

LAEDC's 2022

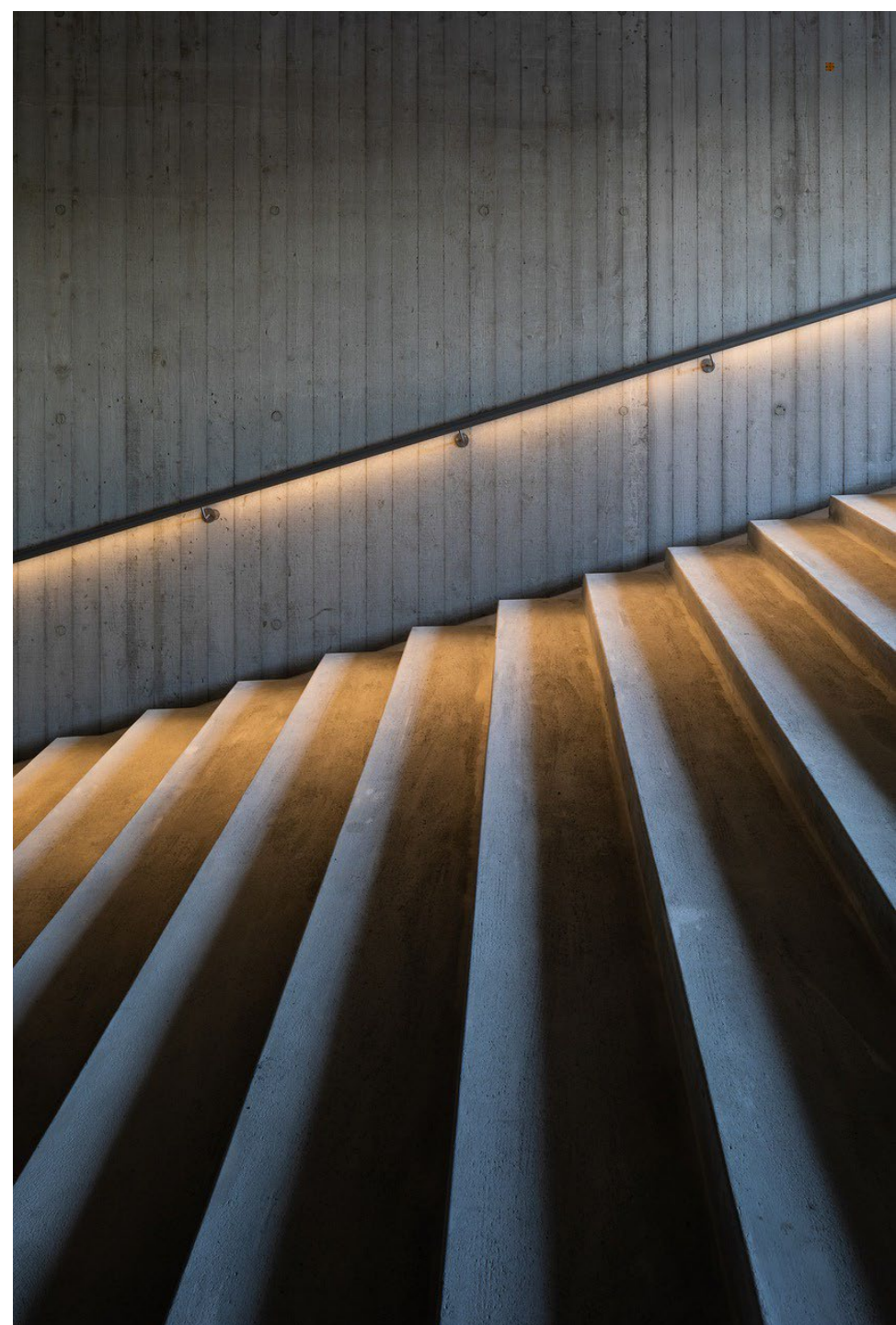
Forecast:

Navigating Through Continued Disruption and Uncertainty

Shannon M Sedgwick

Director, Institute for Applied Economics

Wednesday, February 16, 2022



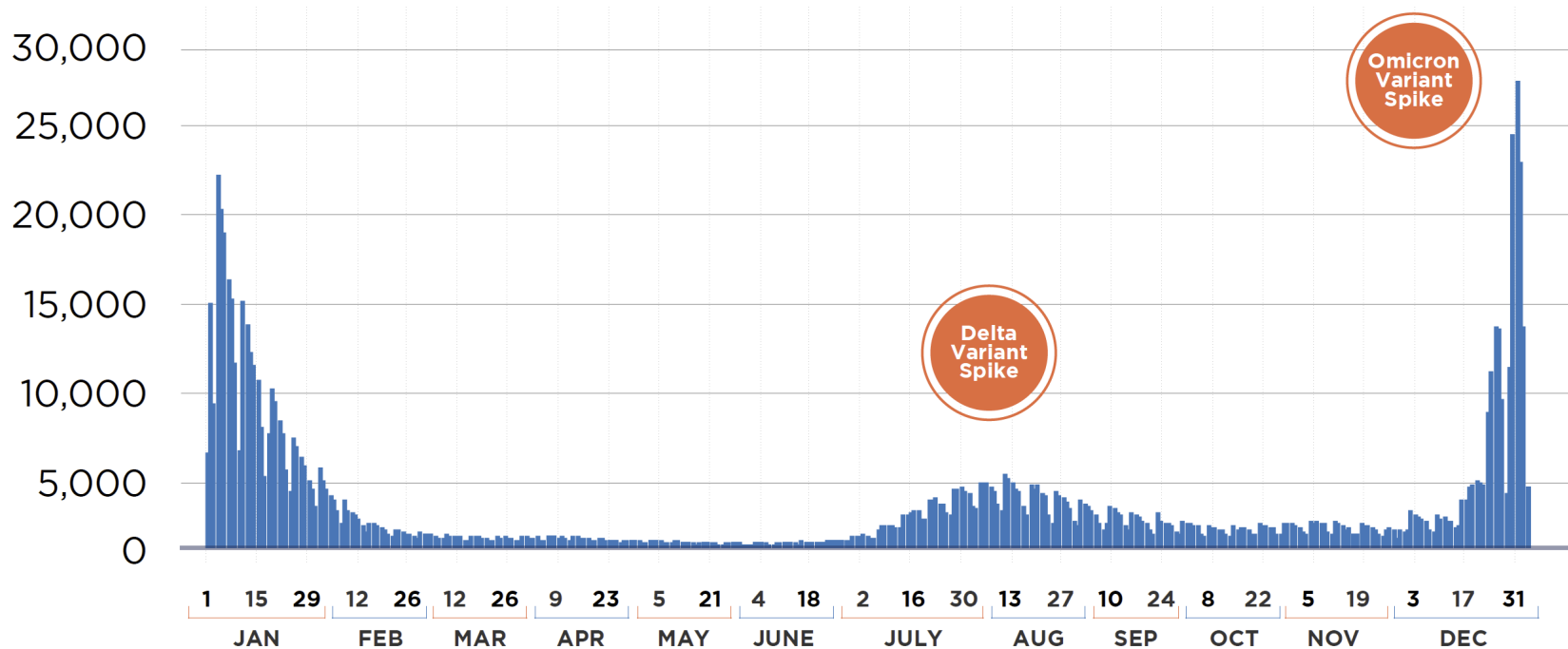
Overview

- Economic Outlook for California
- Transformative Shifts
- California Shifts and Future Influences
- Assumptions in place for our forecast:
 - *Fed monetary policy is planned and executed in a manner that does not significantly disrupt the ongoing economic recovery*
 - *Future pandemic-related developments will not lead to behavioral responses by individuals, organizations, or governments that serve to substantially reduce economic activity.*

COVID-19 in 2021:

