

A Review of the California's COVID-19 Economy in Charts and Graphs

This is an excerpt from a JEDE Background Report, 2021 Priorities for an Inclusive Economic Recovery

California entered the pandemic in a strong economic condition with generally low unemployment, and a state budget that benefited from significant reserves. Even with these advantages, the immediacy and breadth of the business closers in mid-March due to the COVID-19 pandemic had a measurable impact on economic activity. As show in *Chart 3: California Changes in GDP from 2018-2020ⁱ*, first quarter 2020 GDP was down 0.48% from 2019. In the second quarter, there was a decline of 9.7% and in the third quarter a decline of 2.64%. Over the same time period, US GDP similarly constricted, except in the second quarter, where the US experienced an 11.2% reduction.

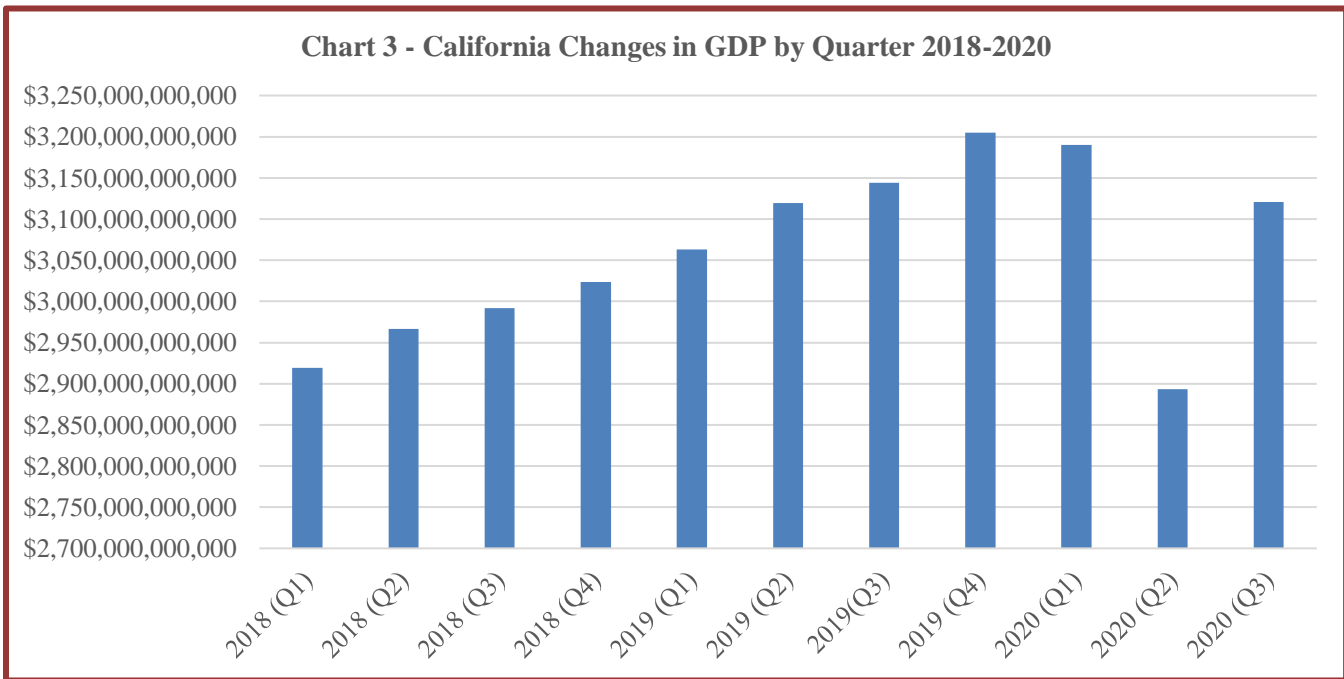


Chart 4 provides a break-down of where these reductions in productivity occur based on earning over the first three quarters of 2020.

