

In terms of employment, for **every 100 jobs supported by commercial banking, an additional 166 jobs are supported in California's economy**, whereas for every 100 direct jobs supported by an average sector, 121 additional jobs are supported.

California's Banking Operations Impact. Multiplier Comparison
Figure 5

		Banking Industry Multiplier	Average California Multiplier[20]
Employment	Every direct job in the banking industry supports 1.66 additional jobs in the local economy **Total Employment Impact = Banking Employment *2.66**	2.66	2.21
Labor Income	For every dollar of direct labor income in the banking industry, another 65 cents of labor income is generated in the local economy. **Total Labor Income Impact = Banking Employees Labor Income * 1.65**	1.65	1.43
Output	For every dollar of output in the banking industry, a total of 40 cents of economic activity is generated in the local economy. **Total Output Impact = Commercial Banking Output * 1.40**	1.40	1.35

Source: IMPLAN; Analysis by Beacon Economics

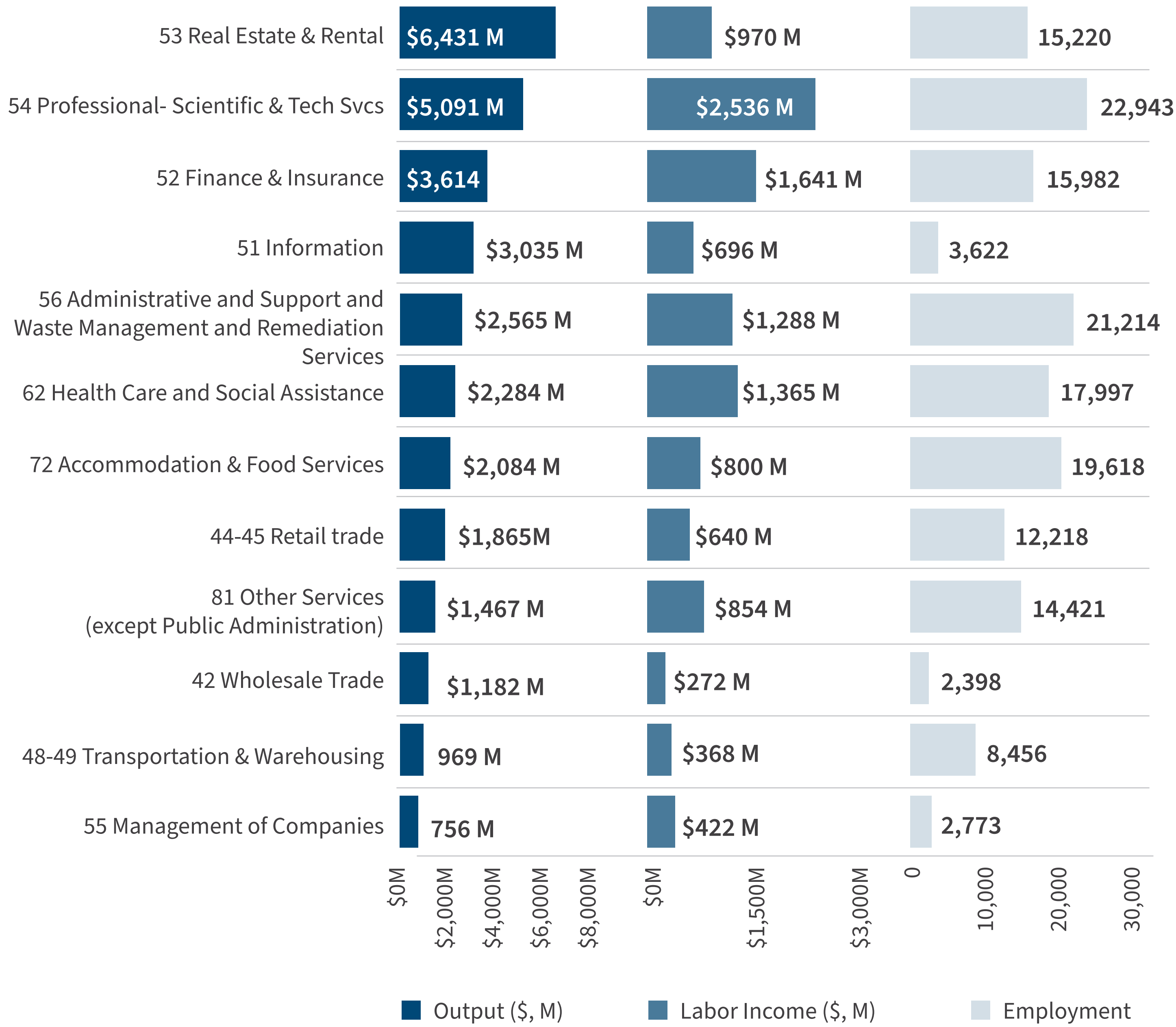
[20] These figures can vary depending on the industry aggregation level.

Industry Ripple Effects: Analyzing the Secondary Economic Benefits of California's Banking operations

The banking sector's linkages with other sectors result in ripple effects that impact the economy across all industries. These effects are determined by the type and strength of economic linkages between the banking industry and other sectors. The banking sector's activities, such as offering loans and providing financial services, generate additional demand for goods and services, which trigger secondary effects that spread through the economy.

The ten sectors most impacted by indirect and induced effects, due to their strong linkages with commercial bank operations, include **Real Estate; Professional, Scientific, and Technical Services; Finance and Insurance; Information; Health Care; Administrative and Support services; Accommodation and Food Services; and Wholesale.** These sectors show substantial secondary economic activity linked to commercial banking, which stems from local procurement within the state's supply chains (indirect effects) and the expenditure of earned income within the local economy (induced effects) (Figure 6).

Top 10 Sectors with Highest Indirect and Induced Effects ($, Millions)
Figure 6



Source: IMPLAN; Analysis by Beacon Economics

The type of impacts varies across sectors due to differences in the way each sector interacts with the banking industry (Figure 7):

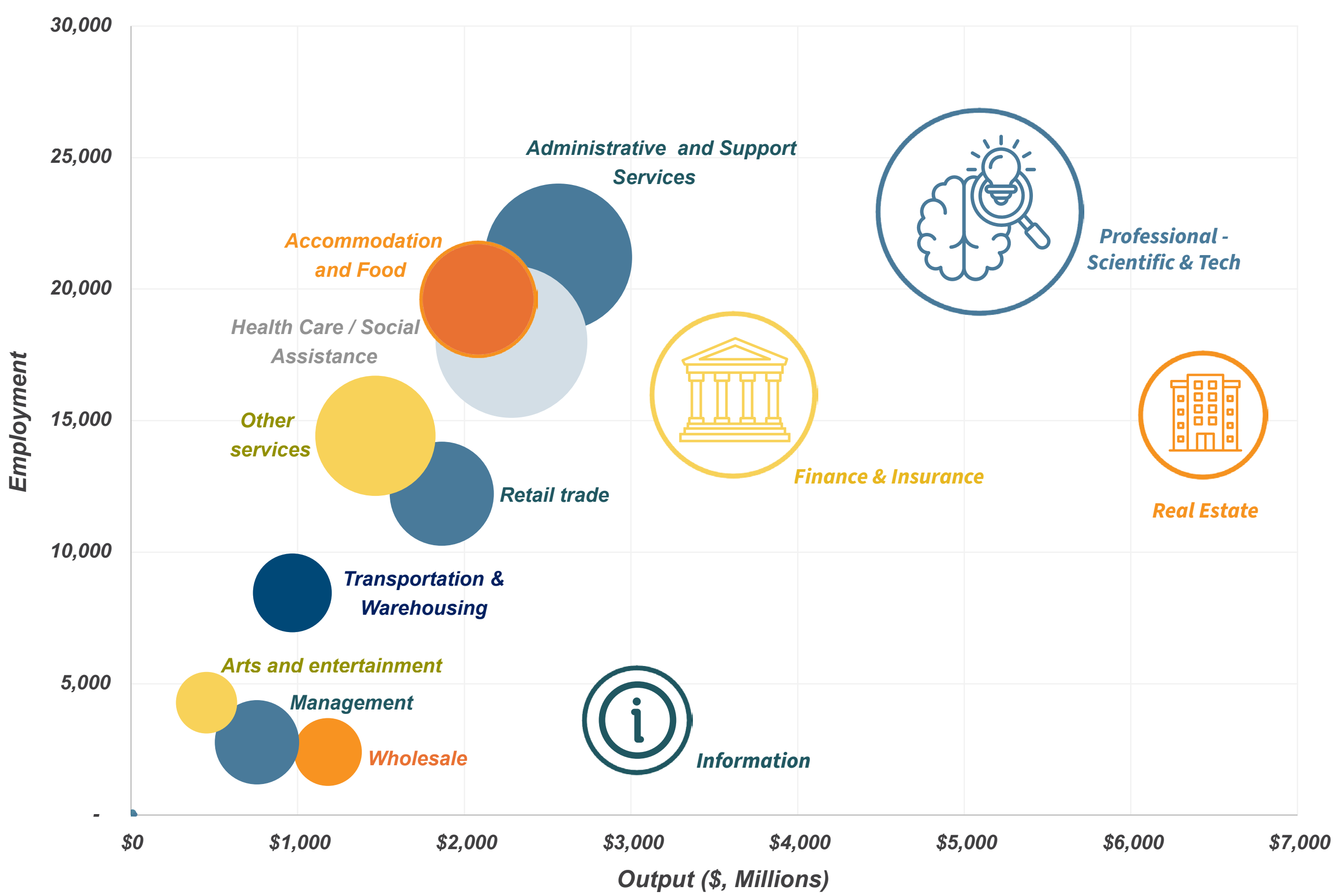
- For instance, the **Professional, Scientific, and Technical Services** sector experiences strong multiplier effects from banking activities, leading to significant gains. The sector's position in the top right corner of Figure 7, along with its large bubble size (representing labor income effects), highlight its ability to benefit from banking sector activities regarding employment, output, and labor income.

