

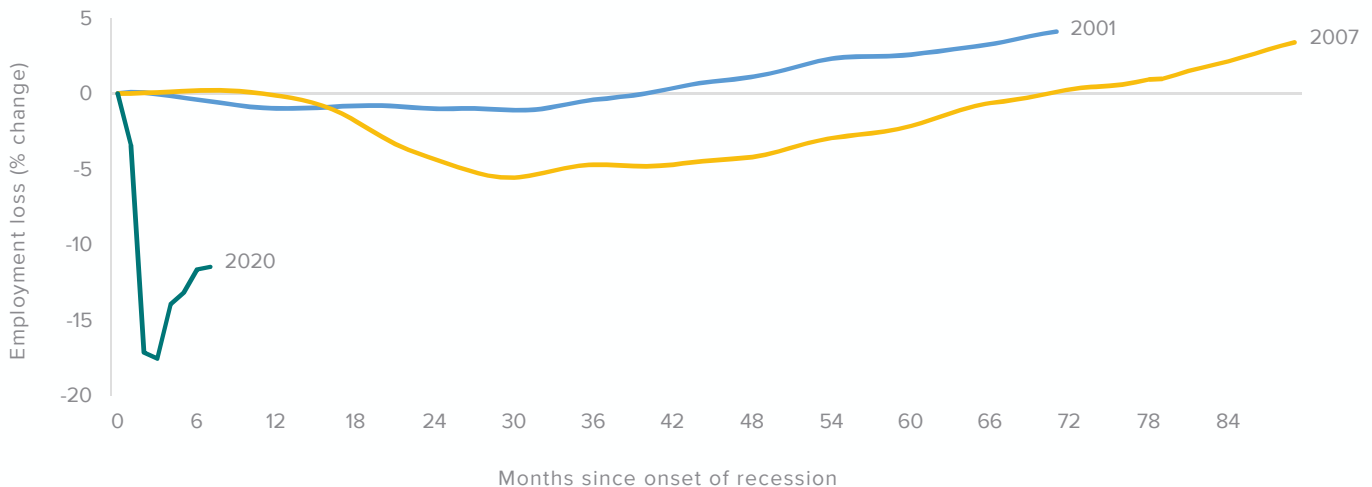
Economy

JANUARY 2021

California's economy has been hit hard by COVID-19. Between February and May 2020, the state lost more than 3 million jobs, largely erasing gains from a decade of continuous growth. The economic consequences have been severe but also unevenly distributed, exacerbating economic inequality.

- ▶ California's economy is huge—before the pandemic, it was the fifth largest in the world—and diverse. Health, government, and retail are the biggest sectors (10%–15% of jobs), with leisure and hospitality, manufacturing, and professional and technical service sectors close behind (8%–9%). Sectors that rely on in-person interaction—especially leisure and hospitality—have experienced severe declines due to COVID-19.
- ▶ The California economy generally moves with the US economy, but tends to swing more widely in recessions. For example, unemployment rose more dramatically in California than in all but two other states during 2020. And consumer spending in California declined 37% last April, compared to 32% nationwide; it was down 8% in November, compared to 2% nationally.
- ▶ Even in good economic times, California has long faced the economic challenges of stubbornly high poverty rates, income inequality, high housing costs, and polarization of job opportunities by education level.
- ▶ Income polarization in California is severe: families at the 90th percentile of income made 9.8 times more than those at the 10th percentile before the pandemic. Recent recessions have widened economic inequality, as recovery has been slower to reach the lower end of the income spectrum. The COVID-19 crisis is particularly likely to widen income gaps.
- ▶ The pandemic is likely to exacerbate existing racial/ethnic income disparities. In 2019, median annual earnings in California were \$80,440. For households headed by Asian or white Californians, median earnings were \$90–\$100,000. Households headed by African Americans or Latinos earned \$55,000 and \$63,000, respectively.
- ▶ Federal stimulus in 2020 injected billions into California's economy through unemployment insurance expansions, stimulus checks to tax filers, business grants and loans, and funding to state government. While not all of this aid targeted the most-impacted households and businesses, research suggests that it prevented a rise in poverty, at least through the fall.

RECENT RECESSIONS HAVE HIT CALIFORNIA HARD, BUT COVID-19 JOB LOSSES HAVE BEEN UNPRECEDENTED



SOURCE: California Employment Development Department.

NOTE: Total civilian employment, seasonally adjusted, is plotted relative to the first month of each recession. Prior recessions are tracked until recovery to prior level of employment or for 90 months.