Description	2020:Q1	2020:Q2	2020:Q3
Income by place of residence			
Personal income (thousands of dollars, seasonally adjusted)	2,703,290,052	2,878,700,006	2,867,030,742
Wages and salaries	1,379,340,045	1,292,220,316	1,359,648,932
Earnings by industry			
Farm earnings	2,355,2182	25,687,309	28,164,730
Nonfarm earnings	1,912,248,626	1,772,398,145	1,893,379,993
Mining, quarrying, and oil and gas extraction	3,344,243	3,053,122	3,086,725
Utilities	17,142,139	17,171,059	17,434,237
Construction	107,711,390	96,203,491	102,173,451
Manufacturing	165,527,498	170,042,121	184,984,878

Durable goods manufacturing	120,343,685	12,542,3215	137,764,562
Nondurable goods manufacturing	45,183,813	4,4618,906	47,220,316
Wholesale trade	73,361,414	69,100,350	72,350,537
Retail trade	96,750,425	87,107,082	99,133,803
Transportation and warehousing	71,740,692	69,573,892	75,219,843
Information	138,994,569	136,492,383	140,446,328
Finance and insurance	101,307,205	10,1857,706	104,396,093
Real estate and rental and leasing	68,459,605	61,397,835	70,849,173
Professional, scientific, and technical services	251,004,210	23,7521,724	247,85,4128
Management of companies and enterprises	4,109,8091	42,553,944	4,293,0623
Administrative & support & waste management	80,748,439	71,712,999	77,640,368
Educational services	28,978,882	27,653,790	29,074,114
Health care and social assistance	182,607,440	168,531,526	186,484,895
Arts, entertainment, and recreation	34,351,849	19,272,925	22,604,665
Accommodation and food services	67,818,311	38,697,236	54,801,964
Other services (except government & government enterprises)	66,064,015	54,980,689	59,011,878
Government and government enterprises	30,323,8470	288,018,809	289,349,820
Source: Bureau of Economic Analysis			

Small Businesses and Coronavirus

Economic developers, finance professionals, and even the Office of the Legislative Analyst agree that small businesses have been particularly impacted by the coronavirus pandemic. According to a national survey and separate report on the impacts of COVID-19 on small and medium size businesses, both published by McKinsey in April 2020:

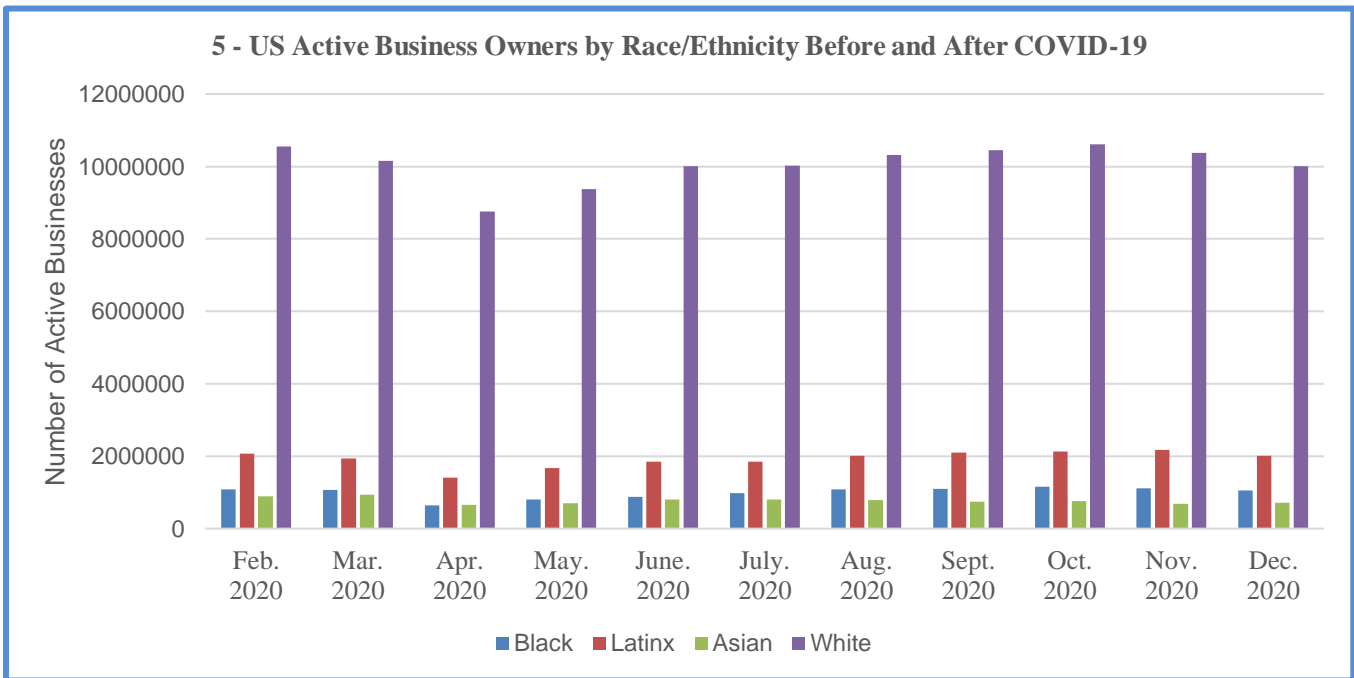
- 70% of businesses are delaying purchases, reducing current spending, and holding back on making major investments. [*While not an unexpected outcome, this level of delayed spending has significant multiplier effects as its impacts move throughout the economy.*]
- 50% of workers at small businesses with less than 100 employees are at risk of losing their jobs due to the pandemic. This represents over 2.2 million workers. This is a higher percentage of job losses than those projected for larger private sector employers.
- 40% of the vulnerable small business jobs fall within two occupational categories: food service and customer service and sales.
- 60% of the vulnerable small business jobs do not require a four-year degree, meaning that displaced workers will likely not have formally recognized skills to help them get their next job.
- 55% of businesses felt that the economic impacts of the coronavirus were going to last over one year, with 29% responding the impacts were going to be felt for three years.
- 25% of businesses said they would be filing for bankruptcy within six months.