A Year of Vaccinations and Learning to Live with the Virus

2021 Daily Cases in LA County

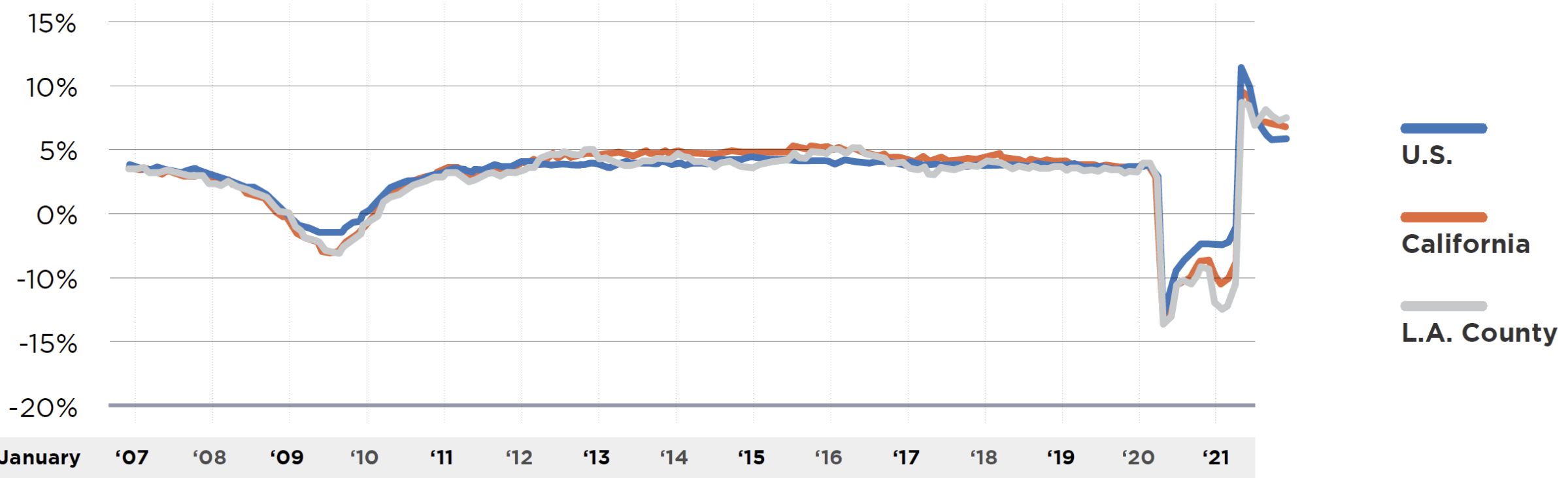


- 2021 was characterized by a significant turn towards pre-pandemic normalcy
- Summer spike related to Delta variant
- Winter surge related to Omicron variant
- FDA began authorizing booster shots beginning in the summer of 2021
 - *By late December 2020, almost 2.25 million boosters were administered in Los Angeles County*



Nonfarm Employment

Year-over-year percent changes throughout the pandemic



Source: BLS

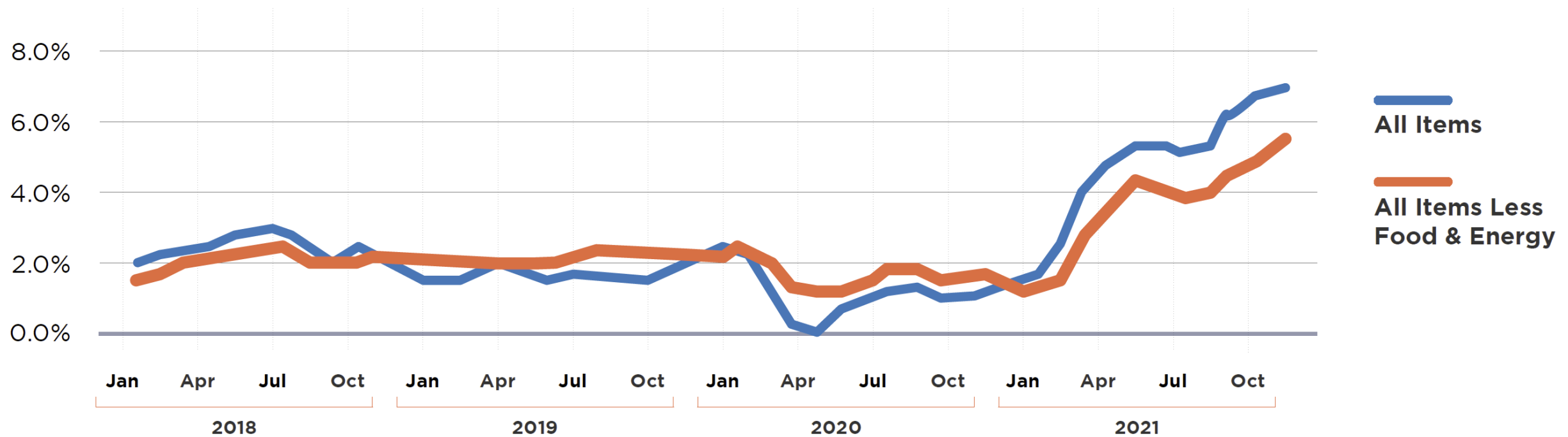
The U.S. labor market was significantly negatively impacted by the pandemic in 2020 but made an impressive recovery in 2021.

The labor force participation rate will be a key metric to watch going forward

Nationwide Macro Influences :

INFLATION: Year-over-year change in CPI-U

The one-year percentage change in the Consumer Price Index (CPI) in December 2021 was 7.0 percent; the sharpest CPI increase in the U.S. since the summer of 1982.



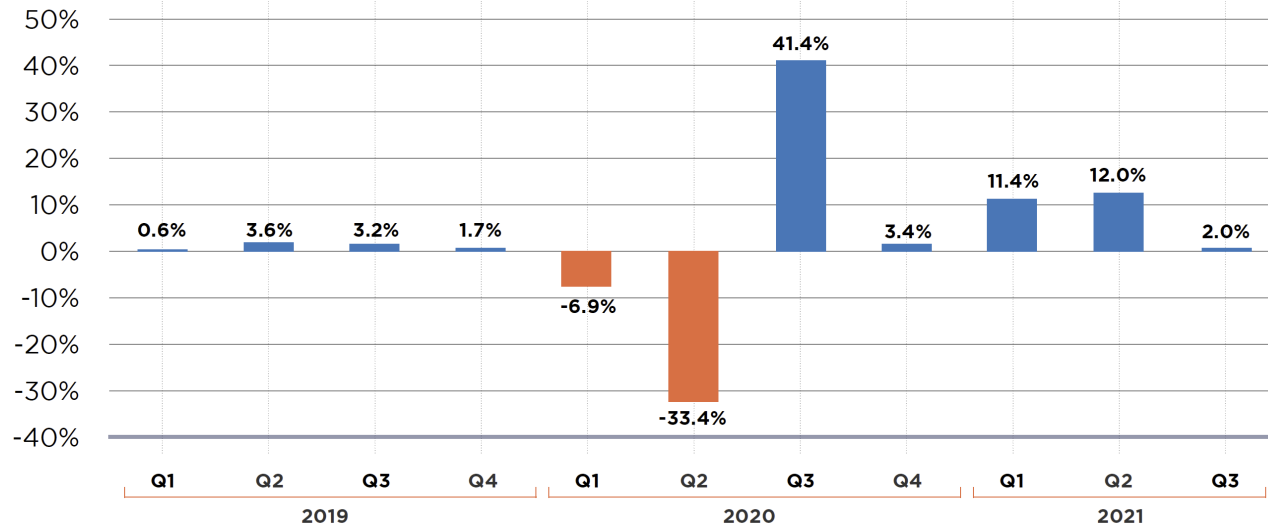
Energy is the major category experiencing a significant increase in prices, but food and shelter are up significantly too.



Nationwide Macro Influences :

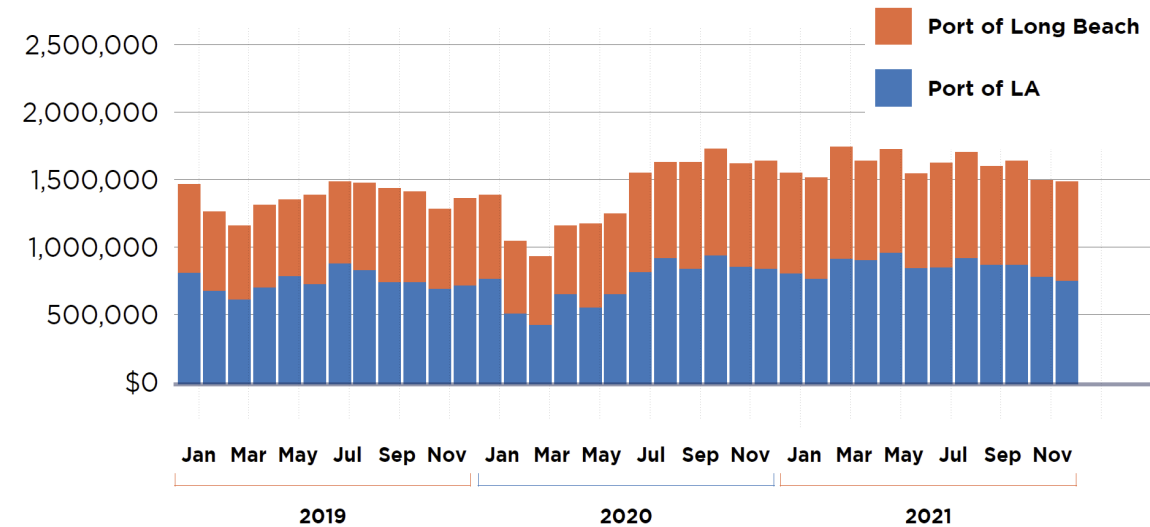
INFLATION: *Two Main Contributors, a positive demand shock and a negative supply shock*

Percent Change in Real Personal Consumption Expenditures



A significant portion of households found themselves with increased household income related to changed spending habits, stimulus payments, and expanded unemployment benefits.