- In the **Finance and Insurance** sector, labor income, employment, and output levels are also above average due to inherent connection between this sector and the banking industry. The banking industry directly contributes to this sector's employment and output while indirectly enhancing the performance of the broader financial services sector through supply chain linkages and employee expenditures. Indirect effects arise from the demand banking activities create for goods and services from financial institutions, while induced effects stem from the spending patterns of employees.

- The **Real Estate** sector shows the highest output gain. This is largely because real estate transactions rely on financing, making the sector responsive to changes in banking activities.

- The **Administrative Support, Health Care, and Accommodation** sectors also show substantial employment and output effects. These sectors benefit from the indirect effects of supplying goods and services to the banking industry, as well as from the induced effects of employees spending their earnings on health care, accommodation, and administrative services.

Secondary (Induced and Indirect) Effects by Sector
Figure 7



Source: IMPLAN. Analysis by Beacon Economics.
Note: Real 2024 dollars
Note: The size of the bubble represents labor income secondary effects supported by the banking industry's operations activity.

Fiscal Contributions of California's Commercial Banking Sector

Commercial bank operations not only contribute to economic activity in California, but they also generate significant fiscal revenue at both the local and federal levels. Beacon Economics estimates that bank operations generate annually approximately **$5.4bn in revenue for state and local governments and $7.7bn in revenue for the federal government.**

These revenues fund essential public services and infrastructure development, supporting economic growth and community well-being. Beacon Economics estimates that most of the federal revenue is attributable to payroll taxes—including contributions to Social Security, Medicare/Medicaid, and income tax—while most state and local tax revenue is split between corporate profits tax, sales tax, and property tax (Table 2).

Fiscal Impacts of Banking Operations in California, 2022 by Tax Type
Table 2

Tax Type	State and Local Taxes ($, M)	Federal Taxes ($, M)
Social Insurance[21]	150	3,096
Income Tax	982	2,756
Corporate Profits Tax	1,708	1,708
Other*	263	109
Sales Tax	1,214	-
Property Tax	1,094	-
Special Assessments	36	-
License, Fees, Permits etc.	26	-
Total	**5,474**	**7,669**

Source: IMPLAN; Analysis by Beacon Economics. Note: Real 2024 dollars; totals may not sum due to rounding.
* Other include other fees and licenses taxes such as hunting/fishing license fees, business licenses, and documentary and stamp taxes.

[21] Social Insurance taxes (commonly referred to as payroll taxes) are paid from Employee Compensation and Proprietor Income earnings. California has four state payroll taxes: Unemployment Insurance and Employment Training Tax are employer contributions; State Disability Insurance and Personal Income Tax are withheld from employees' wages.

Beacon Economics further estimates that cities, towns, and special districts in California collect approximately 9%, or $1.1bn, of the revenue generated from economic activity related to bank operations. Counties are estimated to collect an additional 3%, or $394 million, of all tax revenues generated, while the state is estimated to receive a 30% share, amounting to $3.9bn (Table 3). This distribution of tax revenues plays a crucial role in supporting various government initiatives.

Fiscal Impacts of Banks in California, 2022 by Effect Type and Jurisdiction
Table 3

Impact Type	Cities and Towns ($, M)	Special Districts ($, M)	County ($, M)	State ($, M)	Federal ($, M)	Total ($, M)
Direct Effect	260	257	172	2,566	4,781	8,036
Indirect Effect	101	113	78	620	1,576	2,488
Induced Effect	184	211	143	768	1,312	2,618
Total	**545**	**581**	**394**	**3,954**	**7,668**	**13,142**

Source: IMPLAN; Analysis by Beacon Economics.
Note: Real 2024 dollars; totals may not sum due to rounding.

Workforce Dynamics in California's Banking Industry

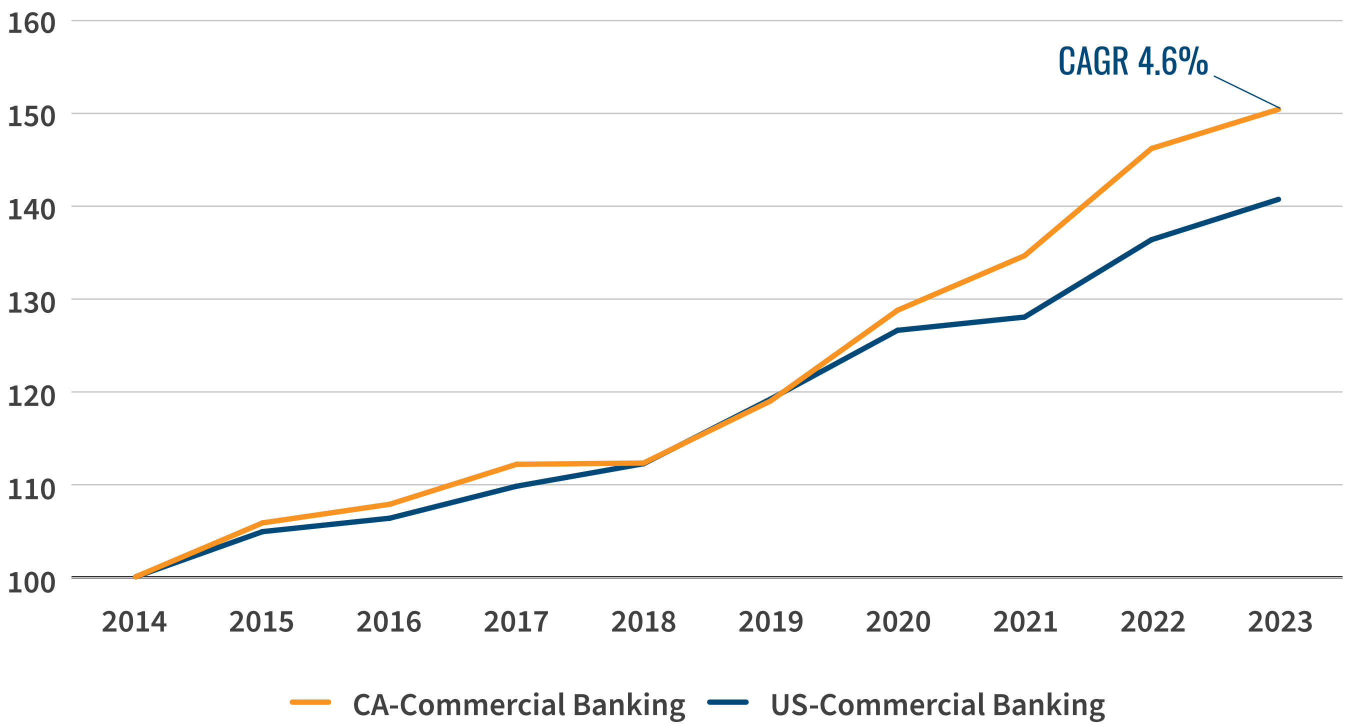
Labor and capital are the two fundamental inputs in any economic activity. Therefore, understanding workforce dynamics and demographic characteristics is key to planning and developing strategies for industry growth. Similarly, understanding the characteristics of the current workforce in banking operations is essential to understanding these activities' performance and impacts. Such an understanding also helps to shape strategies that helps the industry adapt and grow.

Wage Growth and Income Distribution

A major economic strength of California's banking sector is that it offers competitive wages that consistently outpace national trends. Between 2014 and 2023, real wages in California's commercial banks increased by 51%, ten percentage points higher than the national growth of 41% (Figure 8).

Further analysis of the Compound Annual Growth Rate (CAGR) reveals that California's commercial banks achieved robust annual growth of 4.6%, surpassing the national CAGR of 3.9% over the same period.