The McKinsey report ranks California among the top states in which small businesses are and will be impacted by the COVID-19 emergency. The report finds that 92% of workers in small businesses engaged in the accommodation and food sectors are at risk. For workers at small construction firms, the report states that 54% are vulnerable, which is still a significant impact. Regulatory relief is one piece of a broader set of policies to support small businesses.

Dr. Robert Fairlie testified at the JEDE Committee’s February 23, 2021, hearing and provided an overview of the economic impacts of the COVID-19 pandemic on small business owners in the US and in California. His presentation began with his work, [The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey](#). In this report he used a simulation model to estimate that between February 2020 and April 2020 there was a decrease of 41% among Black-owned businesses, 32% among Latinx-owned businesses, and 26% among Asian-owned business. The report further stated that immigrant business owners experienced substantial losses of 36%. Female-owned businesses were also disproportionately hit by 25%.

Dr. Fairlie continued to track active business owners by demographic groups and found that by June 2020, some business activity had returned, but was still down from pre-pandemic levels, “[The Impact of COVID-19 on Small Business Owners: Evidence from the First Three Months after Widespread](#),” published in August 2020 in the Journal of Economics and Management Strategies. While overall business activity was down -8%, activity among Black business owners remained at -19% and for immigrant owners -18%. Business owners who were women (-10%), Latinx (-10%), and Asian (-10%), still fared worse than white business owners (-5%).

Charts 5 displays the total number of active businesses in the US by race and ethnicity from February 2020 through December 2020 to show the nearly year-over change. **Chart 6** shows month to month percentage changes through the same period. The data comes from Dr. Fairlie’s written testimony, supplemented by his reports. During the charting period business activity among Asian-owned businesses decreased by -20%, white-owned at -5%, Latinx-owned businesses at -3%, and Black-owned businesses at -3%.



	African-American			Latinx			Asian		
	Relative to			Relative to			Relative to		
	Feb. 2020	Month in Prev. Yr.	Reg. Adjusted	Feb. 2020	Month in Prev. Yr.	Reg. Adjusted	Feb. 2020	Month in Prev. Yr.	Reg. Adjusted

