

Economics Group

Special Commentary

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277

California's Central Coast Takes a Step Forward

Economic Activity Picks up Modestly as COVID Cases Decline and Restrictions Ease

Businesses and consumers did what they could to endure the sudden shutdown of national and local economies that took hold as the COVID pandemic unfolded in February and March. California was at the center of the storm during the early weeks of the pandemic and the effects clearly made their way to the Central Coast. Private and public sector employers eliminated 96,600 jobs from February to May, with the bulk of the job losses coming in industries that require a high degree of customer contact, such as restaurants, bars and tasting rooms, hotels, hair salons, fitness centers as well as administrative positions at medical offices and professional services firms. Activity improved slightly in May and June before another spike in COVID infections caused consumers to pull back from economic interactions triggering another round of layoffs.

With the rate of growth in new COVID infections currently slowing, businesses are re-opening again, albeit with significant capacity constraints. Residents are venturing out again after retreating to the safety of their homes as new cases spiked this summer. The process has been agonizing. Many long revered restaurants and businesses have shuttered and large parts of the economy are still struggling to regain their footing. With many people working remotely, and schools and universities partially opened or meeting only virtually, there is not as much business at restaurants, coffee shops or dry cleaners. With tourism mostly restricted to day trips, the region's large hospitality sector is a shadow of its former self. Fitness centers also continue to struggle, as people have shifted to walking, bicycling and hiking instead of working out indoors.

While economic conditions have been tough, they have improved modestly. The tri-county region has regained 40,500 jobs since May, while the unemployment rate, which peaked at around 14% in the tri-county region, has fallen back to around 9% in Ventura County and around 8% in Santa Barbara and San Luis Obispo counties. Home sales have also picked up, although low inventories have kept a fairly low ceiling on sales and fueled bidding wars for the handful of homes on the market, sending home prices soaring. The median price of existing homes has risen at the strongest pace in more than a decade, and new construction has risen modestly in parts of the region but remains exceptionally low on an overall basis. Homeowners are also investing more in the existing homes, renovating or adding space for home offices, virtual learning and entertaining.

The tri-county region has regained 40,500 jobs since May.

Figure 1

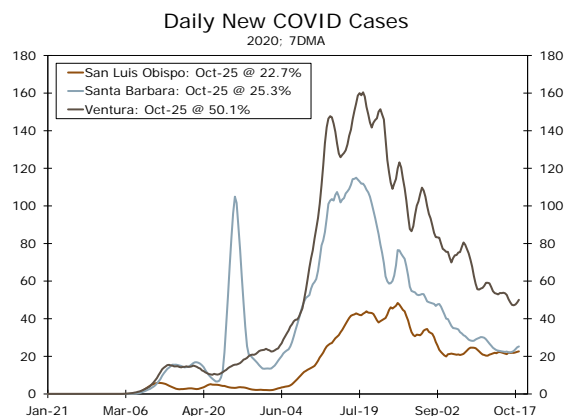
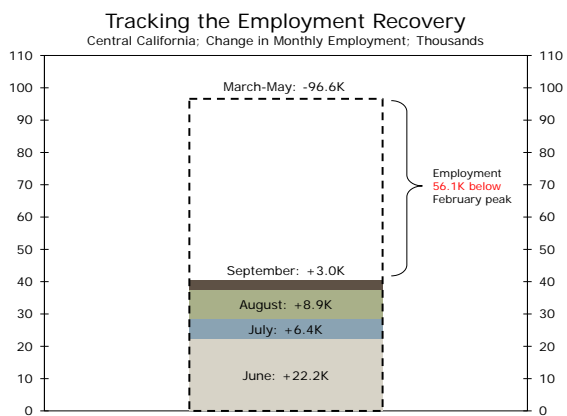


Figure 2



Source: Bloomberg LP, U.S. Department of Labor and Wells Fargo Securities

California Has Been Cautious in Re-opening the Economy

We expect the recovery to gain momentum this fall but remain wary of what the onset of winter and the arrival of the cold and flu season could bring. With one false start already under their belt, businesses may not be eager to expand too aggressively. Hiring will get a boost as restaurants partially re-open for indoor service and retail stores, hair salons and fitness centers gradually re-open. A full recovery is still quite a ways off, however. Business and leisure travel is not likely to return until an effective vaccine is widely available and administered to a large proportion of the population. Unfortunately, the number of new cases has turned up sharply in Europe and parts of the United States. Daily new cases in the United States have recently surpassed their summer highs, with the bulk of the increase coming from Midwest and Great Plains. Locally, the decline in COVID cases from this summer's highs appear to have hit a lull or possibly come to an end.