California: Commercial Banks Institutions Wages (Indexed, 2014=100)
Figure 8



Source: BLS, Census of Employment and Wages, 2014-2023 Note: Real Wages, Dollar year:2023

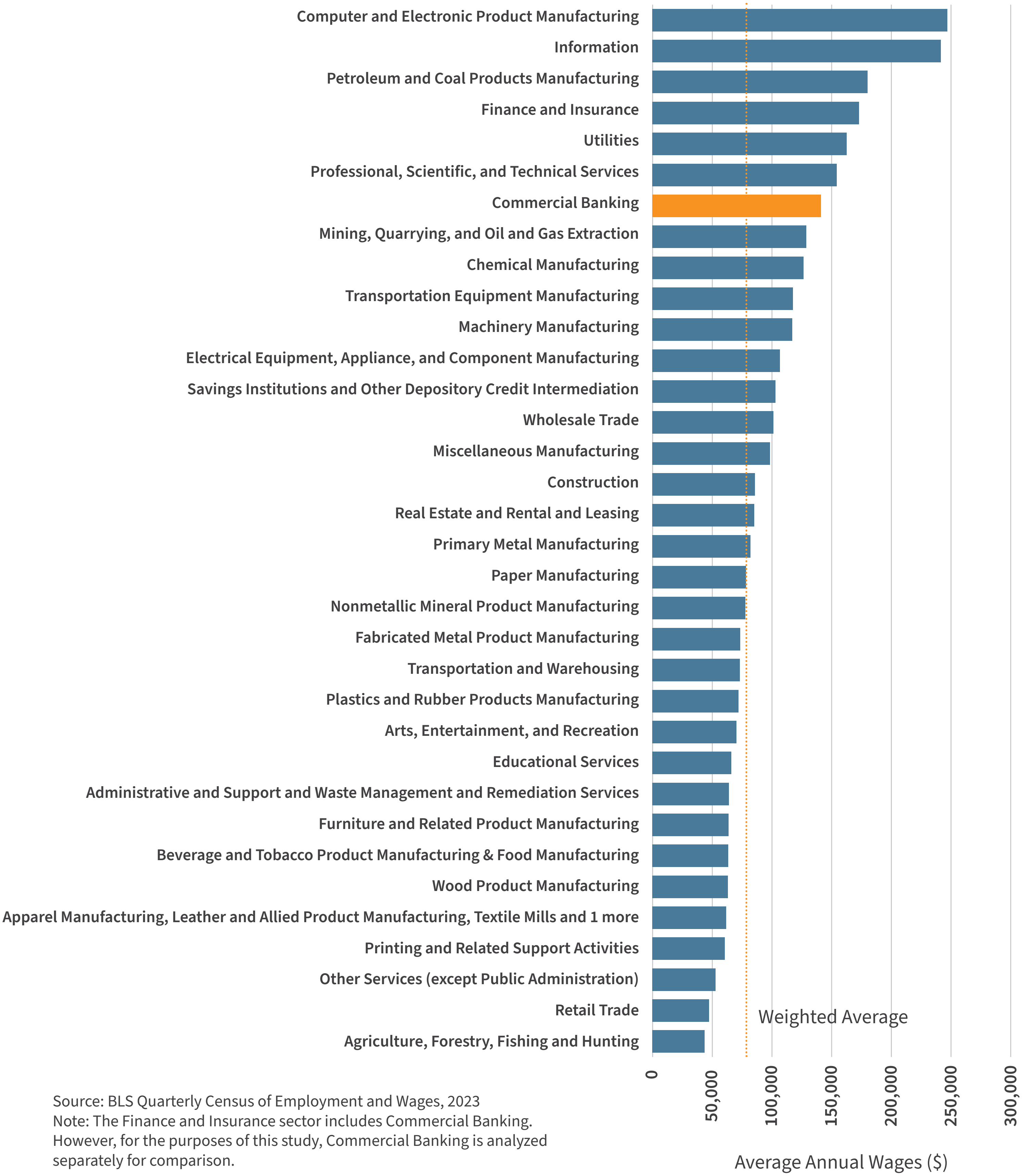
	Commercial Banks 2014-2023 Wages Growth %	CAGR %
California	51%	4.6%
US	41%	3.9%

Source: BLS Quarterly Census of Employment and Wages, 2014-2023
Note: Constant prices, Dollar year:2024

CAGR is 1.7% higher than US

In addition to strong wage growth, California's commercial banking industry also stands out in terms of average annual wages when compared to other sectors. Banking offers compensation levels that are 61% higher than the weighted overall wages in the state, ranking seventh out of 34 industries. (Figure 9).

California: Industry Comparison, Average Wages
Figure 9

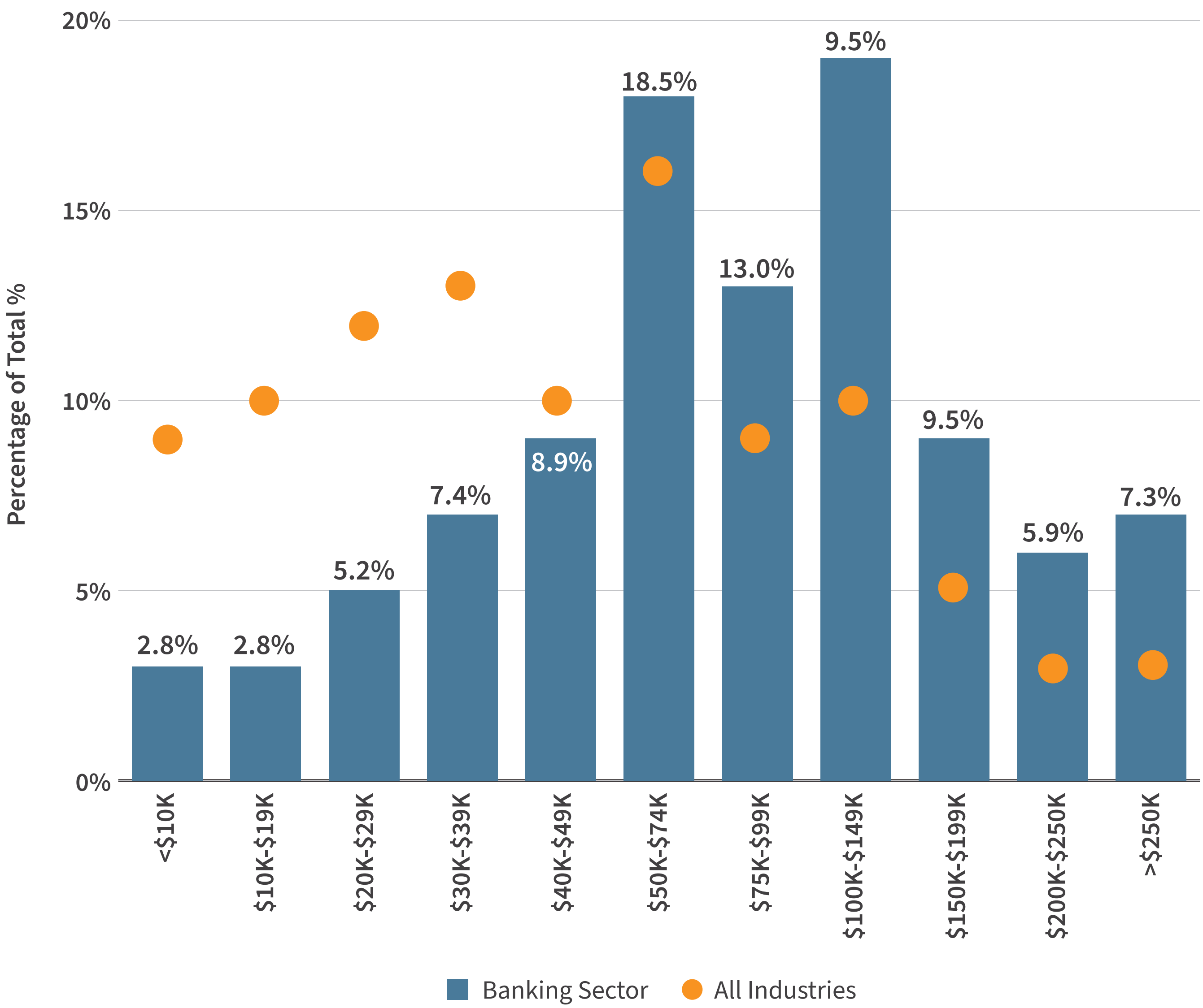


Source: BLS Quarterly Census of Employment and Wages, 2023
Note: The Finance and Insurance sector includes Commercial Banking. However, for the purposes of this study, Commercial Banking is analyzed separately for comparison.

Moreover, income distribution within the banking industry is particularly strong across both mid-range and higher-income brackets, outperforming the broader economy. A larger proportion of banking sector workers earn between $150,000 and $199,999 compared to other industries, highlighting the sector's ability to provide high earnings. Conversely, lower-income categories (less than $30,000) have much lower representation in the banking sector, at around 2.8%, compared to all industries (Figure 10). This indicates that the banking sector offers a wide range of well-compensated positions, supporting both middle- and high-income earners.

California, Income Dispersion in Banking Activities (% of Total)

Figure 10



Source: U.S. Census Bureau, Public Use Microdata Sample (PUMS), 2022.