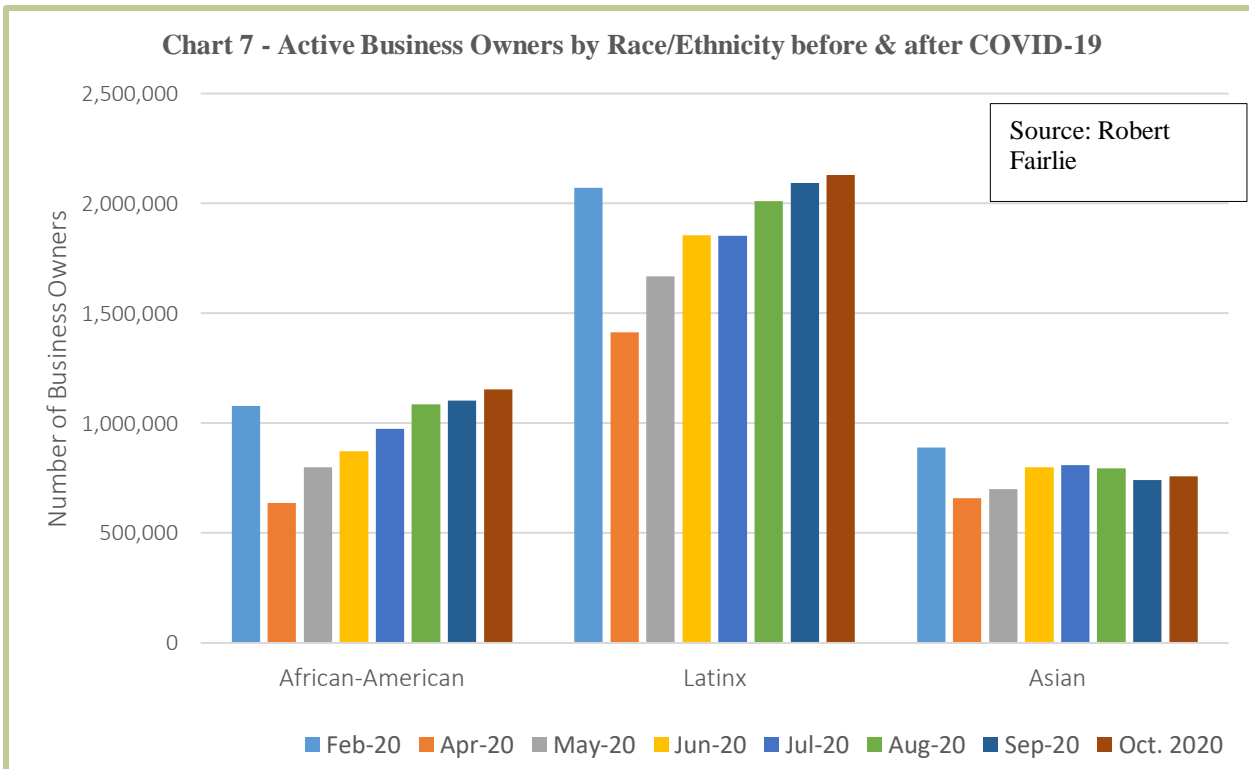
Feb. 2020	0%	2%	0%	0%	5%	0%	0%	-1%	0%
Mar. 2020	0%	13%	-6%	-6%	-3%	-4%	5%	4%	6%
Apr. 2020	-41%	-38%	-52%	-32%	-28%	-32%	-26%	-36%	-29%
May 2020	-26%	-23%	-35%	-19%	-14%	-20%	-21%	-24%	-24%
June 2020	-19%	-24%	-28%	-10%	-4%	-8%	-10%	-14%	-10%
July 2020	-10%	-18%	-18%	-11%	0%	-10%	-9%	-5%	-7%
Aug. 2020	1%	-2%	-5%	-3%	2%	-3%	-11%	-11%	-9%
Sept. 2020	2%	-6%	-6%	1%	0%	0%	-17%	-12%	-20%
Oct. 2020	7%	-3%	-4%	3%	1%	-1%	-15%	-5%	-17%
Nov. 2020	3%	0%	-5%	5%	-1%	-2%	-22%	-16%	-27%
Dec. 2020	-3%	-10%	-12%	-3%	-1%	-7%	-20%	-20%	-23%

Notes: (1) Estimates are a continuation from those reported in Fairlie, Robert. 2020. “The Impact of COVID-19 on Small Business Owners: The First Three Months after Social-Distancing Restrictions” Journal of Economics and Management Strategy. (2) Reg. Adjusted estimates are based on regression analysis accounting for trends and seasonality (monthly).

Source: Robert W. Fairlie, Professor of Economics, University of California, Santa Cruz, <https://people.ucsc.edu/~rfairlie/current/>

A Closer Look at California Business Owners

During the February 23 JEDE hearing, Dr. Fairlie also provided an assessment of the impact of COVID-19 on California business activity by race and ethnicity. *Chart 7 - California Business Ownersⁱⁱ*, shows that Asian-owned businesses in California, similar to the findings of the US at-large, experienced the greatest decrease in business activity among all ethnic groups, followed by Latinx, and white-owned businesses. Data for Black-owned businesses is not shown, according to Dr. Fairlie, due to the small sample size of the data set. Dr. Fairlie did note that based on national data, Black-owned businesses were significantly impacted by the COVID-19 pandemic. One estimate is that nationally, business activity by Black-owned business decreased by over 440,000 businesses during the height of COVID-19 restrictions of business activity, which is displayed more clearly in *Charts 5 and 6 (above)*.