The COVID-19 downturn hit the state hard and is abating slowly

Several factors make the recession worse in California. A relatively large share of the state economy involves in-person interaction or travel, which was mostly shut down in March 2020 and has been slow to recover. At the same time, because a large share of jobs can be done remotely, incentives to relocate from high-cost regions have increased, while city centers and the businesses that support them are struggling as many employees work at home.

The first few months were brutal. California lost more than 3 million jobs between February and May 2020—an 18% decline. All major labor market indicators (employment, unemployment, and labor force participation) saw bigger changes than in any economic crisis over the past three decades.

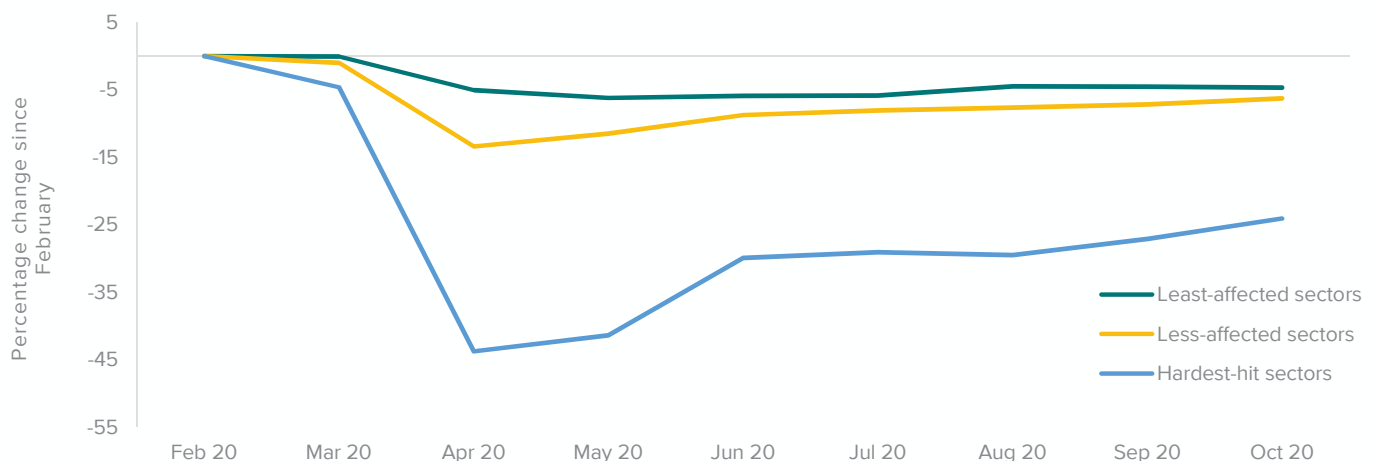
The unemployment picture is probably worse than it looks. California's unemployment rate was 9.3% as of October 2020, but an estimated 15.7% were unemployed, working reduced hours, or had given up looking for work. In the first seven months of the crisis, 8.6 million workers—roughly 44% of the labor force—filed for unemployment insurance benefits. That does not include undocumented immigrants, who are not eligible for benefits; these workers comprise **9% of California's labor force** (including large shares in sectors hit hardest by the pandemic). As of mid-October, just over a million workers had applied for long-term unemployment, indicating they had been unemployed for more than six months.

Labor force participation is a concern. For the full unemployment story, we need to look at labor force participation: the share of the population working or actively looking for work. In May, labor force participation fell to its lowest rate in at least four decades (59.3%). Many returned to the labor force in fall, but concerns remain. National research suggests that some workers retired early and young adults have had trouble entering the workforce. Some women seem to be leaving the labor force to care for children and dependents.

The sizeable job losses in the hardest-hit sectors may take many months to shrink. COVID-19 has had the greatest impact on sectors that rely on in-person interactions. Labor market data from October underscores the continued challenges facing these sectors: recovery in the hardest-hit sectors stalled in the summer, with October employment levels still 24% lower than they were in February 2020.

Other sectors made only modest gains. In industries that were moderately affected (such as construction, retail, health, and manufacturing) or saw relatively small declines (including professional services and information), employment rose modestly; as of October 2020 levels remained 6% and 5% below February levels, respectively.

CALIFORNIA JOB GROWTH IN THE FALL WAS LED BY IMPROVEMENTS IN THE HARDEST-HIT SECTORS



SOURCE: California Employment Development Department.

NOTES: Hardest-hit sectors (leisure and hospitality, other services) had declines greater than 25% between February and April 2020. Less-affected sectors (e.g., construction, retail, health, manufacturing) had 10%–25% declines. Least-affected sectors (e.g., professional services, information) had declines less than 10%.