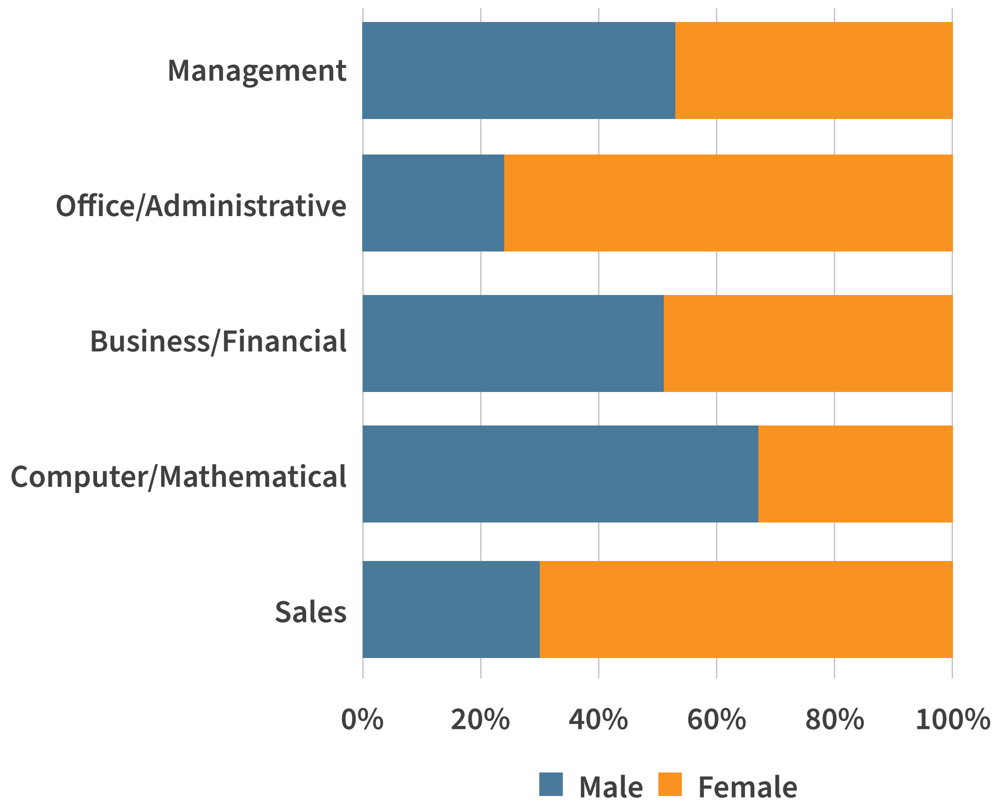
Occupational Structure and Gender Distribution

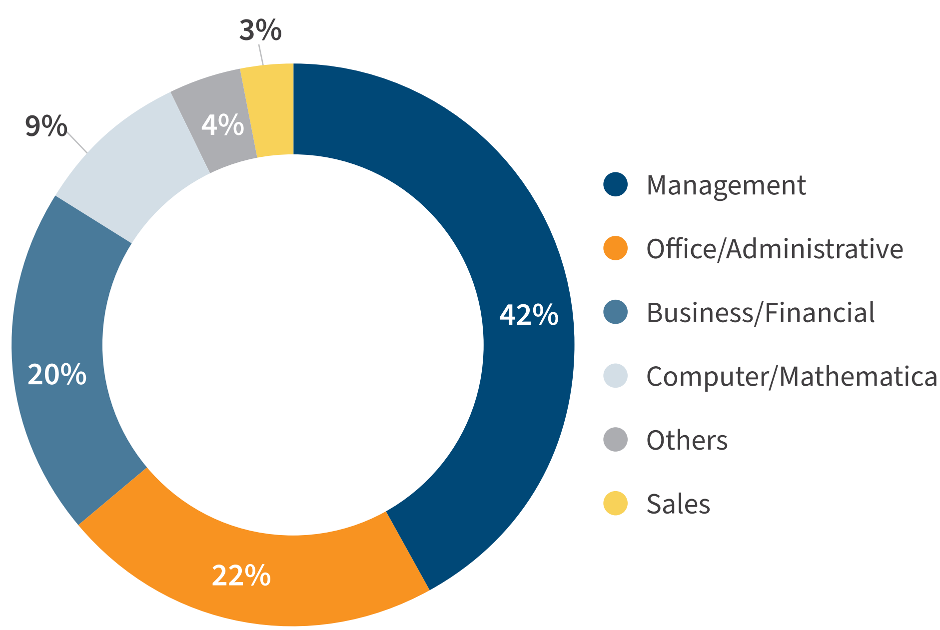
These robust wage trends are closely linked to diverse occupational roles in the banking sector, from high-level management to specialized technical staff. Management positions dominate the workforce, comprising 42% of all roles. Office and administrative roles are the second-largest category, accounting for 22% of the workforce, highlighting the sector's reliance on clerical work and administrative support. Business and financial operations positions, which include credit counselors, financial analysts, accountants, and auditors, make up 20% of the workforce.

As technology becomes more integral to banking operations, [22] there is a growing demand for specialized roles in IT, data analysis, and cybersecurity. Reflecting this, computer and mathematical occupations now make up 9% of the banking workforce. (Figure 11).

In terms of inclusivity and gender distribution, California's banking sector is nearly evenly split between males and females in most occupations.

California: Occupational Statistics, Banking and Related Activties
Figure 11





Source: U.S. Census Bureau, Public Use Microdata Sample (PUMS), 2022.

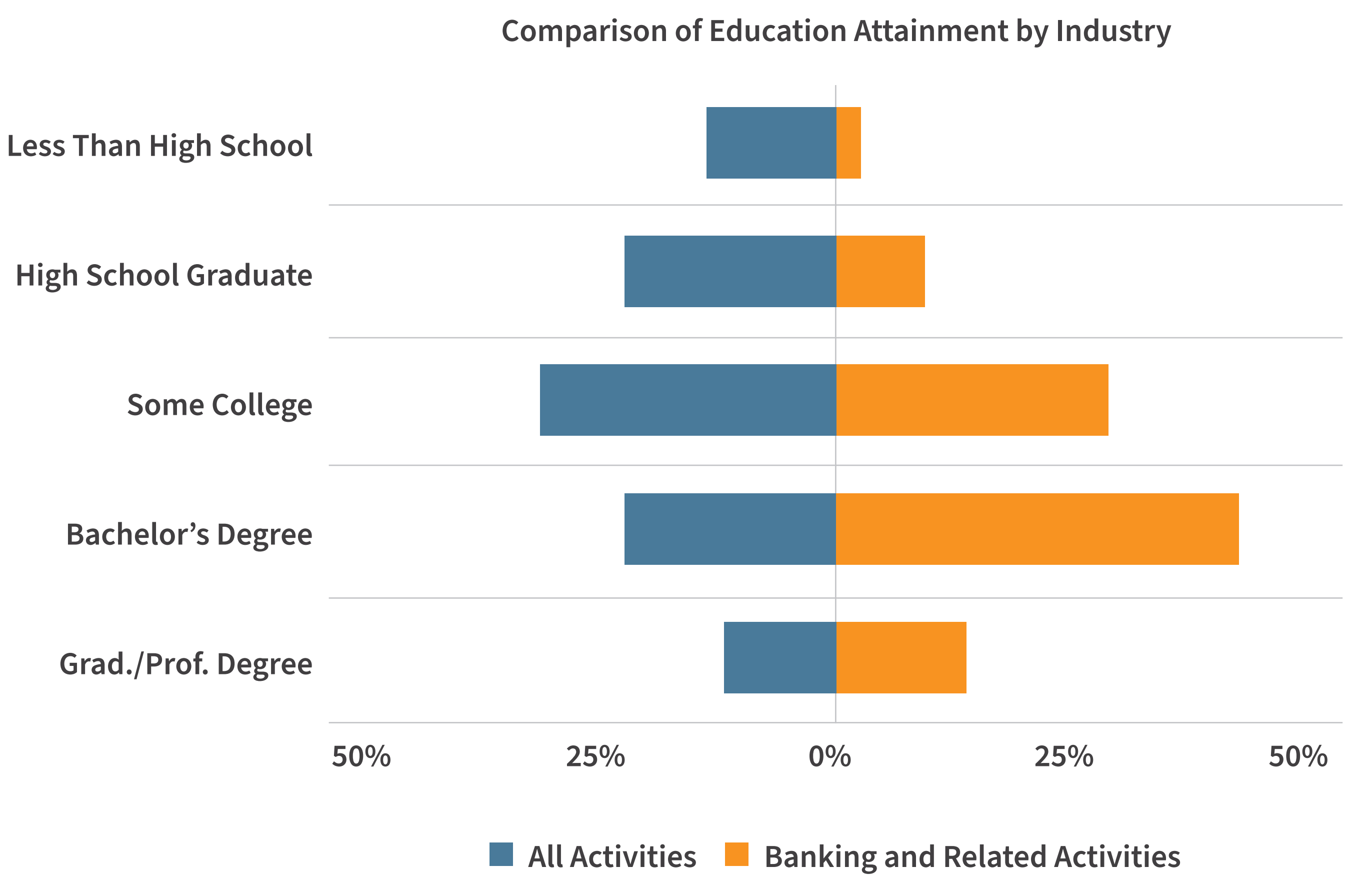
[22] Deloitte Insights. 2024. "2024 Banking and Capital Markets Outlook."