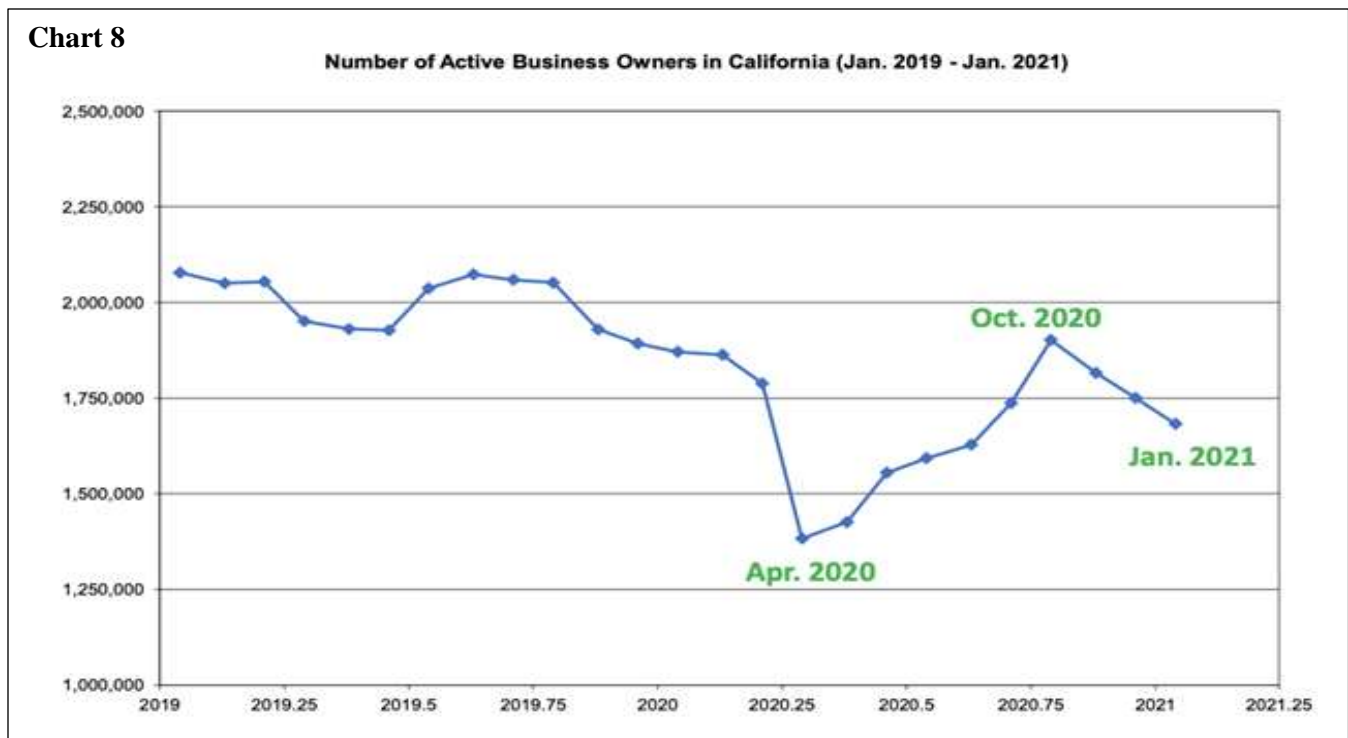


A Closer Look at California Small Businesses

While there are several definitions used in federal programs, the federal Small Business Administration generally defines a small business as having less than 500 employees. In 2017, the US Census estimated that California has 757,458. Which comprises about 99.1% of businesses in California. *Appendix C (page 33)* includes a profile on California small businesses, including a break-down by size, employment, and revenues.

In California, at the end of January of 2020, Dr. Fairlie estimates that there were over 1.8 million small businesses in California. By the end of January 2021, he reported that the number of small businesses in California had fallen to 1.6 million. In the First Quarter of 2020 business activity decreased by an estimated loss of 100,000 businesses, followed by a 200,000 decrease in the Second Quarter. In the Third Quarter, as businesses began reopening, business activity increased by 165,000 businesses in California. In the final Quarter of 2020, business activity was up by 10,000.ⁱⁱⁱ It is important to note that this data is reported in aggregate numbers and does not reflect whether the activity is from new businesses or a continuation of existing businesses.