Total TEUs by Month, San Pedro Bay Ports



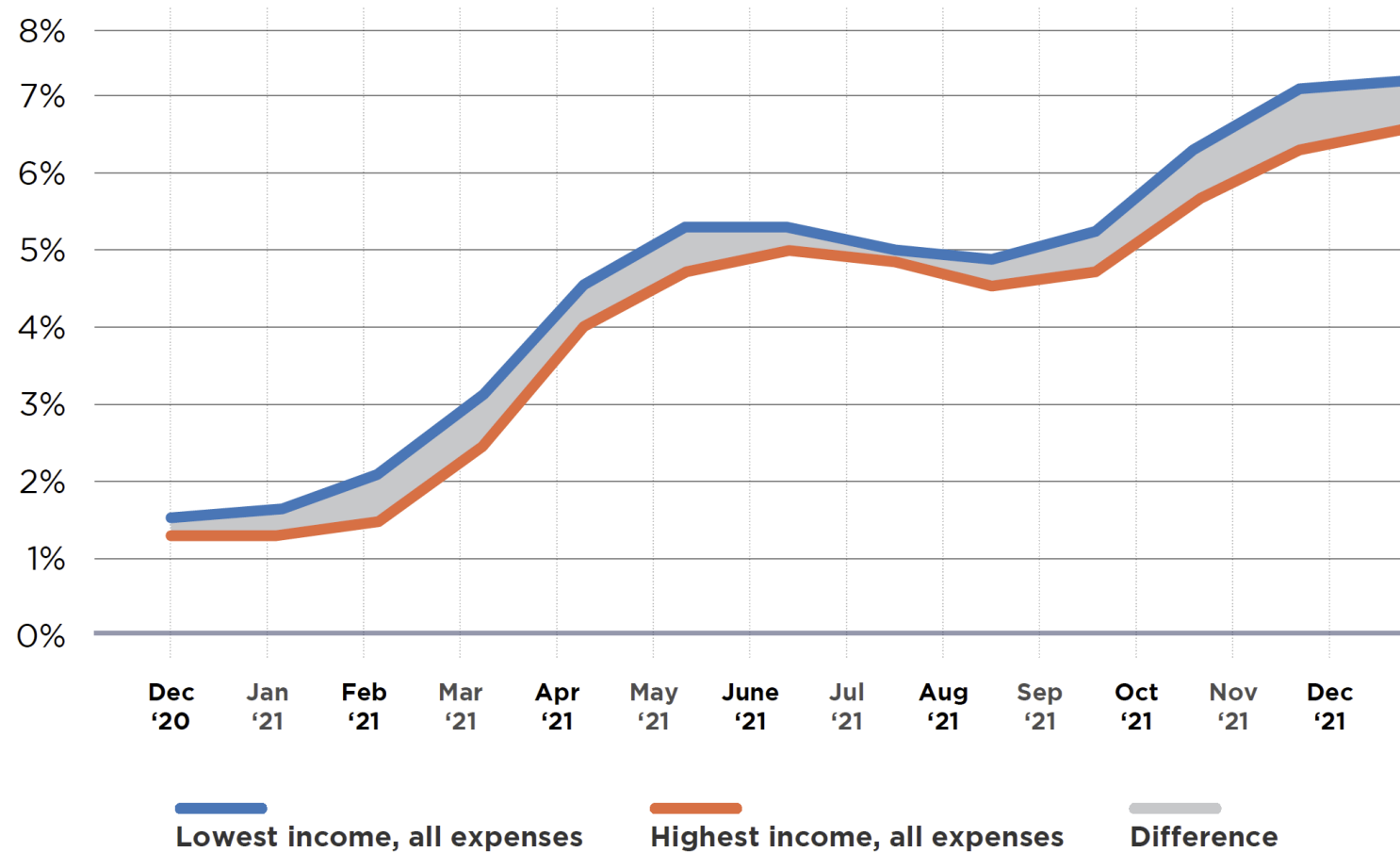
Supply chain issues hamper economic recovery and apply upward pressure on the general price level.

National fiscal and monetary policy in the coming years will be significant determinants of economic performance and the inflation rate.



Nationwide Macro Influences :

INFLATION: *Gap Between High- and Low-Income Households*



Inflation is redistributive. Higher rates of inflation redistribute wealth in a disruptive way.



An Economic Outlook for California

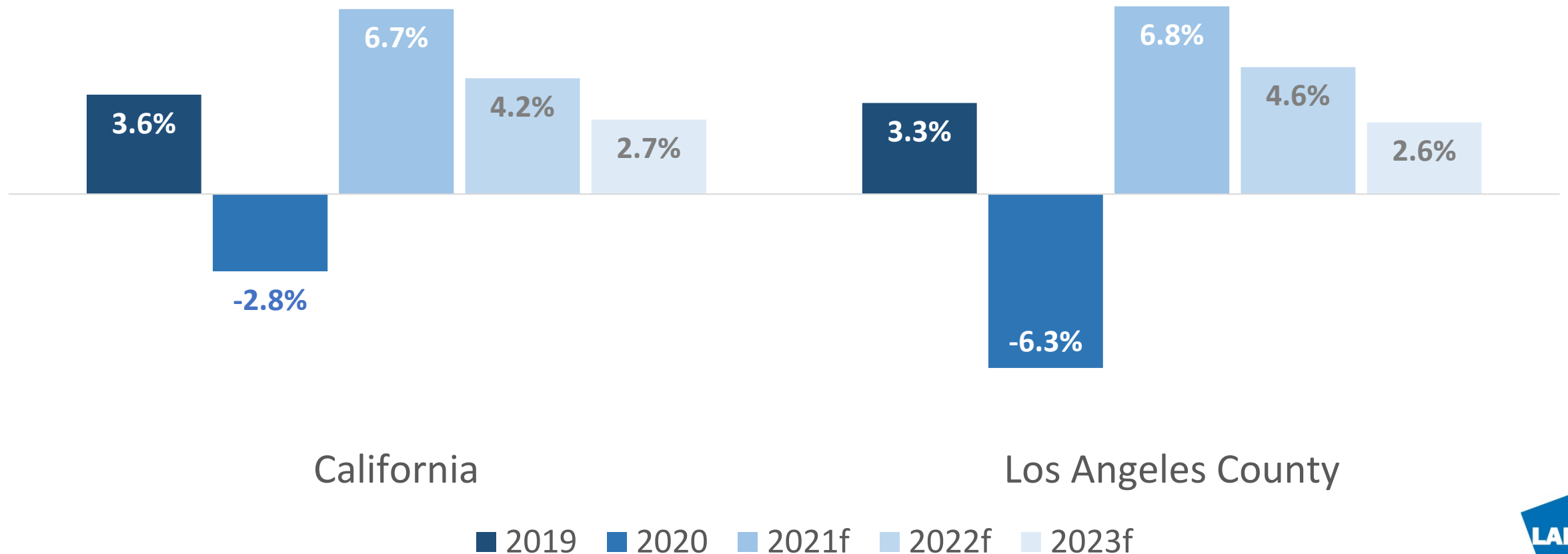
“If they can't do it in California, it can't be done anywhere.”