Demographic Insights and Workforce Composition

Understanding the demographics of California's banking sector is relevant as the industry undergoes a digital transformation[23] that demands a more educated and skilled workforce to navigate increasingly complex operations.

Illustrating the industry's need for advanced qualifications and specialized knowledge, **California's banking sector has a more highly educated workforce than the broader California labor market**, with more employees holding a bachelor's degree or higher and fewer holding only a high school diploma (Figure 12).

California: Educational Attainment (Share %)
Figure 12



Source: U.S. Census Bureau, Public Use Microdata Sample (PUMS), 2022.

[23] Deloitte Insights. 2024. "2024 Banking and Capital Markets Outlook."

California's banking sector also has a more balanced racial and ethnic composition than other industries. White, Hispanic, and Asian employees have comparable representation within the workforce. Additionally, gender distribution within these racial groups remains balanced (Figure 13).

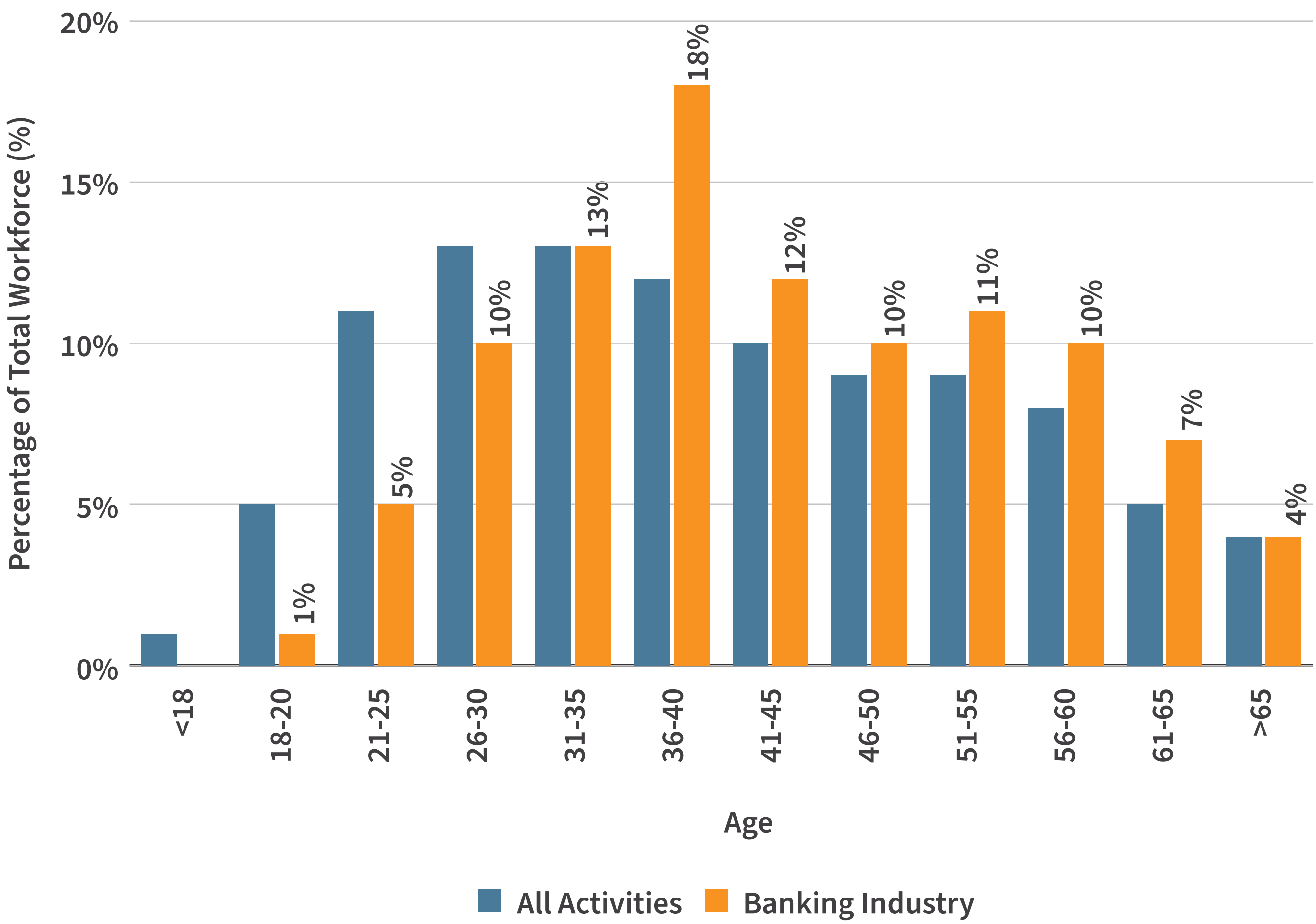
California: Racial /Ethnic Group (Share %)
Figure 13

Source: U.S. Census Bureau, Public Use Microdata Sample (PUMS), 2022.

Age distribution is an important factor in workforce planning strategies. In California's banking industry, the workforce is notably concentrated in the 31 to 40 age range, with both males and females well represented. This suggests a strong presence of mid-career professionals who are likely to advance into leadership roles. The 26 to 30 and 41 to 45 age ranges are also prominent, indicating a mix of early-career and experienced professionals. However, the banking sector has conspicuously fewer employees under 25 than the broader labor market, reflecting a smaller presence of younger talent within the industry (Figure 14).

California: Age Distribution in the Banking Industry vs. All Industries

Figure 14

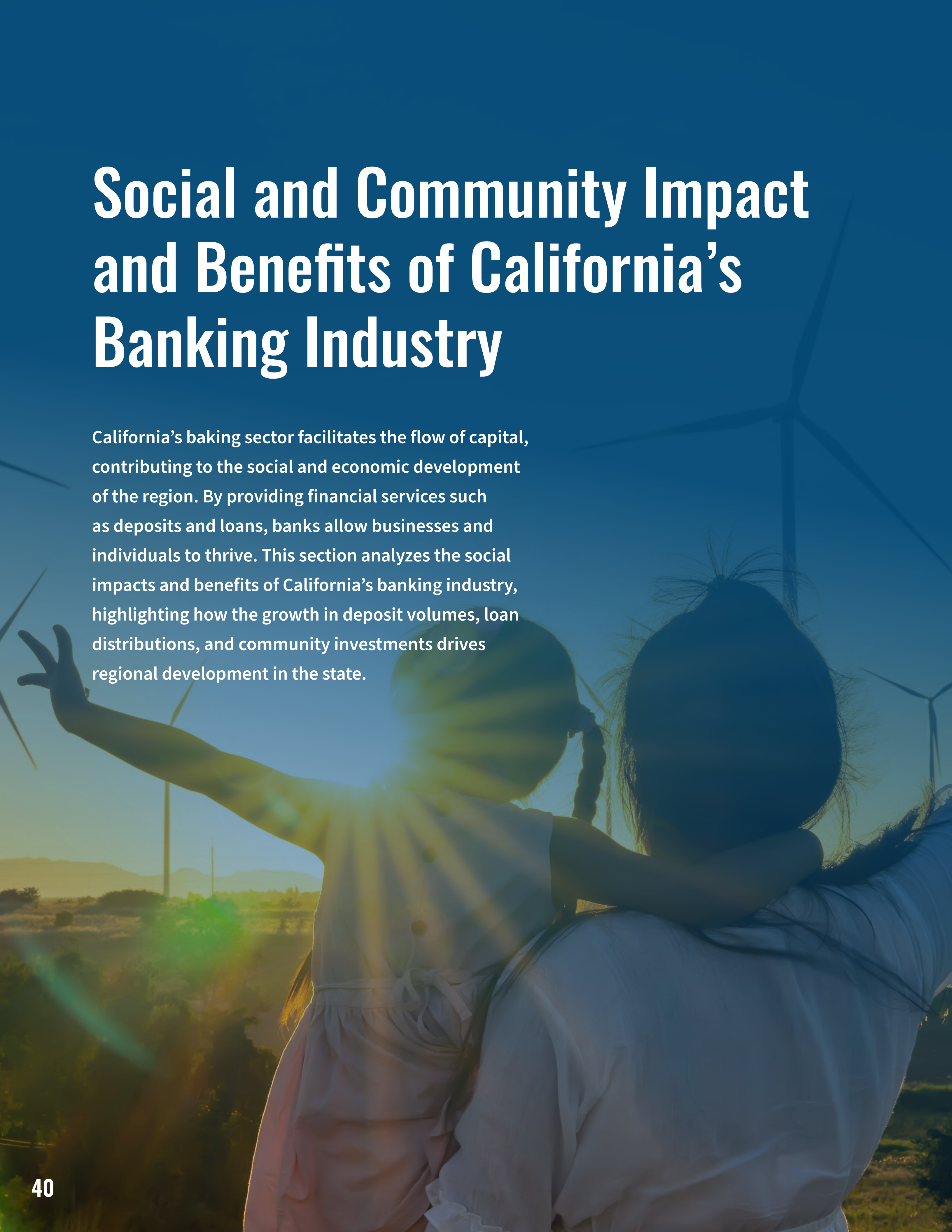


Source: U.S. Census Bureau, Public Use Microdata Sample (PUMS), 2022.