Chart 8 - California Small Businesses^{iv}, part of the slide deck provided by Dr. Fairlie at the February 23 hearing, tracks business activities from January 2019 through January 2021. Among other features, the data shows that although there has been some recovery from the steep drop in business activity experienced in April,



California has not recovered to pre-pandemic business activity levels.

In addition to measuring business activity, policy makers may also find it helpful to track evolving perspectives of business owners. At the February 23 hearing, Small Business Majority released the results of a California survey it undertook in December 2020, “[California Small Businesses Face Difficult Decisions As Pandemic Continues And Funding Freezes](#),” which found:

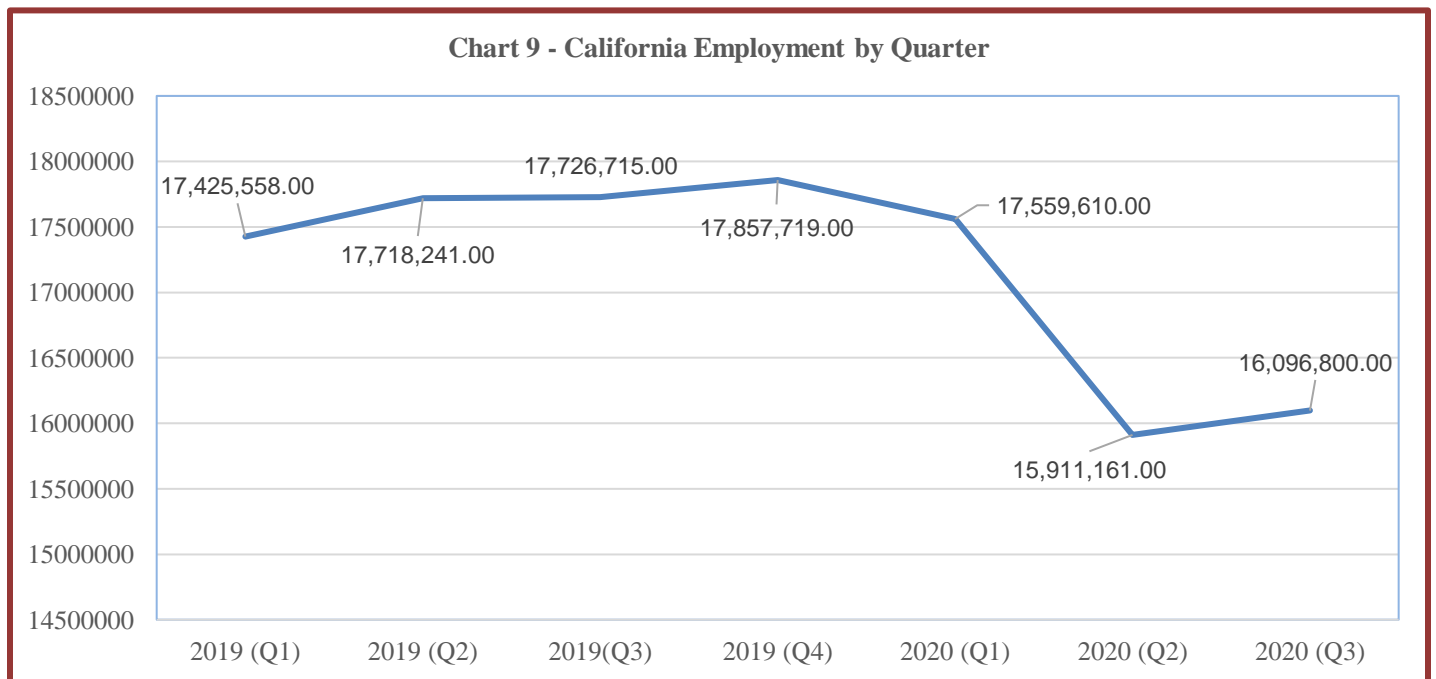
- 17% of entrepreneurs of color report they are likely to permanently close their business in the next three months, compared to 12% of white business owners.

- Nearly half say operating capacity has decreased, with 16% reporting their capacity has decreased by more than 50%.
- Despite efforts to reopen local economies and “get back to normal”, small business owners have had to reduce the number of employees during the height of the pandemic, with more than 60% reporting that they have not restored their headcount to pre-pandemic levels.
- While about half of small businesses say they applied for PPP loans. Of those who didn’t apply, they largely attributed their reasons to confusion about how to apply, fear over taking on debt, inability to secure a loan through their bank or thinking they were ineligible.
- 28% of entrepreneurs of color report they may be forced to temporarily close their business in the next three months. Of those, 27% say they may lay off employees permanently, compared to 15% of white entrepreneurs.
- More than 80% of small business owners support providing direct grant assistance to small businesses, and 76% support another round of PPP loan dispersal.