–Taylor Caldwell, American Novelist

Economic Growth in California:

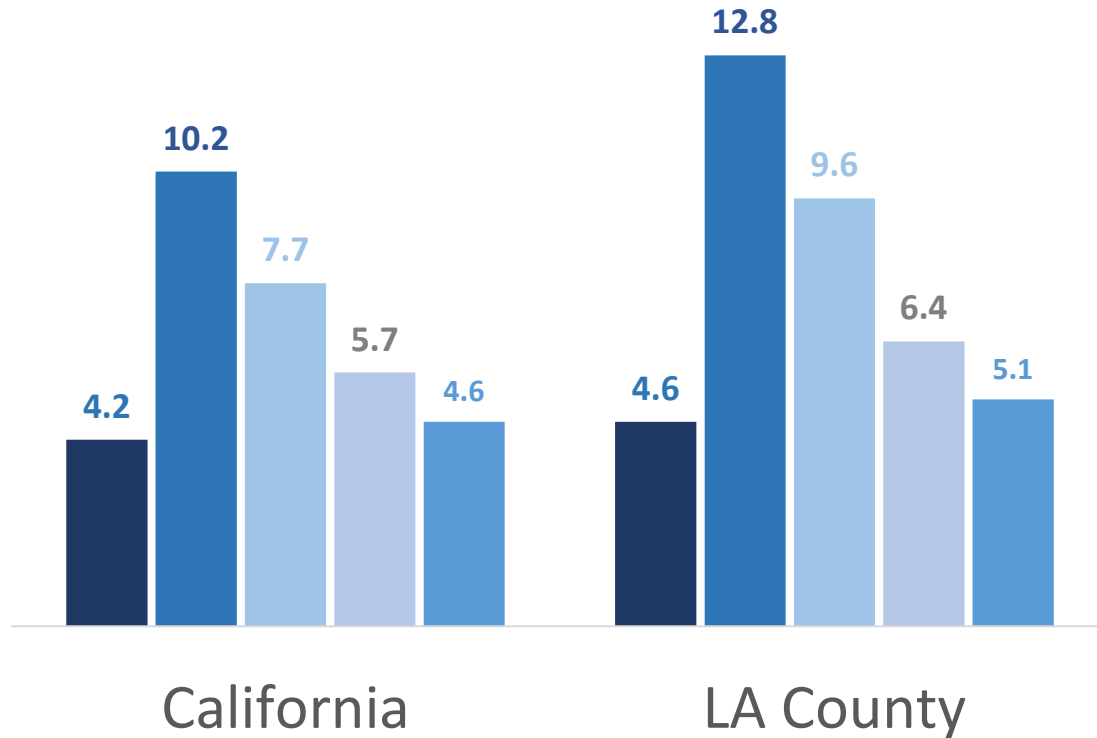
Moderate but still fairly strong growth projected for this year...

Real GDP Growth Forecast

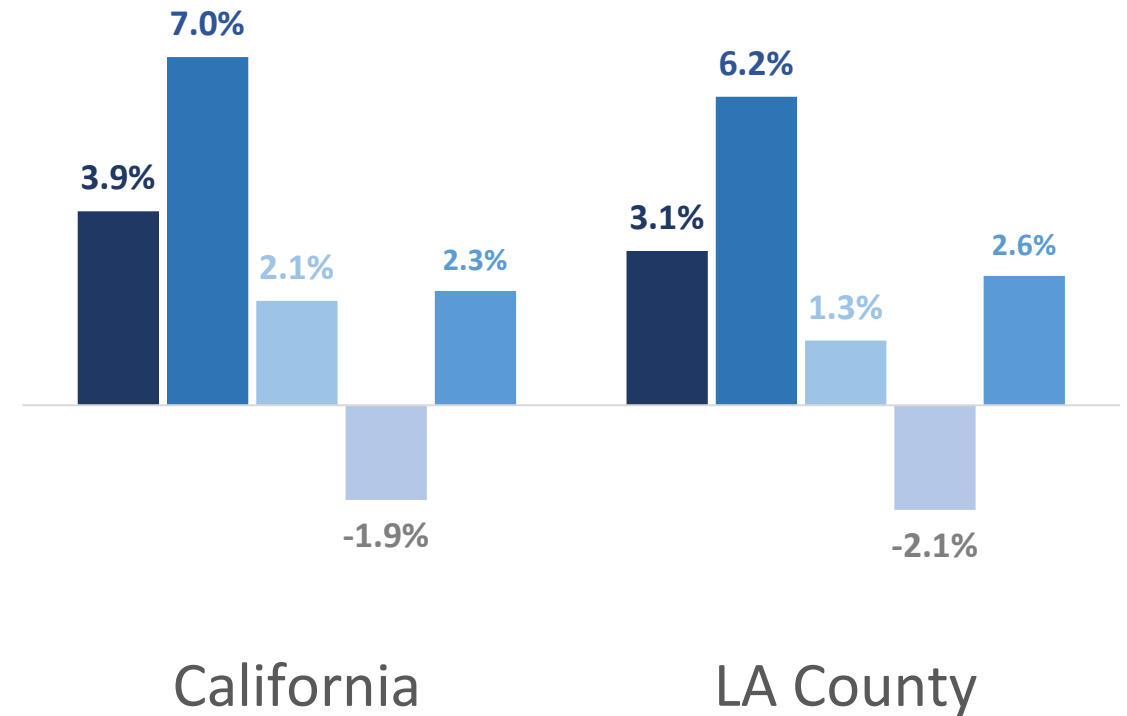


The Labor Market Continues to Recover...

