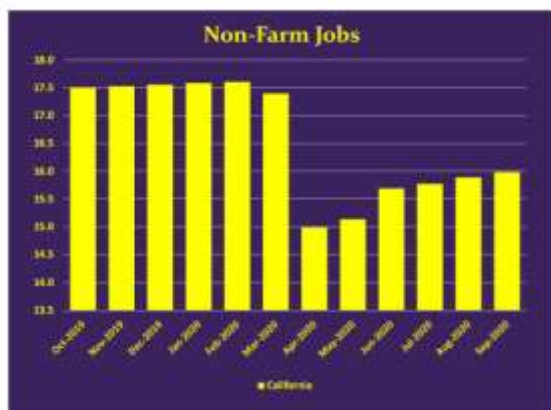


Dan Hamilton
October 30, 2020

Given the pandemic and the resulting government-mandated shutdown, California has in some ways experienced the same recent history as the United States. The peak of economic activity pre-shutdown was February with 17.6 million Non-farm jobs. In just 2 months, jobs stood under 15 million in the State. This 2.62 million job loss amounts to a 14.9 percent decline. This was clearly a historic event, not only an economic contraction of substantial magnitude, but also one that occurred in an incredibly short period of time. It is likely the state has *never* experienced a recession such as this. The event is certainly unmatched in the post WWII era.



Jobs started roaring back in May, but that roar has since become a whimper, leaving jobs at a level that is a scary nine percent lower than prior to the shutdown. This is 1.6 million jobs. I believe that some of those jobs will not ever return. And, I

believe that some of the folks who are working from home at this time will still be working from home a year from now, if at the same job.

While the quarterly data masks the dizzying monthly convulsions that we know have occurred, the second quarter GDP contraction was 9 percent. If the second quarter contraction had continued for an entire year rather than just 2 months, the annual contraction would have been 31.5 percent. We already know this did not happen. In fact, we know the third quarter was marked by an expansion, estimated for California to be 7.3 percent.

In what ways was the California economy impacted by the government-mandated shutdown? Almost a million jobs were lost in leisure and hospitality. In two months. This is astonishing. These workers are not from wealthy households. These are jobs that mattered to households' monthly cashflows a great deal.

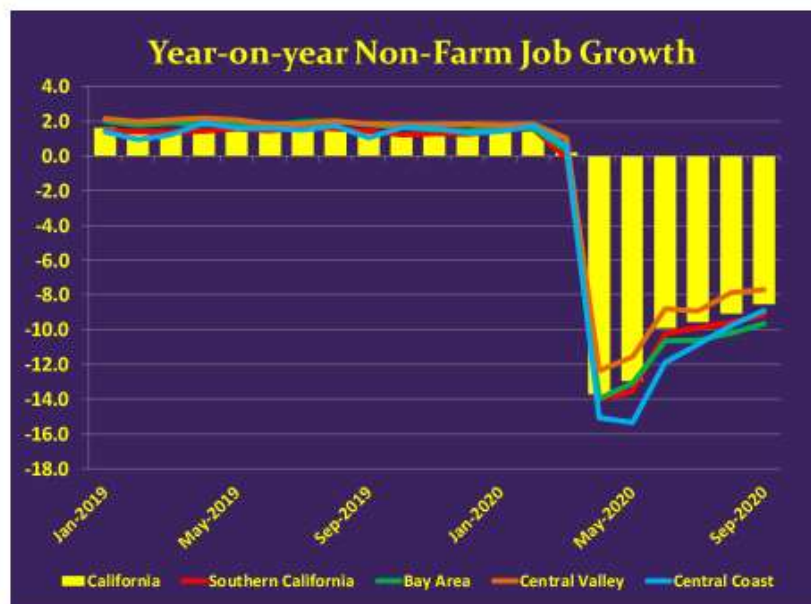
The other sectors that experienced great losses were: construction, retail, professional/business, education/health, and personal services with losses of 131, 283, 259, 323, and 166 thousand jobs, respectively.