The Small Business Majority results are based on a survey of 418 California small business owners (*nearly evenly split between white entrepreneurs and business owners of color*) taken between November 10 and 23, 2020.

California Workforce

As noted previously, California entered the COVID-19-induced recession with historically low unemployment. *Chart 9* shows statewide employment by quarter, beginning with the last quarter of 2019.



Between the Fourth Quarter in 2019 and the end of the First Quarter in 2020 there was a 1.67% decline in California employment. The largest decline in 2020 was a 9.39% drop in the Second Quarter, which was followed by a small increase of 1.17% in the Third. Over the same time period, US employment was less impacted, with employment losses in the Second Quarter being lower (8.1%) and Third Quarter increase being higher (2.5%).

Not all industry sectors were as negatively impacted as others. *Chart 10* shows nonfarm employment decreasing in all 11 industry sectors between January 2020 and January 2021. Industry impacts were primarily based on which businesses were deemed essential, which allowed them to continue throughout the year, which could be substantially undertaken remotely, and those which were most impacted by government-induced closures due to health and safety considerations.

Chart 10 – California Employment by Industry Sector January 2021 as Compared to January 2020		
<i>Industry</i>	<i>Total Jobs Lost</i>	<i>Percentage Lost</i>
Leisure and Hospitality	799,400	39%
Government	208,400	7.9%
Other Services	150,100	25.5%
Professional and Business Services	143,500	5.2%
Education and Health Services	134,500	4.7%
Trade, Transportation, and Utilities	109,900	3.5%
Manufacturing	85,300	6.4%
Information	53,700	9.3%
Construction	28,100	3.1%
Financial Activities	36,800	4.3%
Mining and Logging	3,100	14%

Source: EDD, Industry Employment and Labor Force, accessed Mar. 12, 2021

Taking a Closer Look at Employment Trends

In January 2020, California reported a not seasonally adjusted unemployment rate of 4.5% as compared to the U.S. rate of 4.0%. From the employment side, this represents 18.6 million people, with (according to a 12-month moving average) over 82.3% being employed in full time work.

In January 2020, 6 of California’s 58 counties had unemployment below 3.0%, with San Mateo County reporting the lowest at 2.1%. The highest unemployment was reported in Colusa (19.2%). Year-over (January 2019-January 2020 with only preliminary data available for 2019), 10 counties experienced employment declines and 48 experienced employment increases from the prior year.

Chart 11 – Selected Data on Unemployment shows unemployment-related information by selected counties and population groups for a time period that includes COVID-19, January 2020 to January 2021.

Chart 11 - Selected Data on Unemployment (2020-2021)					
	Unemployment Rate January 2020 (Not Seasonally Adjusted)	Unemployment Rate January 2021 (Not Seasonally Adjusted)		Unemployment Rate January 2020 (12-month moving average)	Unemployment Rate January 2021 (12-month moving average)
California	4.5%	9.2%	California	4.0%	10.6%
Colusa County	19.2%	15.6%	Blacks	5.3%	13.0%
Imperial County	18.0%	16.5%	Hispanics	4.7%	12.1%

Los Angeles County	4.5%	12.7%	Whites	4.0%	10.3%
Riverside County	4.2%	8.6%	16 to 19 years old	14.3%	24.3%
Sacramento County	3.9%	8.1%	20 to 24 years old	7.2%	16.9%
San Bernardino County	3.9%	8.6%	25 to 34 years old	4.1%	11.3%
San Luis Obispo County	3.1%	6.7%	*The Employment Development Department reports a January 2021 Labor Participation Rate (LPR) of 60.3% representing 12.3 million people in California who were not participating in the workforce. The LPR for veterans is 44.2% vs nonveterans LPR of 64.5%.		
San Mateo County	2.1%	5.7%			
Tulare County	11.0%	11.3%			
Source: www.edd.ca.gov					

In January 2021, California reported a not seasonally adjusted unemployment rate of 9.2% as compared to the US rate of 6.8%. From the employment side, this represents 16.9 million people, with (according to 12-month moving average) 83.2% being employed in full time work.