The California banking industry is a wellspring of labor opportunities, fostering a workforce focused on higher education and high-paying careers. Its balanced gender representation, equitable racial and ethnic diversity, and emphasis on competitive wages and career growth highlight the sector's essential role in driving both the state's economy and workforce development.

Social and Community Impact and Benefits of California's Banking Industry

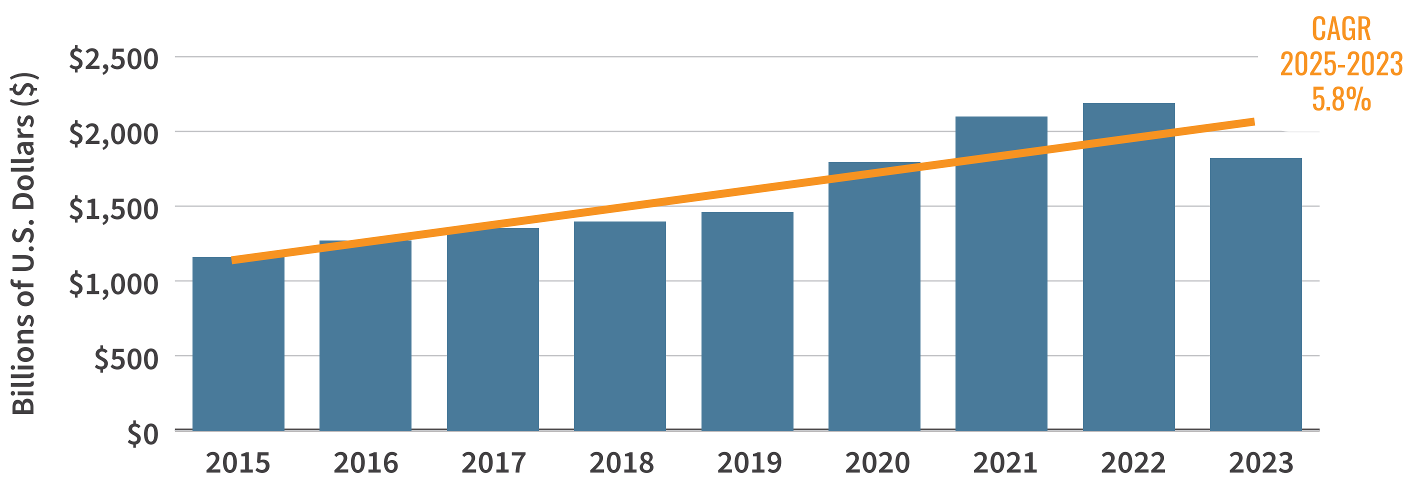
California's baking sector facilitates the flow of capital, contributing to the social and economic development of the region. By providing financial services such as deposits and loans, banks allow businesses and individuals to thrive. This section analyzes the social impacts and benefits of California's banking industry, highlighting how the growth in deposit volumes, loan distributions, and community investments drives regional development in the state.



- California's banking industry has demonstrated strong growth in deposit volumes, an indication of the confidence and trust consumers and businesses have in the state's financial institutions.

- From 2015 to 2023, deposits saw a (CAGR) of 5.8%, with California holding an 11% share of the total U.S. deposits (Figure 15).

California Deposits Volumes ($, Billions)
Figure 15



Source: FDIC Summary of Deposits (Nominal Prices) Analysis By Beacon Economics

As customer deposits increase, so commercial banks are more able to grant loans, increasing their contribution to the economy. Lending across California has enabled investment in both new and existing businesses, as well as home and vehicle purchases. Greater credit availability has also supported the state's homebuilders and commercial real estate developers by providing loans for construction, industrial equipment, and commercial real estate projects.

- As of the fourth quarter of 2023, total loans and leases amounted to **$1.21 trillion, representing approximately 30% of the state's GDP.** [24]

- From 2015 to 2023, loan volumes grew at a compound annual rate of 3.5%

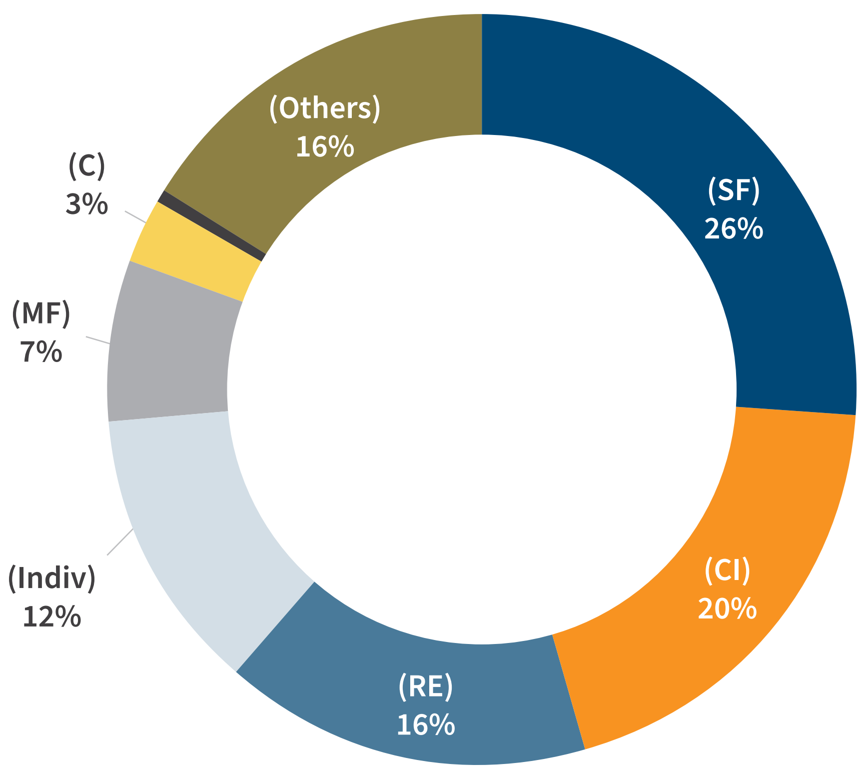
In terms of dollars leant, single-family mortgages led the way with $316bn, followed by Commercial and Industrial loans ($237bn) and Commercial Real Estate loans ($192bn). This diverse range of loans highlights the banking sector's role in supporting the housing, business development, and personal financial needs of Californians (Figure 16).

[24] Using data on branch locations and deposit information from the FDIC's Summary of Deposits, in conjunction with Call Reports from the FDIC and Federal Financial Institutions Examination Council (FFIEC), lending activity in the state includes both loans made by California-based banks, as well as an estimate of lending made by out-of-state institutions.

In terms of dollars leant, single-family mortgages led the way with $316bn, followed by Commercial and Industrial loans ($237bn) and Commercial Real Estate loans ($192bn). This diverse range of loans highlights the banking sector's role in supporting the housing, business development, and personal financial needs of Californians (Figure 16).

California Loan Volumes ($,Billions)
Figure 16

Total Loans/Leases	Q4-2023 $1,210 B
Single-Family Mortgages (SF)	$316 B
Commercial and Industrial Loans (CI)	$237 B
Commercial Real Estate (RE)	$192 B
Loans to Individuals (Indiv)	$149 B
Multi-Family Mortgages (MF)	$81 B
Construction Loans (C)	$37 B
Farmland (F)	$5 B
Others	$193 B



Loans CAGR
2015-2023
3.5%

Source: FFIEC, Community Reinvestment Act CRA, 2022. Analysis by Beacon Economics.

The Role of Commercial Banks in Strengthening California's Local Economies

Financial access plays a fundamental role in economic development, especially in underserved areas. Access to credit alleviates poverty, stimulates investment in education, entrepreneurship, and innovation, and promotes efficient capital allocation, reducing income inequality and promoting long-term economic growth. Microfinance in particular has demonstrated positive impacts on small businesses and economic resilience in low-income communities.[25,26,27] Banks in California strengthen local economies through initiatives like the Community Reinvestment Act (CRA), providing underserved low- and moderate-income (LMI) communities with credit and capital.

In 2022, **57% of CRA loans** to small businesses and farms in California were directed toward income groups earning less than 120% of the median family income. These loans stimulate statewide business growth, job creation, and community development.

