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Summary

- The California economy has seen unemployment rise from 3.9 percent in February 2020 to 16.3 percent in May, with job losses cutting across every sector of the economy.
- Leisure and Hospitality is the hardest hit sector with a 47 percent drop in jobs from the year prior and travel-related spending in California estimated to fall by approximately 50 percent for 2020.
- New Zealand's goods exports to California have to date been holding up well, with total goods exports through the first four months up 12.3 percent over the same period last year and nine of the top ten goods exported to California seeing increases.
- It appears the bottom has been reached and the California economy is now on the path to recovery as many sectors have now reopened. However, the trajectory of the recovery is still up for debate and will to some extent be tied to the public health situation and efforts to manage it.

Report/findings

1 California's economy, if counted separately from the wider US, was the fifth largest in the world with a GDP of just over US\$3.1 trillion in 2019. The state's GDP had been growing at 2.1 percent and unemployment had been at 3.9 percent in February.

2 On 19 March, a state-wide 'stay at home' order was issued in response to the pandemic, bringing the economy to an immediate standstill. Unemployment climbed to 5.5 percent by the end of March, 16.4 percent in April, and has held relatively steady at 16.3 percent in provisional data for May. There were 2.4 million fewer people working in May than just three months prior. The effect has been felt across many key sectors of the California economy.

Leisure and Hospitality

3 Leisure and Hospitality was the hardest hit sector for job losses with a reduction of 887,500 jobs in April, an unprecedented 47 percent drop from the year prior. Food service jobs in this sector are expected to show signs of recovery in June's job report as public health restrictions were loosened in late May, allowing restaurants to reopen, albeit at reduced capacity.

4 Tourism and accommodation are expected to continue to struggle for some time. Direct travel-related spending in California had totalled US\$145 billion in 2019, however a recent report commissioned by the State's tourism marketing agency, Visit California, estimates travel spending for 2020 to fall by approximately 50 percent. Visit California is also predicting the state will see business

travel remain weak and international and domestic travel for 2020 to decrease by 62% and 52% of 2019 levels, respectively.

Creative Industries

5 The creative industries are hugely important to the Los Angeles area, adding an estimated US\$200 billion to the region’s economy. Entertainment and digital media is the largest contributor to that and much has been shuttered by the pandemic. Film productions in Los Angeles fell from 1091 in February to 0 by March 20. The state has only just allowed the resumption of TV and film production from June 12, with strict new public health measures in place.

6 While cinemas have been closed, online streaming content companies have been thriving. The streaming services of Netflix and Disney have benefitted from people spending more time at home – both exceeding new subscriber expectations. The competition for content is only set to intensify and the ability to provide a safe and reliable option for television and film production could provide opportunities for the New Zealand industry.

Trade & Logistics

7 For the period January through April, California’s overall export numbers decreased by 11 percent from the same time in 2019. The nation’s largest ports of Los Angeles and Long Beach have remained fully operational, however both have seen a significant reduction in volumes of cargo over the first five months of 2020, down 18.6 percent 5.9 percent from 2019 levels respectively.

8 According to data from the US Census Bureau, New Zealand’s total exports to California have increased by 12.3 percent for the period January through April compared to the same period in 2019. In addition to total exports, the table below shows that many of New Zealand’s top exports to California have so far outperformed 2019 figures.

New Zealand Exports to California (US\$ millions)

	2019	Jan-Apr 2019	Jan-Apr 2020	% Change	
Total Exports to California	\$1,210.4	\$404.2	\$454.1	12.3%	
Top 10 Exports (based on 2019 figures):					
1	Wine	\$192.4	\$83.8	\$92.8	10.8%
2	Frozen Beef	\$179.4	\$76.1	\$101.9	33.8%
3	Chilled Sheep Meat	\$99.2	\$38.5	\$31.8	-17.3%
4	Mechano-therapy appliances	\$45.3	\$10.3	\$17.7	71.9%
5	Whey and Milk Products	\$40.8	\$14.2	\$16.9	18.6%
6	Prepared or preserved meat, meat offal or blood	\$33.3	\$11.4	\$12.5	9.4%
7	Apples, Pears and Quinces	\$30.0	\$0.7	\$1.6	114.0%
8	Fresh Fruit – Other (majority Kiwifruit)	\$29.1	\$2.0	\$5.0	148.4%
9	Molluscs	\$28.7	\$8.8	\$11.2	26.9%
10	Chilled Beef	\$21.9	\$7.2	\$9.1	25.5%

