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Manatū Aorere

Report on California's Economic Recovery and Industry Trends

Market Report

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Prepared by New Zealand Consulate-General in Los Angeles

Rāpopoto — Summary

- Economic forecasters are predicting California to enjoy a strong and sustained economic recovery as it fully reopens, outpacing the United States as a whole. However, the negative economic effects of COVID-19 are likely to linger for small businesses and those already struggling pre-pandemic, with the state's economic recovery propped up by high income sectors.
- Despite ongoing speculation and moves by some large scale companies out of California, the state has remained the US leader in Foreign Direct Investment attraction and for venture capital investment.
- Pent up demand for the screen sector has also seen production ramp back up in Los Angeles. New virtual production technologies are making the need for location shooting less of a selling point than the need for specialised skilled technicians and supporting infrastructure.

Pūrongo — Report

California's projected economic rebound

During the pandemic California experienced some of the sharpest job losses in the country and currently has the third highest rate of unemployment at 7.9 percent (dropping from 8.3 percent in April – approximately double the pre-pandemic rate). Beacon Economics, an independent economic research firm in Los Angeles, reported that despite high unemployment and proportionally high COVID-19 case numbers, California has displayed a significant level of economic resiliency with real gross state product dropping less than 1 percent in 2020.

According to the UCLA Anderson School of Business' June quarterly Economic Forecast, the state's high income technology, logistics and housing sectors will be the most significant drivers of economic growth in California. UCLA predicts that these sectors will help see California's gross state product rise at a rate faster than the US as a whole, forecasting US average annual real GDP growth of 7.1 percent in 2021 and 5 percent in 2022.

There also appears to be a significant employment rebound underway in California with the state's rate of job growth outpacing the national economy so far in 2021. A recent jobs report from the Bureau of Labor Statistics shows that during April, California accounted for almost 40 percent of net jobs added across the entire US. The largest jobs gains continue to occur in sectors hardest hit by the pandemic with leisure and hospitality leading April's numbers. Forecasters predict the hiring surge to continue as the state embraces the reopening of its economy from 15 June.

The state government's budget is in a strong position to support California's recovery. Despite early predictions of a massive budget deficit, the state is now expected to end the fiscal year with a US$75 billion surplus and will also receive an additional US$26 billion in federal aid. This allowed the California Governor to release a US$100 billion spending plan. The plan proposes major investments in California's economy, including immediate relief to families and small businesses through stimulus cheques (a further US$8.1 billion), tax cuts (US$6.2 billion), new grants for businesses (US$1.5 billion) and for upskilling workers (US$1 billion), support for low-income renters (US$7.2 billion), investment to infrastructure (US$18 billion), and funding to combat wildfires and climate change (US$8 billion). It also includes Universal Basic Income pilot programs.

…But it may be a tale of two recoveries

Economic forecasting by the Los Angeles Economic Development Corporation (LAEDC) for both California and the Los Angeles area predicts the economic story may be of 'two recoveries', with COVID-19 having exacerbated existing wealth divides within the state. While generally positive about the resilience the economy, LAEDC forecasts those in high-skilled and high income sectors to come through the pandemic in a better financial situation and lead the economic recovery of the state, while others may see their economic security decrease.

In the Los Angeles area small businesses have been hardest hit, particularly those in hospitality and the service industry, with many permanently closing. This is a key employer segment of the economy with over 93 percent of Los Angeles businesses having less than 20 employees, and of those, 55 percent are women and minority owned. While private investment is flowing back into commercial opportunities such as bars and restaurants in sites that were vacated in popular neighbourhoods, in another sign of 'two recoveries', lower income neighbourhoods are not yet seeing the same sort of investment activity.

US leader in Foreign Direct Investment attraction and venture capital investment

The World Trade Center Los Angeles (WTCLA) recently published their annual FDI report outlining the number of foreign-owned firms located in California, the number of jobs created by foreign-owned firms and the top source countries for FDI. In 2020, there were an estimated 18,451 foreign-owned firms operating in California, which employed an estimated 700,000 workers. These figures were both down slightly (1 to 3 percent) from 2019 levels, which the WTCLA attributed to the pandemic. Despite the losses, California remains the overwhelming first choice destination for foreign-owned firms in the United States, with Texas and New York coming in second and third respectively.

While California remains the number one destination for foreign-owned firms, there has been a growing media narrative over the past few years that California's key innovation sector businesses are leaving the state. This has been amplified during the pandemic with the shift to remote work, drastically falling rents in tech hub San Francisco, a declining state population, and a few high profile companies announcing moves to states such as Texas.

Economic data however, does not yet support this notion. Venture capital is still very much focused on California with the San Francisco Bay area receiving 2.5 times the level of new venture capital investment than any other US tech centre during the second half of 2020. UCLA's Economic Forecast team also presented data which indicated that the vast majority (approximately 80 percent) of residents who had left San Francisco in 2020 moved a short distance to nearby suburban cities with less than 4 percent shifting to other states. A study by Chapman University and the University of California Irvine also shows that for the period 2015 to 2020, California's rate of innovation job growth was significantly higher than the often-quoted competitor state of Texas.

The creative economy in Los Angeles and future of production

The last few months have seen film and television production ramping back up in Los Angeles after struggling through the winter COVID-19 surge in which production was voluntarily paused for the months of December and January. There are currently over 500 productions being shot in Los Angeles, up from a low of 20 during January, and with television series leading the comeback over feature films.

Industry representatives are suggesting that the pandemic has changed the model for feature films, and it is unclear what the long term impact will be on theatrical releases. With the rise of numerous competing streaming services and shift toward high quality television content, there are widespread expectations of a large scale consolidation in the industry over the next 6 to 12 months.

New film-making techniques in the industry are also highlighting the importance of local infrastructure and talent in competing to attract feature film and television productions. Significant advancements have been made in virtual production sets, which use large scale LED walls that can place actors in any environment, reducing the need to travel and creating cost savings. Industry representatives have noted that investments in building production talent pipelines, particularly software engineers and skilled support crew, will be more important for markets such as New Zealand to compete and grow the industry than specific location shooting.

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