Also in 2022, **commercial banks accounted for 97% of the total CRA loan amounts.** California banks provided:

- **$34.7bn in small business loans, distributing approximately 1.3 million loans, with an average loan amount of $27,026.**
- **$334 million in loans to small farms, with an average loan amount of $48,697.**

California accounts for 15% of all CRA-designated small business and farm loans made in the United States. This demonstrates the role commercial banks play in driving local economic development, both within the state and nationwide, especially in areas with limited access to traditional financial services (Figure 17).

[25] Demirgüç-Kunt A, Klapper L. 2012. Measuring financial inclusion: The global Findex database. World Bank.
[26] Beck, T., and Levine, R. (2005). Legal institutions and financial development. In Handbook of new institutional economics (pp. 251-278). Boston, MA: Springer US.
[27] Banerjee A.V. and Duflo, E. 2011. Poor economics: A radical rethinking of the way to fight global poverty. PublicAffairs.

California: Commercial Banks CRA-Lending Summary
Figure 17

	Small Business Loans	Number of Small Business Loans	Average Small Business Loan
≤ $100,000	$16,856 M	1,230 k	$13,706
> $100,000 and ≤ $250,000	$5,081 M	31 k	$166,420
> $250,000 and ≤ $500,000	$12,738 M	23 k	$562,450
Total	**$34,675 M**	**1,283 k**	**$27,027**
	Small Business Loans	**Number of Small Business Loans**	**Average Small Business Loan**
≤ $100,000	$112 M	6.2 k	$18,042
> $100,000 and ≤ $250,000	$68 M	0.3 k	$212,289
> $250,000 and ≤ $500,000	$153 M	0.3 k	$457,371
Total	**$334 M**	**6.9 k**	**$48,697**

Source: FFIEC, Community Reinvestment Act CRA, 2022. Analysis by Beacon Economics.

Bank Contributions to California's Community Development Financial Institutions Programs and Beyond

The Community Development Financial Institutions (CDFI)[28] play an important role in generating economic growth and creating opportunities in the most distressed communities by helping families finance their first homes, supporting community residents starting businesses, and investing in local health centers, schools, and community centers.

In addition to direct CRA lending, **banks support community development through involvement with Community Development Financial Institutions (CDFI) Fund programs.** CDFIs, which have a strong understanding of local needs, receive capital support from commercial banks through partnerships. These partnerships extend the reach of both banks and CDFIs, allowing them to invest in underserved communities, thus creating economic opportunity and implementing revitalization initiatives. While partnerships are the most common form of engagement, some banks also pursue CDFI certification.

[28] CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers.

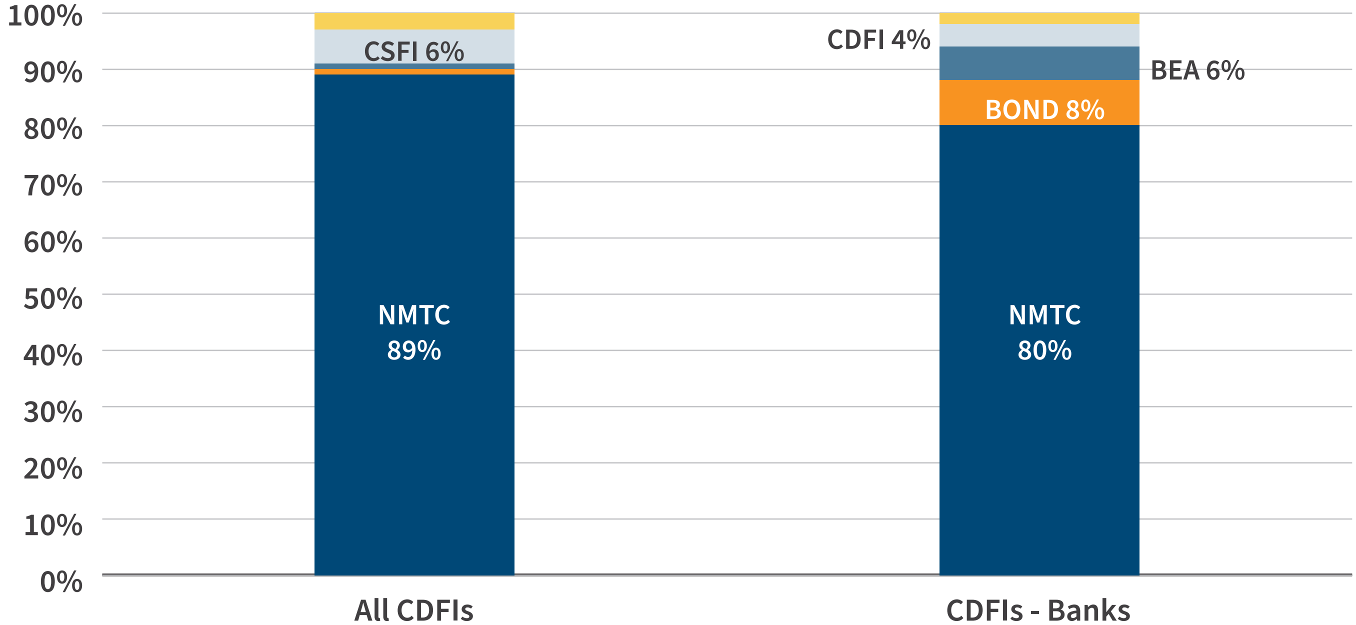
The federal government supports CDFIs by awarding funding and tax credits to institutions certified. Since 1997, certified CDFI certified California banks have received $1.3bn 15% of the total $8.5bn awarded to CDFIs to provide affordable and responsible lending. These funds help low-income and underserved communities in the state gain access to financial services (Figure 18). Programs like the New Markets Tax Credit (NMTC) have been particularly effective in this respect, with $686m in NMTC financing facilitated by CDFI-certified California banks. These funds were directed toward Qualified Low-Income Community Businesses (QLICBs), driving economic growth and development in underserved, low-income areas in the state (Figure 19).

California: CDFIs Program, Amount Awarded ($, Thousands)
Figure 18

	1997-2023 Amount Awarded, California ($, Thousands)		Share Awarded to California CDFI Banks
	All CDFIs	CDFI Banks	
New Markets Tax Credit (NMTC)	$7,474,000	$1,006,000	13%
CDFI Program (CDFI)	$510,100	$56,469	11%
Capital Magnet Fund (CMF)	$239,783	$21,000	9%
Bond Guarantee Program (BOND)	$100,000	$100,000	100%
Bank Enterprise Award (BEA)	$73,460	$73,459	100%
Healthy Food Financial Initiative	$17,250		
Native Initiatives	$5,507		
Disability Funds –Financial Assistance	$3,242		
Small Dollar Loan Program	$3,173		
FEC Pilot Program	$400		
Total	**$8,426,915**	**$1,256,928**	**15%**

Source: FFIEC, Community Reinvestment Act CRA, 2022. Analysis by Beacon Economics.

California: CDFIs Program, Amount Awarded ($, Thousands)
Figure 18



Source: FFIEC, Community Reinvestment Act CRA, 2022. Analysis by Beacon Economics.

Summary of California Certified CDFIs Banks Awards.
Figure 19

CDFIs Bank California Awards:	Major Awarded Programs	Total California CDFIs Bank Awards - NMTC:	NMTC Loans and Investments by California CDFIs Banks:	NMTC Major Purposes:
$1.3bn awarded since 1997 (15% of total CDFI state awards)	New Markets Tax Credit (NMTC)	**$1bn** (13% of total California NMTC share)	**$686m** disbursed since 2002	Commercial Construction and Rehabilitation Business Financing

Source: CDFI. Awards Data and FY 2024 NMTC Public Data Release: 2003-2022; Analysis By Beacon Economics

Partnerships with CDFIs for Broader Community Impact

The awards to CDFI certified banks are significant, but **the contribution of banks to community development extends beyond the awards received by certified banks.** CDFIs blend government support and foundation grants with private sector capital from commercial banks and other corporations to provide financial products (equity investments, loans, and loan guarantees) to underserved communities.

By the end of fiscal year 2020, CDFIs across the U.S. reported **$110.8bn in financial products.** A substantial number of these financial products was made possible by contributions from commercial banks. [29]Commercial Banks—including non-certified banks—partner with CDFIs to provide direct loans, equity investments, and grants, [30] **remaining one of the largest providers of private capital for CDFIs.** [31,32]

Between 2020 and 2022, the eight U.S. Global Systemically Important Banks invested over $9.2bn in CDFIs across the country. [33] Beacon Economics estimates that approximately 15% of this investment—or roughly $1.38bn—supported CDFIs in California. While this figure is substantial, it represents just a portion of the total contribution, as the capital flowing to CDFIs is even larger when considering investments from other regional and local commercial banks.