The economic impact of COVID-19 in California exacerbates underlying, long-term disparities

Unemployment has been especially high among women and African Americans. More than 15% of Black Californians were unemployed as of fall 2020, compared to 12% of Latinos and 9%–10% of whites and Asian Americans. Unemployment has been slower to decline for Black and Latino workers since last summer. In addition to widening racial/ethnic disparities, the recession opened a gender divide. Unemployment was nearly identical for men and women in February 2020, but women were much more likely to be unemployed for much of 2020 (April–September).

Differences in COVID-19’s impact across income and educational levels are stark. Unemployment is 26% among workers with family incomes under \$30,000—roughly the poverty line for a family of four, according to the [California Poverty Measure](#). By contrast, 5% of workers in high-income families are unemployed. Unemployment is about twice as high for workers without a college degree than for those with at least a bachelor’s degree; the large job losses among less-educated workers during COVID-19 have heightened long-standing disparities.

COVID-19 WIDENED SEVERAL LONG-STANDING UNEMPLOYMENT DISPARITIES AND OPENED A GENDER GAP



SOURCE: Basic Monthly CPS, California sample for January–October 2020.

NOTES: Chart shows average unemployment rate over three-month periods due to limited sample size. January–March reflects the economy prior to the pandemic and August–October reflects the most recent data available. Income levels reflect family income over the previous 12 months.

Some small businesses and self-employed Californians fared worse than others. At least half of small businesses reported “large negative” effects of the pandemic in the spring and many had to take drastic measures (layoffs, closure, missed payments). Small businesses in hard-hit sectors are more likely to be owned by women, Asians, Latinos, and African Americans, and early evidence suggests that these businesses were more likely than others to close.

Some regions have seen larger declines than others. The high statewide unemployment rate has been driven largely by the Los Angeles metro, where unemployment was 12.1% as of October. A few inland areas have been above the statewide rate—including Stockton at 10%, Bakersfield at 10.6%, and Visalia at 10.9%—a pattern similar to previous recessions. In line with past recessions, unemployment has been lowest in the Bay Area and far northern metros, including Redding, San Francisco, San Jose, and Napa (below 7%).

As California recovers from COVID-19, state leaders must confront long-standing challenges

State policymakers must monitor economic developments so that they can address long-term inequities and effects of COVID-19.

Federal policy will continue to be key. Federal expansions to unemployment insurance, economic stimulus, and business protections have been a critical backstop so far. Future support will also be needed, given the likelihood of prolonged state revenue shortfalls and the necessity of balancing state and local budgets.

An equitable recovery requires investment in areas with the most need. As California’s economy recovers, state policy should focus on the groups, regions, and sectors hit hardest by this recession. Not only are the hardest-hit workers typically the last to benefit from recoveries, but the impact of this recession was unusually bifurcated: many workers did not experience job or income losses. Policymakers need to prioritize direct support for struggling workers and industries.

The state should also invest strategically, given the future of work. This recession could shift patterns of work and business in some sectors permanently—for example, as service delivery shifts away from in-person and toward online, or as more workers work partially or fully from home. Business models for sectors most impacted by the crisis—retail, leisure and hospitality, tourism, and personal services—may shift most. But long-standing forces like automation that affect job opportunities for many low-wage workers may also accelerate. Investments, particularly in education and training, must account for these realities.

The pandemic has highlighted the multi-dimensional factors that support work. The COVID-19 crisis underlines the importance of child and dependent care for many California workers, especially women. These supports need to be put in place quickly, especially for workers who were detached from the labor force during the crisis. This recession also emphasizes the protective role of education during economic downturns. Access to and success in higher education and job training for all Californians is critical.

An expanded and efficient support system could help more workers and families. Means-tested safety net programs have helped many Californians who lost income during the crisis. Even more benefited from unemployment insurance at the onset, when federal legislation increased benefits and expanded coverage to gig workers, the self-employed, and those with limited earnings histories. To better serve workers and employers (who pay into the trust fund or repay its loans), addressing systemic inefficiencies and inequities is critical.

The high cost of living in California remains a key challenge. High housing costs have always strained household budgets, and many are now struggling to meet rent or mortgage payments. Relocation due to the pandemic—both in and out of the state—will have long-term consequences if it persists. However, decades of underinvestment in housing mean that supply shortages will continue to put upward pressure on prices in most areas of the state.

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Sources: California Employment Development Department and Bureau of Labor Statistics data on employment, unemployment, labor force participation; Current Population Survey Basic Monthly microdata on unemployment; Bell et al., *An Analysis of Unemployment Insurance Claims in California during the COVID-19 Pandemic* (California Policy Lab, 2020); American Community Survey 2019 income estimates; Census Pulse survey on small businesses; Robert Fairlie, “Impact of COVID-19 on Small Business Owners,” *Journal of Economic Management Strategies* (August 2020).



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