California's Job Market		Changes Since Last Month		Peak to Trough		Trough to Now	
NSA Data	Most Recent	Aug 2020 - Sep 2020	Aug 2020 - Sep 2020	Feb 2020 - Apr 2020	Feb 2020 - Apr 2020	Apr 2020 - Sep 2020	Apr 2020 - Sep 2020
Sectors	Thousands	Change-thousands	Percent change	Change-thousands	Percent change	Change-thousands	Percent change
Natural Resources and Mining	21.9	-0.1	-0.5	-0.7	-3.2	0.7	3.3
Construction	860.0	-0.8	-0.1	-131.1	-15.0	115.4	15.5
Durable Goods Manufacturing	799.0	-0.3	0.0	-71.9	-8.5	20.7	2.7
Non-Durable Goods Manufacturing	434.0	0.3	0.1	-57.4	-12.6	35.0	8.8
Wholesale Trade	655.0	-0.4	-0.1	-65.1	-9.5	31.3	5.0
Retail Trade	1,523.9	24.1	1.6	-283.2	-17.3	170.1	12.6
Transportation, Warehousing, & Utilities	687.2	4.5	0.7	-64.7	-9.1	39.0	6.0
Information & Technology	516.0	-4.5	-0.9	-80.0	-13.5	3.4	0.7
Financial Activities	837.5	-2.8	-0.3	-26.7	-3.1	14.3	1.7
Professional and Business Services	2,596.8	14.8	0.6	-259.2	-9.5	122.8	5.0
Educational and Health Services	2,674.6	21.2	0.8	-325.9	-11.4	134.2	5.3
Leisure and Hospitality	1,454.8	31.2	2.2	-950.0	-46.9	377.8	35.1
Personal, Repair, & Maintenance Services	463.3	11.1	2.5	-166.3	-28.9	53.4	13.0
Government	2,443.6	61.5	2.6	-60.4	-2.3	-149.3	-5.8
Federal Government	280.4	-15.4	-5.2	3.3	1.3	27.8	11.0
State Government	503.2	15.1	3.1	4.6	0.8	-55.4	-9.9
Local Government	1,660.0	61.8	3.9	-68.3	-3.7	-121.7	-6.8
Total Non-Farm	15,967.6	159.8	1.0	-2,542.6	-14.5	968.8	6.5

Source: US Bureau of Labor Statistics

Across these sectors as well as leisure/hospitality, only one has recovered enough to be within 100 thousand jobs of the pre-recession level, and that is construction. Construction is only down 15 thousand jobs or so. Of particular note is leisure/hospitality, which is still down more than 570 thousand jobs.

Looking across the state's major regions, all areas felt the suddenness and severity of the shutdown. The Central Coast region experienced the greatest percent decline followed by the Bay area and Southern California (together) and the Central Valley suffered the least.



CERF has noted in the past that the Bay Area provides growth for California that often explains a large amount of the growth premium that California's enjoys when it outperforms the U.S. This has often been due to a more rapid growth rate along with higher value added operations. The fact the Bay area has thus far recovered the least among the state's major regions provides important information for our forecast.

From a sectoral point of view, there are many arguments that point to the economy not recovering all of the 1.6 million jobs anytime soon. The clear losers, segments which will likely never fully recover, are retail and leisure/hospitality. What is surprising to us is that office jobs, professional/business services, are still down 380 thousand jobs. This sector might also have sub-segments whose workers never return back to working in the office, even if they are able to keep their job. This might imply cost savings to firms, but will for sure have a detrimental impact on commercial real estate, and will likely further hurt household workers looking for a job.

Based on analysis of regional and sectoral data, we forecast that the state's recovery will lag that of the United States. This forecast assumes that there are no new shutdowns. New shutdowns would cause California to lag behind the Nation's recovery even more.



Beginning in 2022, it is likely that the state's major regions and economic sectors will have recovered enough that the state should again grow a bit faster than the U.S.

A couple of points about California’s future that CERF has mentioned before. If our 2022 forecast is correct, in the sense that the state grows more rapidly than the U.S., California’s economy will still be performing under-potential, due to a heavy tax and regulatory burden. At some point, the state’s tax and regulatory policies will come home to roost in the form of relatively low levels of economic growth, by which time the U.S. economic growth rate will be higher than California’s.

APPENDIX

CERF's California Major Regions Documentation			
Major Region #1	Major Region #2	Major Region #3	Major Region #4
Bay Area Napa MSA Oakland-Fremont-Hayward Metro Div San Francisco-San Mateo-Redwood City Metro Div San Jose-Sunnyvale-Santa Clara MSA Santa Rosa-Petaluma MSA Vallejo-Fairfield MSA	Central Valley Bakersfield Delano MSA Chico MSA Fresno MSA Hanford-Corcoran MSA Madera-Chowchilla MSA Merced MSA Modesto MSA Redding MSA Sacramento-Arden Arcade-Roseville MSA Stockton MSA Visalia-Porterville MSA Yuba City MSA	Central Coast Oxnard-Thousand Oaks-Ventura MSA Salinas MSA San Luis Obispo-Paso Robles MSA Santa Barbara-Santa Maria-Goleta MSA Santa Cruz-Watsonville MSA	Southern California El Centro MSA Los Angeles-Long Beach-Glendale Metro Div Riverside-San Bernardino-Ontario MSA San Diego-Carlsbad-San Marcos MSA Santa Ana-Anaheim-Irvine Metro Div

Source: Center for Economic Research and Forecasting (CERF)
 Updated: Dec. 12, 2017