CDFIs face significant challenges in their operations, particularly related to the rising cost of lending capital and insufficient operational funding. In 2023, **75% of CDFIs reported an increase in demand for services**, a trend expected to continue. **Commercial banks' contributions are indispensable in helping to bridge these capital gaps by providing necessary financial support**, enabling CDFIs to expand their services, meet the demand, and strengthen their capacity to support long-term community development.[34]

California has 114 CDFIs and is one of the states with the highest concentrations of CDFI headquarters in the country,[35] which suggests a greater need for capital to support its underserved communities. **The large presence of CDFIs in the state highlights the importance of commercial banks in providing the financial contributions needed to fund projects that strengthen families, businesses, and communities in California's underserved areas.**

In conclusion, as capital demand increases, California's commercial banks remain a vital force for economic growth, resilience, and community development through direct lending and strong partnerships with CDFIs. Their efforts help to ensure all communities have access to financial services.

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[29] AERIS. 2023. CDFI Loan Fund Capitalization: The Continued Importance of Bank-CDFI Partnerships.
[30] Appleyard, 2011 "Community Development Finance Institutions (CDFIs): Geographies of Financial Inclusion in the U.S. and UK."
[31] AERIS. 2023. CDFI Loan Fund Capitalization: The Continued Importance of Bank-CDFI Partnerships
[32] According to the 2020 Annual Certification Report (ACR), 53% of Certified CDFIs are Loan Funds.
[33] The eight U.S. Global Systemically Important Banks: Bank of America, Citigroup, JPMorgan Chase and Co., Wells Fargo, Goldman Sachs, Morgan Stanley, State Street, and Bank of New York Mellon (BNY Mellon).
[34] Financial Services Forum. (n.d.). The largest U.S. banks are invested in CDFIs.
[35] Federal Reserve, 2023. CDFI Survey Key Findings. FedCommunities.
[36] CDFI Fund, U.S. Department of the Treasury. 2020. CDFI Annual Certification and Data Collection Report (ACR): A Snapshot for Fiscal Year 2020. U.S. Department of the Treasury.

California: Summary of Commercial Bank Investment and Support for CDFIs in California

Figure 20

	Data	Key Points
Commercial Bank Contribution to CDFIs	Commercial banks support CDFIs through partnerships, providing direct loans, equity investments, and grants.	Commercial banks are among the largest sources of private capital for CDFIs, enabling underserved communities to access financial services and development funds.
Total CDFI Financial Products	$110.8bn in financial products by CDFIs across the U.S.	A significant portion of CDFI financial products is enabled by commercial bank investments, helping fund critical projects like affordable housing and small business development.
California's CDFI Concentration	Higher density of CDFI headquarters in California, suggesting a greater need for capital in underserved communities.	The vigorous presence of CDFIs in California underscores the role of commercial banks in funding projects that strengthen families, businesses, and communities across the state.
Commercial Bank Investments	$9.2bn invested by eight U.S. Global Systemically Important Banks into CDFIs (2020-2022), with an estimated 15% ($1.38bn) supporting California CDFIs.	Capital flows to CDFIs from commercial banks—including local and regional banks—are essential to meeting the needs of underserved areas and supporting long-term economic growth.
Challenges and Support	75% of CDFIs reported increased demand for services in 2023, with rising costs of lending capital and operational funding shortages.	Commercial bank contributions are crucial to bridging the capital gaps faced by CDFIs, ensuring they can expand services and meet growing community demands.
Conclusion	Commercial banks' contributions to CDFIs are essential for economic growth and community development in underserved areas.	Commercial banks play a vital role in fostering sustainable economic growth, promoting financial inclusion, and addressing inequality in California's underserved communities.

Conclusion

California's banking sector is a dynamic engine of economic growth, channeling financial resources through deposits, loans, and investments. By expanding financial access, particularly in underserved communities, banks play an important role in promoting sustainable growth, entrepreneurship, and innovation.[37,38]

Partnerships with institutions like CDFIs further amplify this impact, contributing to community revitalization. Beyond direct employment and spending, California's commercial banking sector generates significant economic and fiscal benefits. The sector's day-to-day operations create a substantial economic footprint, contributing to job creation not only within the sector but also in a wide variety of industries through indirect and induced effects, as banks and employees purchase goods and services from local businesses. These activities generate billions in state and local tax revenues, which are vital for funding public services and infrastructure projects.

[37] Demirgüç-Kunt A, Klapper L. 2012. Measuring financial inclusion: The global Findex database. World Bank.
[38] Beck, T., and Levine, R. (2005). Legal institutions and financial development. In Handbook of new institutional economics (pp. 251-278). Boston, MA: Springer US.

As California evolves, the contribution of commercial banks will be essential in maintaining the state's continued growth and development. With rising demand for financial services, California's banks are driving long-term economic growth for businesses and communities by supporting innovation and expanding financial inclusion. This report underscores the critical role banks have always played and their potential to shape California's economic future.

Key Takeaways:

- Commercial bank operational activity and its economic ripple effects contribute **$118bn in total economic output** to California's economy and support **over 270,000 jobs** across numerous sectors throughout the state.
- The commercial banking sector is a source of well-paying jobs for thousands of Californians. **The average annual wages in California's commercial banking sector reached $141,000 in 2023, 61% higher than the weighted overall state wages and 24% above the national average for commercial banking roles.**
- Total fiscal impacts of commercial banking operations total more than **$13.1bn in revenue**, including **$5.4bn in revenue to state and local government.**
- As of the fourth quarter of 2023, California commercial banks provided **$1.21 trillion in total loans** and leases, a figure that represents approximately **30% of the state's GDP.**
- In 2022, California banks provided **$34.7bn in small business loans** and **$334 million in farm loans**, representing **15% of all CRA-designated small business and farm loans made in the United States.**
- Besides CRA lending, California's banks support community development through their involvement with CDFI fund programs. Commercial banks are among the largest providers of private capital to CDFI funds, ensuring that essential financial resources reach underserved communities.
- The large presence of CDFIs in the state underscores the critical role commercial banks play in providing the financial contributions needed to fund projects that strengthen families, businesses, and communities in underserved areas throughout California.
- Community investments and lending are key to California's economic development and stability. Banks provide critical financial support through traditional lending, credit to underserved communities, and partnerships with CDFIs, ensuring long-term growth and the building of an equitable economy.

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Appendix

Economic Contributions Summary of Commercial Banking Operations in California
Table A.1

Impact Type	Employment	Labor Income ($, M)	GSP (Value Added) ($, M)	Output ($, M)	State and Local Taxes ($, M)	Federal Taxes ($, M)
Direct Effect	101,583	19,552	61,330	84,332	3,255	4,781
Indirect Effect	86,816	7,280	10,512	18,225	912	1,576
Induced Effect	81,967	5,482	10,093	15,796	1,306	1,312
Total	**270,366**	**32,314**	**81,936**	**118,353**	**5,474**	**7,669**

Source: IMPLAN. Analysis by Beacon Economics. Note: Real 2024 dollars; totals may not sum due to rounding.

Secondary Economic Impacts of Commercial Banking Operations by Sector
Table A.2

NAICS Sector (2-Digit)	Employment	Labor Income ($, M)	GSP ($, M)	Output ($, M)
54 Professional- Scientific and Tech Serv.	22,943	$2,536	$3,386	$5,091
56 Administrative and Support and Waste Management and Remediation Services	21,214	$1,288	$1,504	$2,565
72 Accommodation and Food Services	19,618	$800	$1,192	$2,084
62 Health Care and Social Assistance	17,997	$1,365	$1,568	$2,284
52 Finance and Insurance	15,982	$1,641	$1,750	$3,614
53 Real Estate and Rental	15,220	$970	$4,326	$6,431
81 Other services (except Public Administration)	14,421	$854	$976	$1,467
44-45 Retail Trade	12,218	$640	$1,287	$1,865
48-49 Transportation and Warehousing	8,456	$368	$587	$969
71 Arts, Entertainment and Recreation	4,276	$223	$281	$454
51 Information	3,622	$696	$1,508	$3,035
61 Educational Services	3,066	$181	$185	$268
55 Management of Companies	2,773	$422	$496	$756
42 Wholesale Trade	2,398	$272	$729	$1,182
9A Government Enterprises	2,029	$261	$265	$544
23 Construction	1,618	$128	$211	$441
31-33 Manufacturing	623	$56	$188	$657
22 Utilities	208	$55	$153	$282
11 Ag, Forestry, Fish and Hunting	80	$3	$6	$9
21 Mining	22	$1	$7	$26

rce: IMPLAN. Analysis by Beacon Economics. Real 2024 dollars.

About Beacon Economics

Founded in 2006, Beacon Economics is an LLC and certified Small Business Enterprise with the state of California. As an independent research and consulting firm, it is dedicated to delivering accurate, insightful, and objectively based economic analysis. Employing unique proprietary models, vast databases, and sophisticated data processing, the company's specialized practice areas include sustainable growth and development, real estate market analysis, economic forecasting, industry analysis, economic policy analysis, and economic impact studies. Beacon Economics equips its clients with the data and analysis they need to understand the significance of on-the-ground realities and to make informed business and policy decisions.

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