Source: US Census Bureau

Agriculture

9 California's agricultural economy, the largest in the US, has also taken a significant hit. At the start of the pandemic, California farmers almost immediately saw an estimated 50 percent decrease in demand. Dramatic shifts in demand from food service to retail and a reduction of exports left the industry scrambling to adjust supply chains and prevent the wastage of crops, milk and livestock.

Education

10 California is the number one destination in the US for international students. In 2019, approximately 160,000 international students contributed US\$6.8 billion to state's economy. The next semester is due to begin in late August and it remains unclear just how many campuses will be open for in-person tuition. However, California State University, the largest public university system in the US, announced that all classes across its 23 campuses would be cancelled for the upcoming semester, and tuition would instead take place online.

Technology

11 The tech sector was seen as one of the most resilient to a downturn and the well-established California tech giants of Apple, Facebook and Google have so far fared relatively well. The lock down order and new way of life has also created opportunities for some of the state's tech companies to thrive, such as those providing cloud services (Google), remote working solutions (Zoom) and online entertainment (Netflix). However, the sector has not escaped significant damage with over 25,000 employees reported as being laid off from start-up companies in the past three months. The most notable coming from three of California's most well-known start-up companies: Airbnb, Lyft and Uber, which together have shed 10,000 jobs.

Shape of the Recovery – Early forecasts and indications

12 The state of California released a forecast for its next budget, predicting a US\$54 billion deficit – the largest in state history. Income tax is the state's largest revenue earner responsible for approximately two thirds of the state's general fund, which leaves California particularly vulnerable to boom and bust cycles. The state predicts unemployment numbers will not return to pre-pandemic levels for six years.

14 The Los Angeles Economic Development Corporation has undertaken regular surveys of the small business community. Findings show the overwhelming majority of businesses (87 percent) are still reporting negative effects caused by the pandemic. However, these negative effects on businesses do appear to be decreasing. The share of businesses reporting declines in sales/revenues is starting to lessen and the proportion of businesses cutting employment hours is also decreasing. While the survey does tend to indicate a low point has been reached, the majority of businesses believe that it will take more than six months to return to a normal level of operation.

15 The University of California Los Angeles (UCLA) released its quarterly economic forecast report in June. The widely cited report predicts the economic recovery to take the shape of the 'Nike swoosh' with a sharp drop in GDP that won't return to 2019 peak levels until early 2023. The report expects unemployment to recover at a slower rate with average unemployment rates for 2020, 2021 and 2022 forecast to be 10.5%, 8.2% and 6.8%, respectively.

16 Beacon Economics, an independent economic research firm in Los Angeles, is more bullish, predicting something closer to the 'V' shaped recovery. Beacon's reasoning is that the fundamentals of the California economy were very healthy prior to the public health order – the downturn was not

the result of a negative shock to the economy (such as a financial bubble), which makes comparisons or forecasts based on previous business cycles less reliable.

17 Beacon Economics notes that in this crisis, employees were stopped from working by government order, rather than underlying problems with the economy or business health, meaning theoretically businesses should be willing and able to rehire staff once 'stay at home mandates' are lifted. This is in part supported by 75 percent of the state's unemployed workers reporting their layoffs as being temporary.

18 The trajectory of the recovery will to some extent be tied to the public health situation and efforts to manage it. Finding the balance between reopening the economy and reducing the spread of the virus is something California is currently facing as June has seen significant increases in new confirmed coronavirus cases. Increases were anticipated as the economy reopened and new health measures, such as a state-wide mandate on the wearing of face masks, have been implemented to continue to move forward with recovery plans while mitigating the spread of the virus.

19 It remains too early to tell what shape the recovery will take in California; however the spread of coronavirus infections remains biggest risk and also the biggest unknown for the economy.

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