Unemployment Rate



Real Personal Income Growth

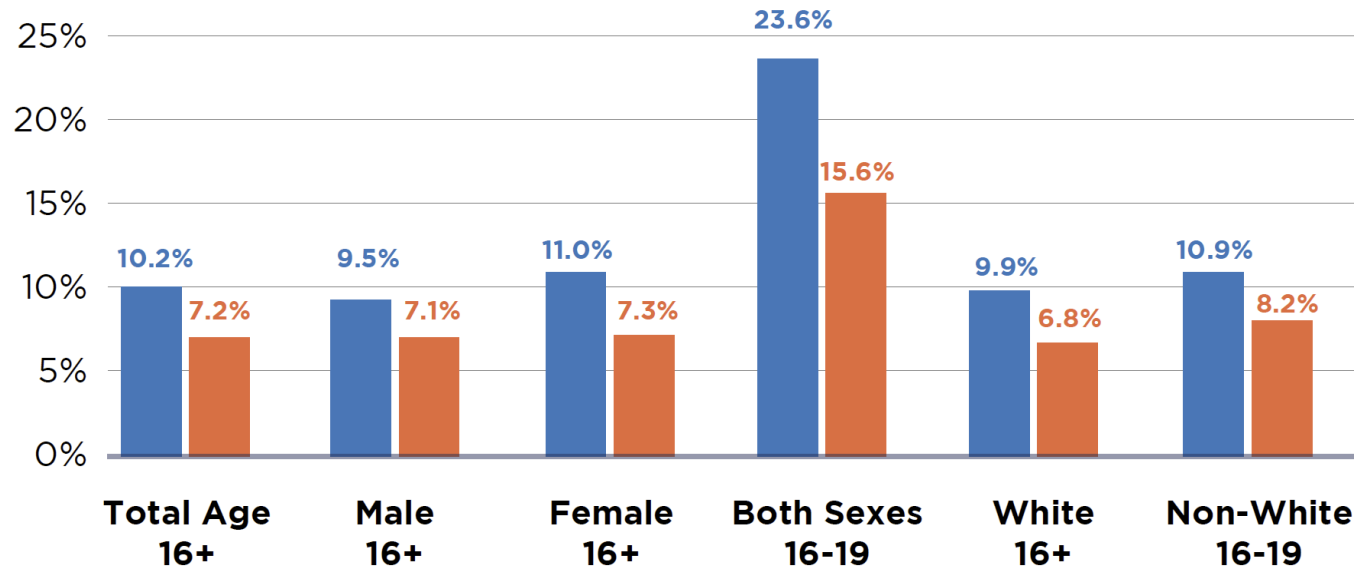


■ 2019 ■ 2020 ■ 2021 ■ 2022f ■ 2023f

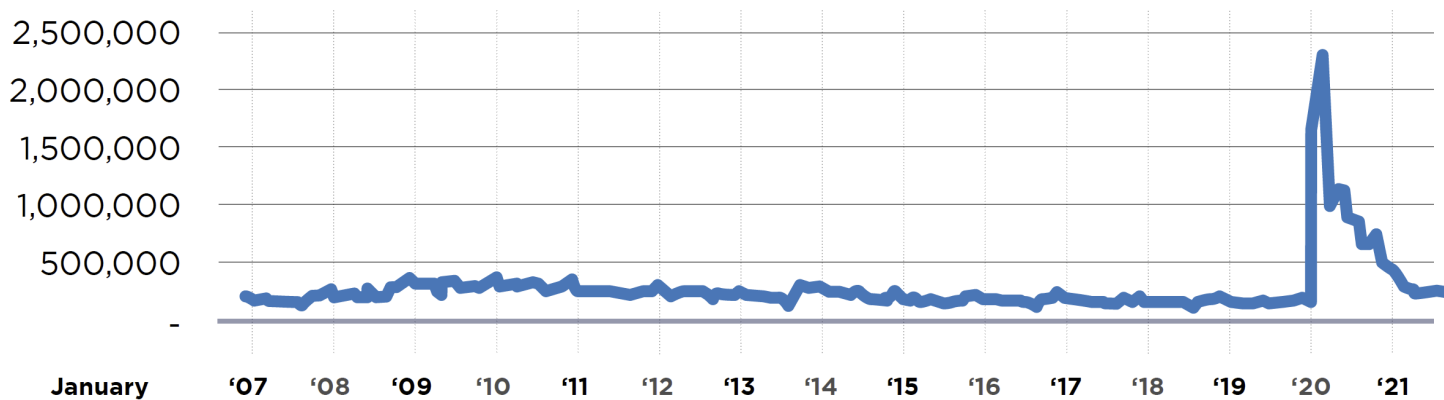
■ 2019 ■ 2020 ■ 2021f ■ 2022f ■ 2023f



Nonfarm Employment *Unemployment in California*



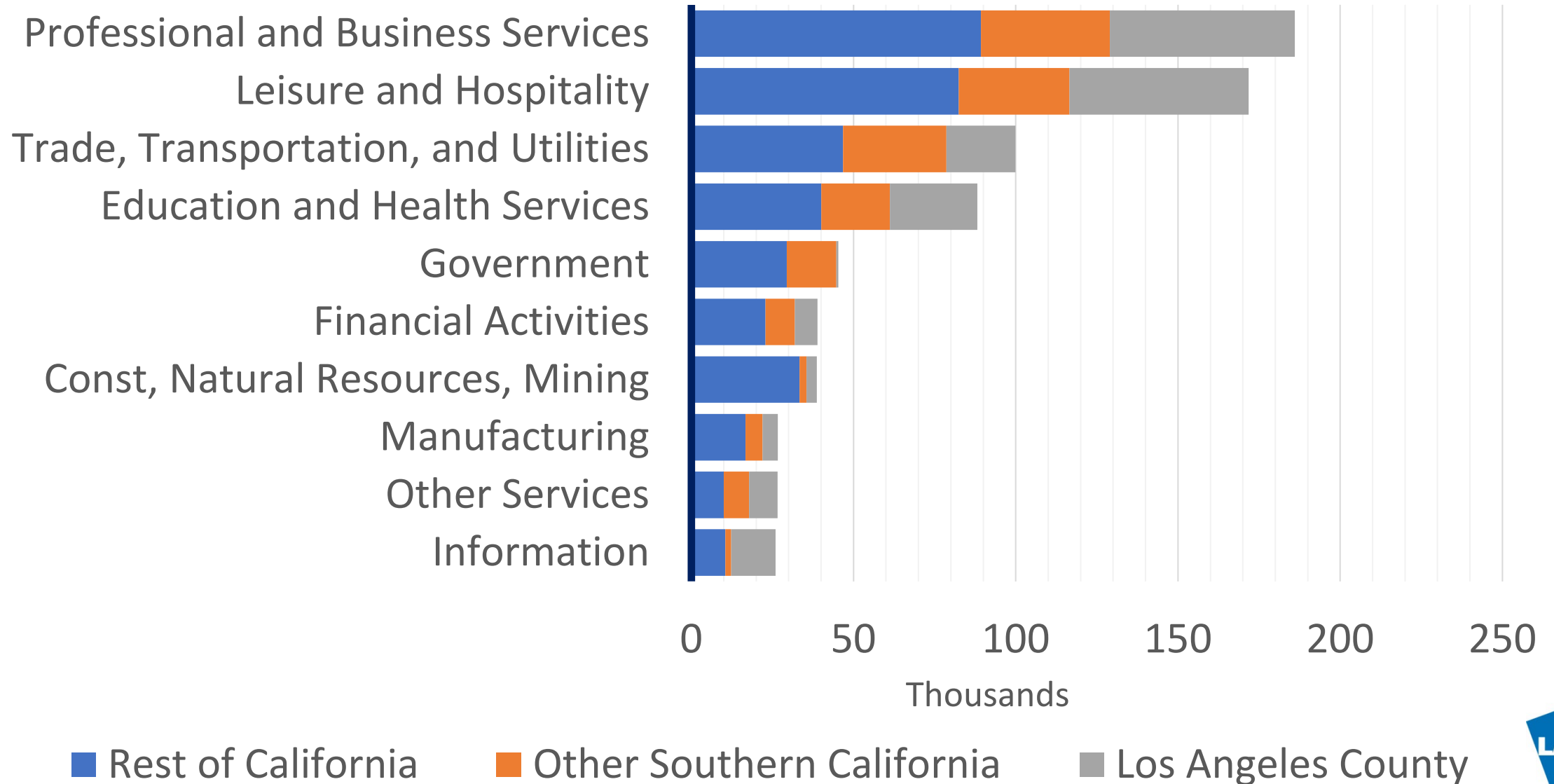
**Unemployment Rate
by Demographic Group**



Initial UI Claims in California

California Employment Forecast:

2 Year Employment Forecast



Transformative Shifts

And Upcoming Influences

“Los Angeles gives one the feeling of the future more strongly than any city I know of.”

– Henry Miller, American writer and artist

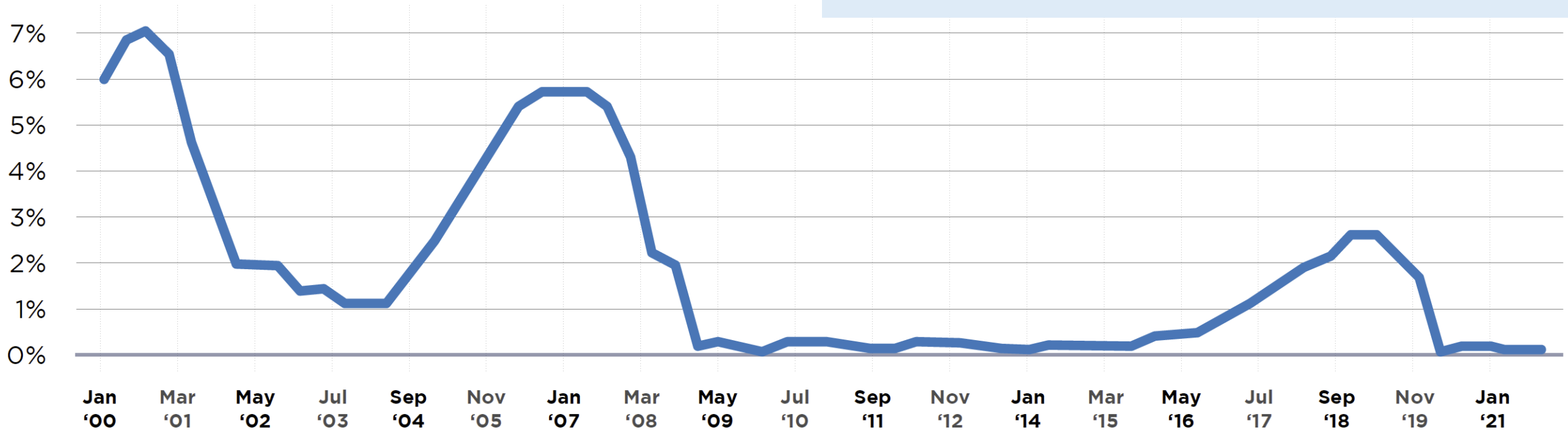
Transformative Shifts and Upcoming Influences

- Nationwide Trends with a Local Impact
 - *National Economic Policy*
 - *Remote & Freelance Work*
 - *Increased Digitization*
 - *Accelerated Shift to E-Commerce*

Transformative Shift: *National Economic Policy*

Federal Funds Rate 2000-2021

Fiscal and monetary policy have played a key role in determining where we currently find ourselves and where we expect to go over the next couple of years.