In January 2021, 3 of California’s 58 counties had unemployment below 6.0%, with Marin County reporting the lowest at 5.4%. The highest unemployment was reported in Imperial (16.5%). Year-over (2020-2021), 57 counties experienced employment declines and 1 experienced employment increases (Modoc County) from the prior year.

These disparities shown in these charts are driven by and also influence a range of economic and societal issues, including, but not limited to, low educational attainment, economic insecurity, poor health outcomes, lack of a safety net for the elderly and individual with special needs, negative engagements with law enforcement, and homelessness.

The California Latino Economic Institute released a new policy brief in December 2020, which provides new data on the disparate and growing negative impact of COVID-19 on Latinos in California. Among other findings, the briefing noted the following:

- Latinos are overrepresented among California’s COVID-19 cases and deaths—59% of cases and 49% of the state’s deaths.
- Latino overrepresentation in California’s cases has increased since April 2020.
- Nearly 12% of California Latinos are currently uninsured—double the rate of other groups.
- Latino unemployment rates are double those from the same time last year.
- Nearly two-thirds of California Latinos report experiencing a loss of employment income since March 2020.
- Over 40% of Latinos currently report that it is somewhat or very difficult to pay their usual household expenses in the last 7 days.
- Over three-quarters of California small business owners report that COVID-19 has had a moderate to large effect on their businesses.

There are a number of reasons that contribute to the disparate health impacts of COVID-19, including economic differences. Latinos and Blacks are a significant component of the essential workforce. While a majority of White workers have jobs that allow them to work from home and decrease potential COVID-19 contacts, Latinos and Blacks, due to economic circumstances, have jobs in high-risk environments.

Chart 12 provides information from the California Department of Public Health relating to COVID-19 cases in California by race and ethnicity. Data is current as of March 10, 2021.

Chart 12 - All Cases and Deaths Associated with COVID-19 by Race and Ethnicity					
Race/Ethnicity	No. Cases	Percent Cases	No. Deaths	Percent Deaths	Percent CA population
Latino	1,519,953	55.4%	24,810	46.3%	38.9%
White	550,982	20.1%	16,834	31.4%	36.6%
Asian	188,068	6.9%	6,246	11.7%	15.4%
African American	112,115	4.1%	3,329	6.2%	6.0%
Multi-Race	43,554	1.6%	712	1.3%	2.2%
American Indian or Alaska Native	9,183	0.3%	188	0.4%	0.5%
Native Hawaiian and other Pacific Islander	15,407	0.6%	324	0.6%	0.3%
Other	304,006	11.1%	1,122	2.1%	0.0%
Total with data	2,743,268	100.0%	53,565	100.0%	100.0%
California Department of Public Health: 3/10/21 https://www.cdph.ca.gov/Programs/CID/DCDC/Pages/COVID-19/Race-Ethnicity.aspx					

The chart above, *All Cases and Deaths Associated with COVID-19 by Race and Ethnicity*, represents data from 3,516,862 total cases with 22% of those cases missing race/ethnicity. There are a total of 54,590 deaths with approximately 2% of those deaths missing race/ethnicity.

ⁱ Bureau of Economic Analysis, “Gross Domestic Product by State”, <https://apps.bea.gov/itable/iTable.cfm?ReqID=70&step=1>, accessed December 23, 2020

ⁱⁱ Robert Fairlie, “California State Assembly, Feb. 2021- Written: Testimony”, <https://people.ucsc.edu/~rfairlie/current/>, accessed February 24, 2021

ⁱⁱⁱ Robert Fairlie, “California State Assembly, Feb. 2021- Written: Testimony”, <https://people.ucsc.edu/~rfairlie/current/>, accessed February 24, 2021 and United States Census Bureau, “2017 SUSB Annual Data Tables by Establishment Industry”, <https://www.census.gov/data/tables/2017/econ/susb/2017-susb-annual.html>, accessed November 25, 2020

^{iv} Robert Fairlie, “California State Assembly, Feb. 2021- Written: Testimony”, <https://people.ucsc.edu/~rfairlie/current/>, accessed February 24, 2021

^v Bureau of Labor Statistics, “Country Employment and Wages Full Data Update”, <https://www.bls.gov/web/cewdat.supp.toc.htm>, accessed December 2, 2020 and Bureau of Labor Statistics, “Table 3. Covered establishments, employment, and wages by state, third quarter 2020”, <https://www.bls.gov/news.release/cewqtr.t03.htm>, accessed February 24, 2021