

THE SACRAMENTO BEE



California economy still staggering from COVID-19 shutdowns. And things could worsen

BY DALE KASLER
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On Sept. 21, 2020, California Gov. Gavin Newsom defended his decision to halt his unemployment agency's enrollment of new claims for 2 weeks, saying it would allow the state to process benefits as it struggles with a massive backlog.

California's economy continues to struggle through the COVID-19 pandemic, enduring business shutdowns ordered by Gov. Gavin Newsom and embarrassing defections to Texas by some bright lights of Silicon Valley.

On Friday, the Employment Development Department released the latest snapshot of the state's economy: California's unemployment rate fell eight-tenths of a point in November, to 8.2%.

However, job growth totaled just 57,100, a little more than one-third as many jobs as were created a month earlier, signaling a slowdown in the recovery.

"This is the calm before the storm," said Sung Won Sohn, professor of finance and economics at Loyola Marymount University.

November's decline in the unemployment rate also was misleading, Sohn said, because it partly reflects that 627,000 Californians have dropped out of the job market since February because "the job outlook is so poor." People who've halted their job search to go back to school, or stay home with their children, aren't counted as unemployed.

All told, California has recaptured just 46% of the 2.6 million jobs that vanished in the first two months of the pandemic, the EDD said.

Scott Anderson, an economist with Bank of the West in San Francisco, forecast that statewide unemployment will remain well above 7% through 2022.

Michael Bernick, a San Francisco labor lawyer and former EDD director, said California is struggling more than the country as a whole economically, largely because Newsom has taken a harder line than most governors on business openings.

"We still have the most severe lockdowns," Bernick said.

The so-so jobs figures come as the state's economic reputation has taken a hit in recent weeks. On Wednesday the state revealed that population growth has slowed to practically nothing, and migration out of the state has jumped.

Newsom's office, commenting on the latest unemployment figures, acknowledged the state's difficult economic outlook and urged Congress to pass another stimulus package.

"With hope now literally in sight as the vaccine is rolled out, we're continuing our fight to help businesses and working people in California get back on their feet," said Dee Dee Myers, the new director of the state Office of Business and Economic Development, and Labor Secretary Julie Su, in a joint statement.

"But as the state faces the ongoing challenge of this pandemic-induced recession, we need to provide financial resources and other support to people so they can stand up their businesses, create jobs, and support their families as we put the economy back together in an equitable and sustainable way. We call on the federal government to do its part to help us recover."

HOW SACRAMENTO IS DOING

Sacramento is one of the few population bright spots, as the inflow of former Bay Area residents has picked up steam this year.

Greater Sacramento's unemployment rate fell to 6.7% in November, down six-tenths of a point from October. But job growth was a relatively modest 4,100 in the four-county area, and there were signs of weakness throughout the economy.

For instance, even though merchants in Sacramento added 4,000 jobs in the area last month — slightly above average for November — retail employment is still nearly 6% lower than it was a year ago.

Restaurant employment — typically a bright spot during the holidays — was 16% smaller than a year ago, representing a loss of 13,000 jobs.

John Pickerel, founder of the Buckhorn Grill restaurant chain, said he employed 500 workers before the pandemic. Now, the figure is so small he won't say it out loud. "There's no bragging rights there," he said.

His Sacramento area restaurants had adjusted fairly well after Newsom closed indoor dining. But once the governor shut off outdoor dining as well, revenue took a major hit.

"We've had these amazing frontline (employees) hanging in there but it's like the odds are against you," he said.

Bernick said the pandemic has worsened the economic divide between Californians with secure jobs and those struggling to get by, including small business owners and hourly workers.

People like Mikhala Taylor Lazetich are among those feeling the squeeze. Months ago, she was laid off from her bartender's job at the Press Club in midtown Sacramento. She got by on her savings and unemployment benefits and has been leery of finding a new job because her partner has a compromised immune system and she's afraid of spreading the coronavirus.

But now she says she might have to take the plunge and re-enter the workforce.

"My level of confidence has gone down for sure," she said. "A lot of midtown businesses are closing down."

Meanwhile, California has been rocked in recent weeks by the departures of major tech headquarters to Texas, including Oracle Corp. and Hewlett Packard Enterprise. Hewlett Packard has been one of the bedrock companies of Silicon Valley for decades.

"As we look to the future, our business needs, opportunities for cost savings, and team members' preferences about the future of work, we have made the decision to relocate HPE's headquarters to the new campus under construction in Spring, Texas, just outside of Houston," the company's president Antonio Neri said in a blog post.

While Oracle and HPE's exits have made headlines, along with the departure of Tesla CEO Elon Musk, experts say the departures speak to the high cost of doing business in California — a problem that's hardly new but has been exacerbated by the pandemic.

“There are legions of other smaller companies that are planning to move,” said Jack Boyd, of the Boyd Company, a corporate relocation consultant in Princeton, N.J. “It is truly at another level.”

Boyd said it’s no coincidence that companies are leaving California now; the pandemic has prompted considerable corporate soul-searching about where to deploy workers.

Boyd said the pandemic has made it easier for people, and companies, to relocate from high-cost California. Some of the big tech companies, such as Facebook, have been encouraging workers to leave the Bay Area and work from home.

“You can relocate to Nevada, where there’s no personal income tax, or Texas or Florida, and still work for the same company,” Boyd said. “This notion of remote working is here to stay.”

In addition, the state’s business climate, with high taxes and other high costs, remains off-putting to companies. Boyd said the November ballot initiative that would have weakened the Proposition 13 limits on property-tax increases was alarming to plenty of companies — even though voters rejected it.

“It failed but it just set the tone for higher taxes to come,” he said.