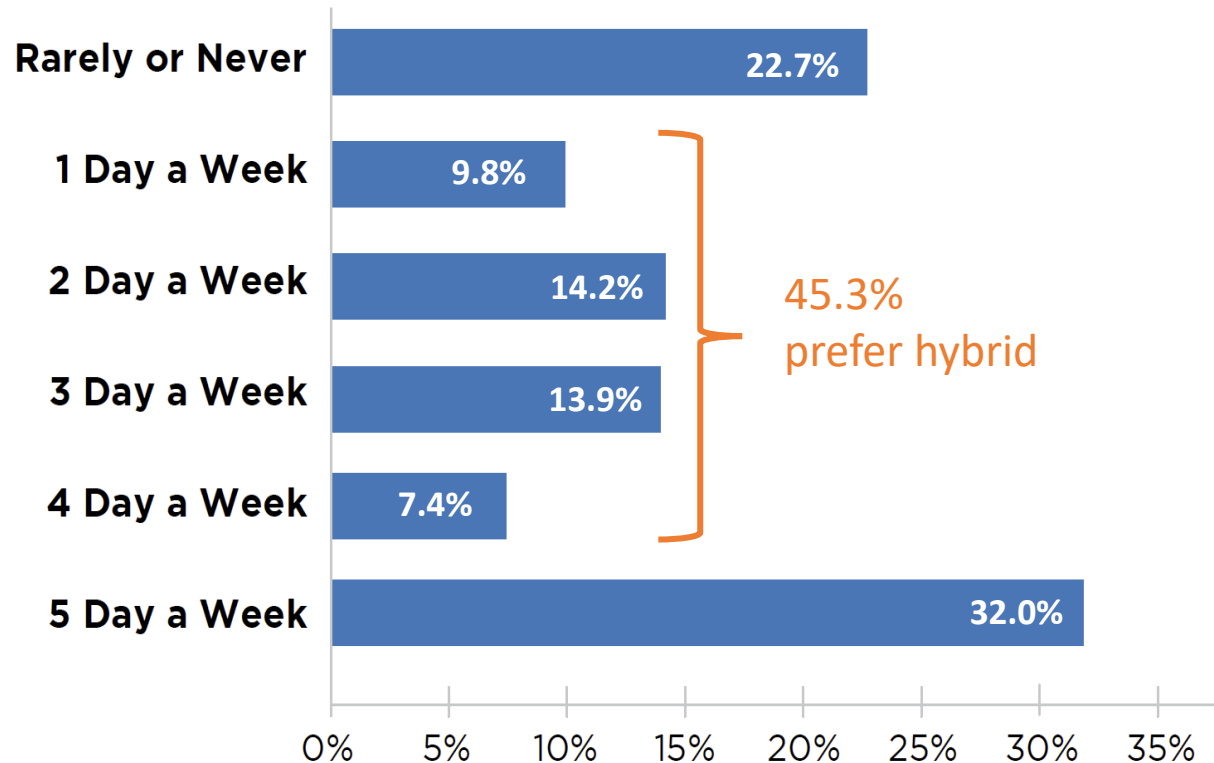


Contractionary monetary policy that is not well planned and executed can subsequently lead to recession

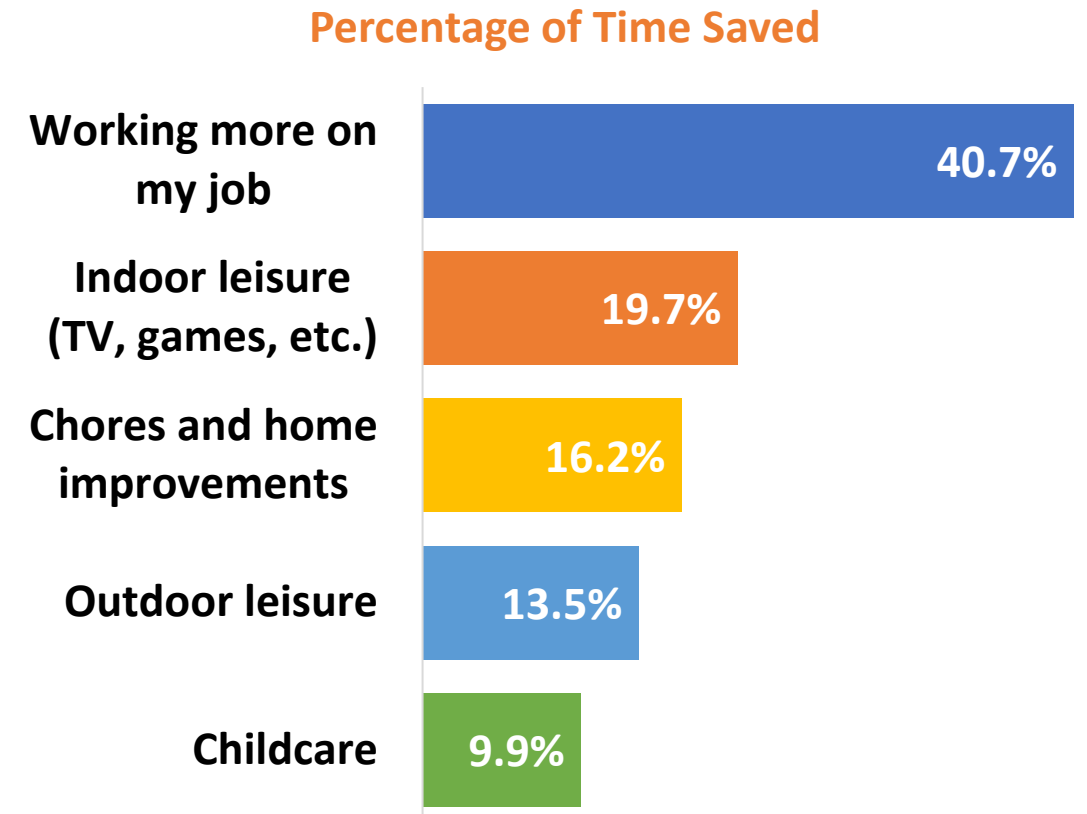


Transformative Shift: *Remote Work*

Preferred Number of Days Working From Home



How Remote Workers Used Commuting Time Saved While Working Remotely (%)



Transformative Shift: *Freelance Workers*

In 2020:

- Around **12%** of the U.S. workforce began freelancing for the first time, right after the pandemic hit.
- Freelance work contributed **\$1.2 trillion** to the U.S. economy, up 22% from 2019.

In 2021

- **59 million** U.S. workers performed freelance work, the share of the labor force categorized as non-temporary freelancers increased from **33.8%** to **35.0%** over the past year
- **51% of post-graduate workers** choosing freelancing in 2021, an increase of about **6%** since 2020.
- **53%** of the freelance workforce provided high-skilled services compared to **50%** in 2020.
- remote work was cited as a top reason for entering the freelance workforce, being mentioned by around **54%** of new entrants.
- Top reasons for entering freelance employment cited by new skilled remote entrants include schedule **flexibility (78%)** and **work location flexibility (73%)**.



59 Million U.S. Workers
performed freelance work

33.8% → 35%

Non-Temporary Freelancers

Freelance work is expected to keep growing over time.

Around 56% of non-freelance employees surveyed in the study answered that they are likely to freelance in the future.



Transformative Shift:

Increased Digitization

- **The trend towards digitization in the provision of a variety of services was accelerated through online platforms.**
 - *In particular, the pandemic served as a catalyst for the significantly increased provision of telehealth services.*
- **New demand for digital skills can potentially change the occupational composition across different industries**
- **The potential for lowered costs represents a likely benefit of increased digitization.**
 - *Particularly in services that have been rising over time such as health care.*



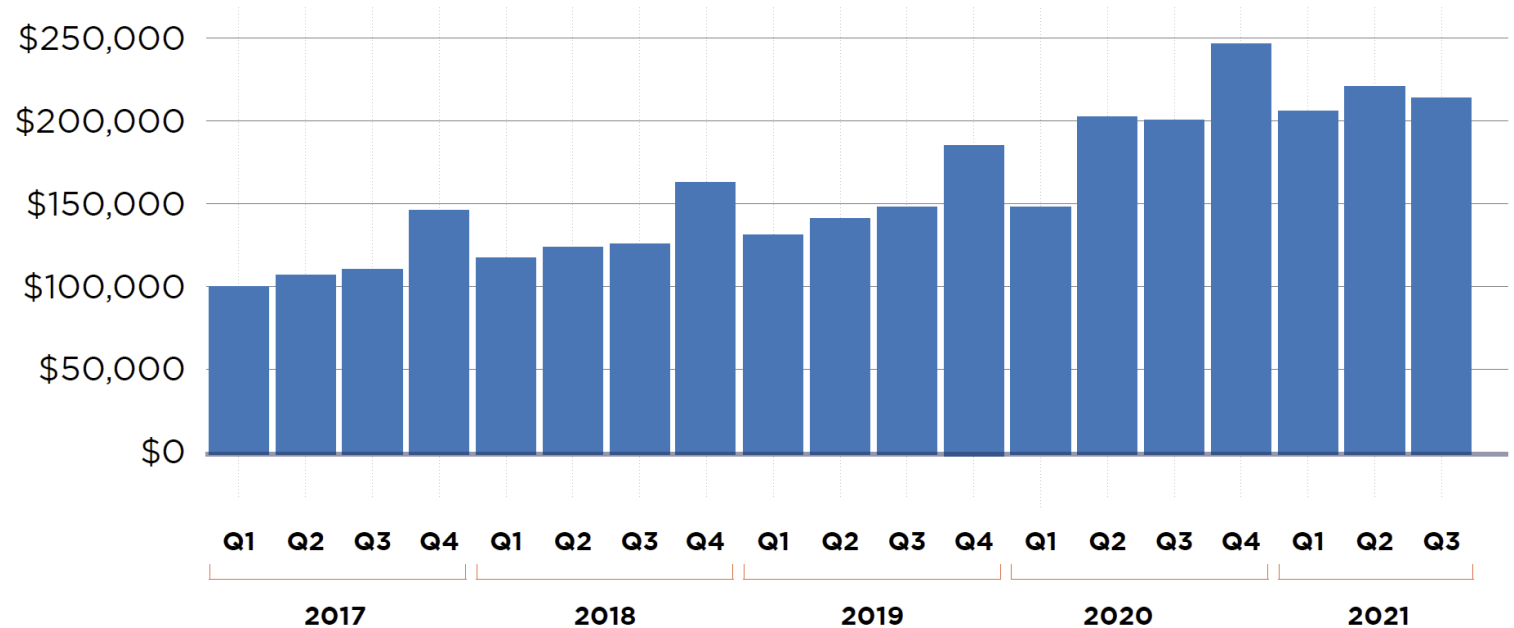
Transformative Shift:

Accelerated Shift to E-Commerce

- Potentially permanent consumer behavioral shifts have taken place since the pandemic
- This shift in consumer behavior will result in a labor market transition
- Small businesses may find creating or expanding an online presence to be necessary in the new e-commerce age

Quarterly U.S. E-Commerce Sales

Not Adjusted



Transformative Shifts and Upcoming Influences

- California and Los Angeles County Shifts and Influences
 - *Migration*
 - *Minimum Wage*
 - *Business Exits*
 - *The 2022-2023 California Blueprint*
 - *Rising Home Prices*
 - *Upcoming Labor Negotiations*
 - *The Digital Divide*

Upcoming Influences in California:

Housing and Migration

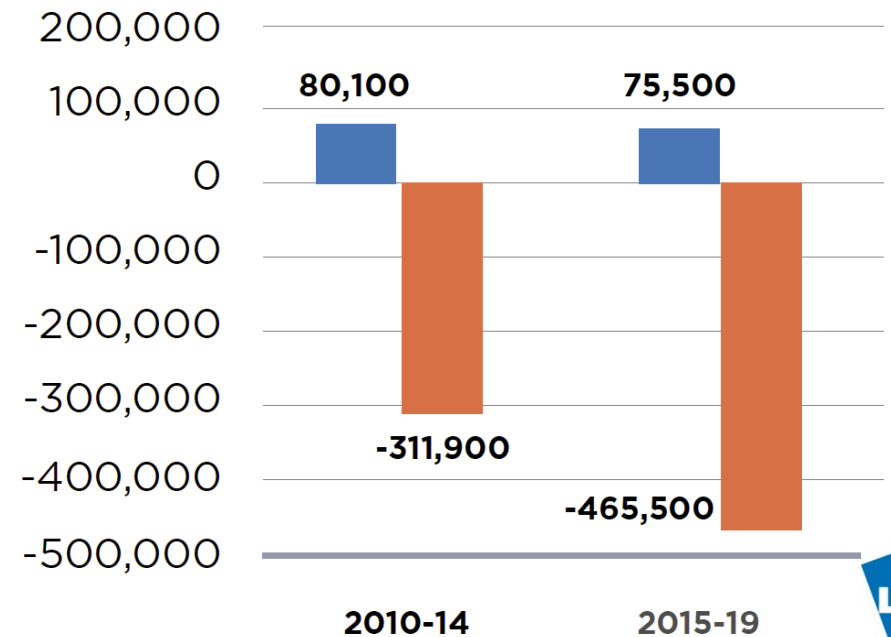
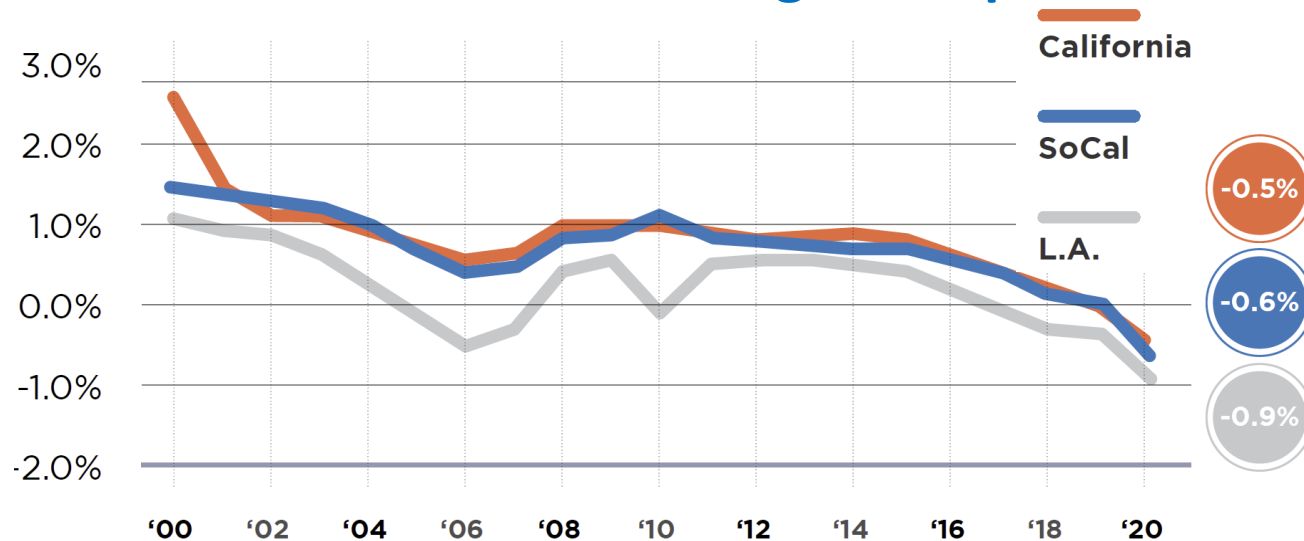
Housing affordability and availability issues, combined with the negative economic effects of COVID-19, encouraged a record-setting number of California residents to seek alternative, more affordable places to live during the pandemic.

Net Interstate Migration Out of California

Ages 20-64 Years (Working Age)

- Bachelor's Degree or more
- Less than a Bachelor's Degree

Year-Over-Year Percent Change in Population



Upcoming Influences in California:

Statewide Minimum Wage Increase

Potential Effects

Minimum wage increases typically have mixed outcomes

- Hourly wages paid to employees who currently earn less and who retain their positions will rise
- Potential to negatively affect employment recovery in industries that have been relatively hard-hit during the pandemic, including small businesses.
- Possible negative effects have the potential to impact parts of the state with higher concentrations of low-skilled employees
- Downstream impacts can potentially include:
 - *price increases for the consumer*
 - *reduced profits for firms*
 - *substituting the lowest-skilled workers with employees that are more productive*
 - *job elimination and hours reductions as a cost savings measure*
 - *reduced/delayed future employment plans*
 - *may encourage more automation over the long-term.*

A number of cities within the state, particularly in the Los Angeles and San Francisco Bay regions, have already implemented \$15 minimum wage requirements

In 2022, California will become the first U.S. state to mandate a \$15 minimum wage for businesses with over 25 employees.

Upcoming Influences in California:

Business Exits

- Between 2008 and 2019 around **18,000 businesses** have left CA for other states
- More HQ relocations took place in the first **half of 2021** than in **all** of 2018 or 2020 and only four fewer than 2019)
- Surveyed executives cited high cost of housing/real estate and high cost of doing business as primary reasons for not locating, not expanding, or for leaving California
 - *Approximately **88%** cited the state's high cost of housing and real estate as principal barriers*

Headquarters Moved Recently from California

- Hewlett Packard
- Oracle
- Palantir Technologies
- Tesla
- SpaceX
- AECOM
- Jacobs Engineering Group
- CBRE Group
- Toyota Motor Corp.
- Occidental Petroleum Corp.

The pandemic has served to accelerate the number of business headquarters leaving California for other states.

Upcoming Influences in California:

The 2022-2023 California Blueprint

The California Blueprint plans to spend billions addressing the COVID-19 pandemic, the climate crisis, economic inequality, homelessness, and crime.

Pros

- Allocates \$2.7 billion to fight COVID-19
- Addresses the state's wildfire challenge
 - *\$648 million to support firefighting*
 - *\$1.2 billion to forest management and other prevention practices*
- \$2 billion towards addressing homelessness
- \$2 billion in new grants and tax credits towards new housing construction
- Cuts red tape, waives fees, and provides grants and tax breaks to small businesses negatively impacted by the pandemic.

Cons

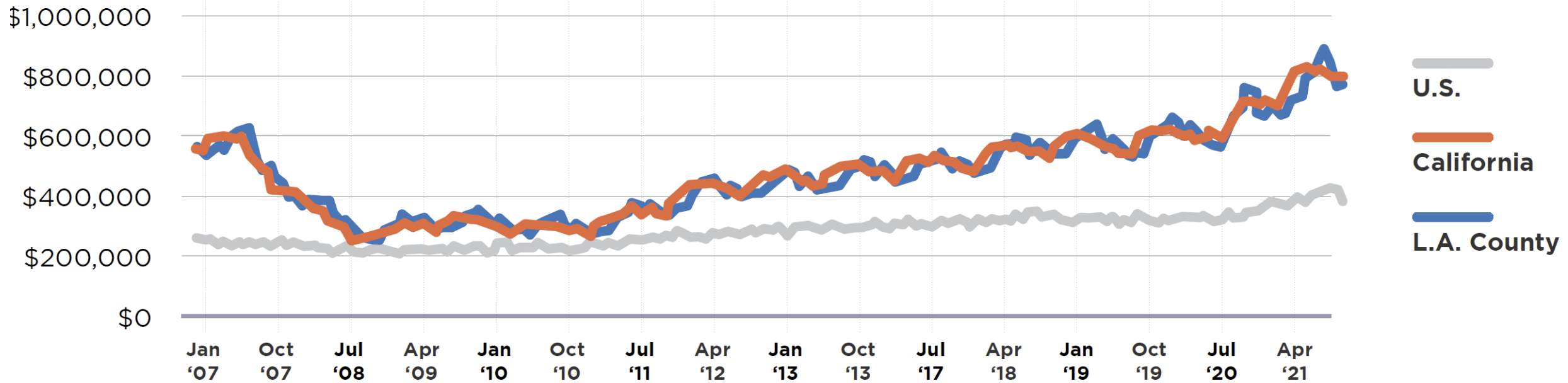
- Only for FY 2022-2023



Upcoming Influences in Los Angeles County:

Housing

Median Home Value



Home values in the Los Angeles region significantly increased throughout the pandemic, closing at 2.5 times higher than the value of the typical home in the United States in 2021.



Upcoming Influences in Los Angeles County:

Upcoming Labor Contract Negotiations

Film & Television Labor Negotiations

- **Teamsters Local 399**
- **SAG-AFTRA and Netflix**
- **Other upcoming negotiations**
 - *The Animation Guild (TAG)*
 - *SAG-AFTRA and Joint Policy Committee (JPC) Commercials Contract*
 - *SAG-AFTRA and Writers Guild West (2023)*

Other Labor Negotiations

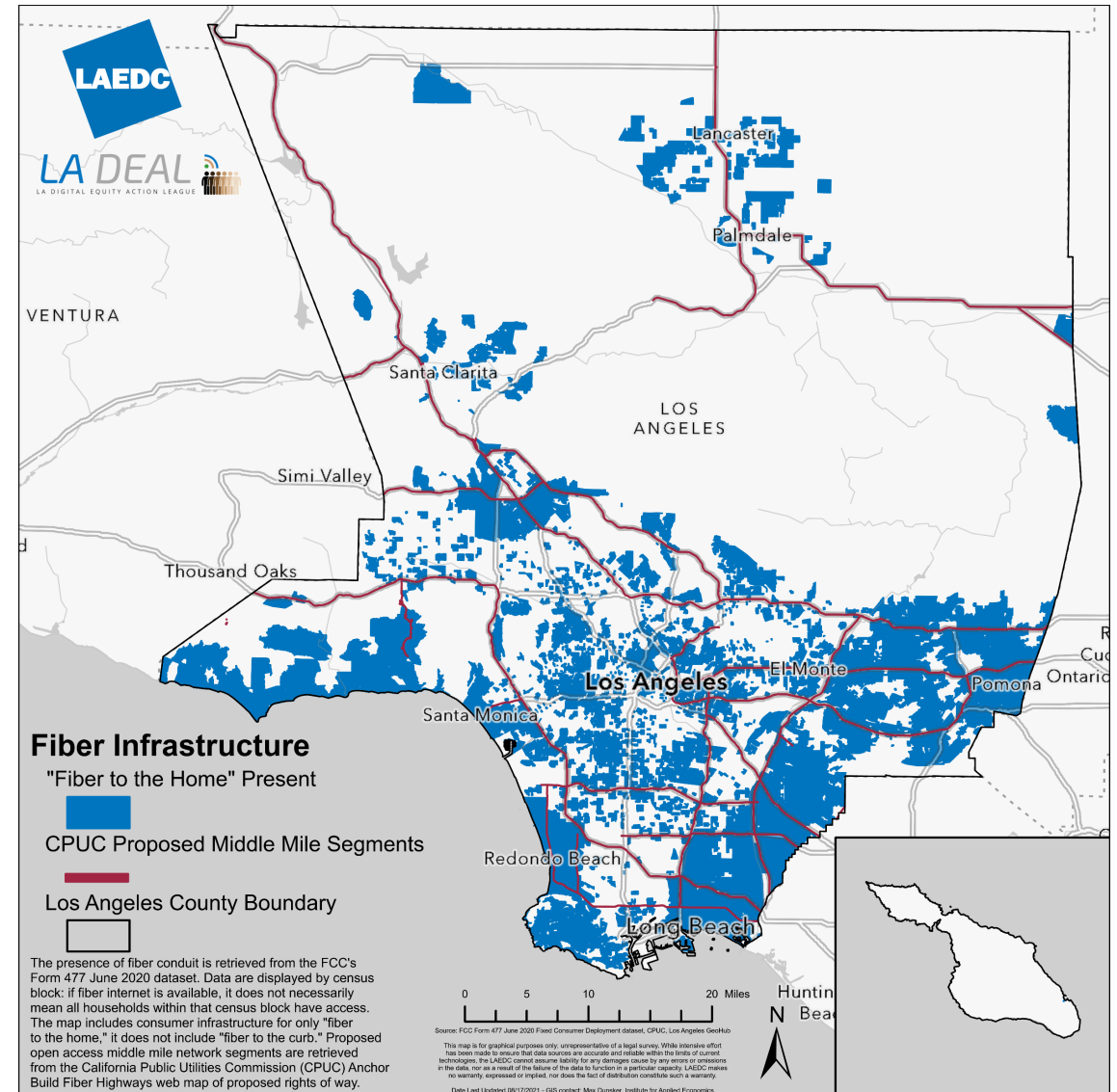
- **ILWU and PMA Contract**
- **USW Contract (Petroleum Refineries)**



Upcoming Influences in Los Angeles County:

The Digital Divide

Open access middle mile fiber is needed to increase affordable “fiber to the home” throughout LA County, particularly to unserved and underserved areas.



Conclusions

The current economic outlook is positive.

However, future individual, organizational, and governmental responses to the pandemic are uncertain and will determine the extent of the recovery and the form that the recovery will take.



LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION

Advancing Opportunity and Prosperity for All

Thank you!