The gradual re-opening of California's economy is apparent across California's Central Coast. Ventura County has added back slightly more than 40% of the 43,100 jobs lost from February to May. Hiring has bounced back the quickest in the sectors that were hit the hardest by the shutdown, namely the leisure & hospitality sector and "other" services, which includes fitness centers, repair shops and hair salons. Employment in professional services, finance, construction, wholesale trade and logistics did not fall as sharply as other areas and is currently back near its pre-pandemic level. Ventura County has seen consistent improvement in the share of residents going back to their workplaces and is also seeing a modest rise in visits to retail and entertainment establishments.

Santa Barbara County has regained close to half of the 30,000 jobs it lost from February to May. Most of that improvement has come in the leisure & hospitality sector, retail and other services. All remain well-below their pre-pandemic level. San Luis Obispo County has seen a somewhat slower recovery, with nonfarm payrolls adding back 8,000 jobs since May, reversing roughly just one-third of job losses from earlier this year. Leisure & hospitality and retail trade account for a larger share of San Luis Obispo's workforce and a rebound there will require a return to in-person learning.

So where do we go from here? There are currently four vaccines in Phase 3 trials and so far the results look encouraging. The announcement of an effective vaccine will provide a further lift to the financial markets and will likely accelerate the timetable for workers returning to the office. Administering the vaccine will be challenging, however, and it will likely be staged, beginning with the most at risk population and then working through the broader population. Manufacturing a vaccine in such large quantities is also challenging, but assuming one or more of the vaccines currently in Phase 3 trials is approved, there should be enough quantity of the vaccine in place to inoculate a sufficiently large portion of the population to allow the domestic economy to largely re-open by the end of 2021. Unfortunately, a vaccine will do little to alleviate the impact from a resurgence of the virus this winter, which is certain to lead to another lull or pull back in economic activity. We suspect it will take at least another year before enough of the world's population is immunized so that international travel and tourism could get solidly back on track. Global supply chains are likely to remain under stress for some time, not only leading to more volatility in the logistics sector but also providing opportunities for re-shoring some manufacturing activities.

Hiring has bounced back the quickest in the sectors that were hit the hardest by the shutdown.

Figure 3

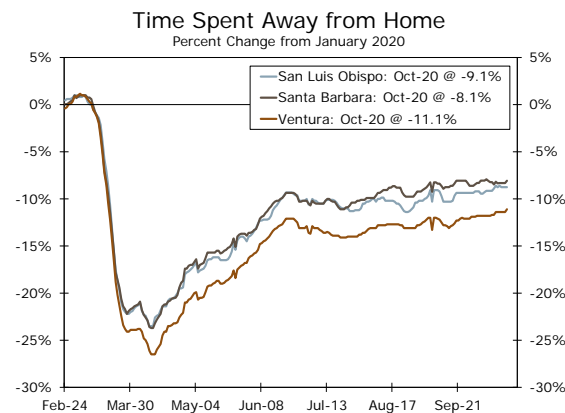
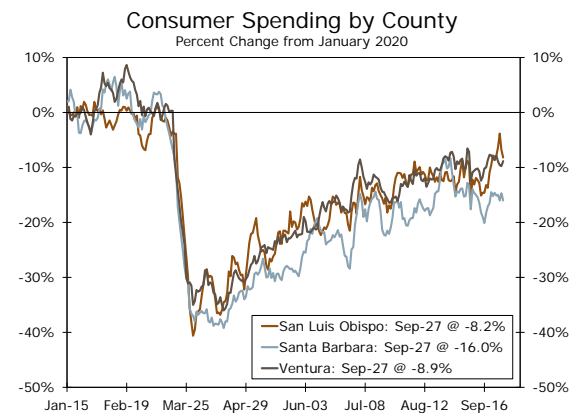


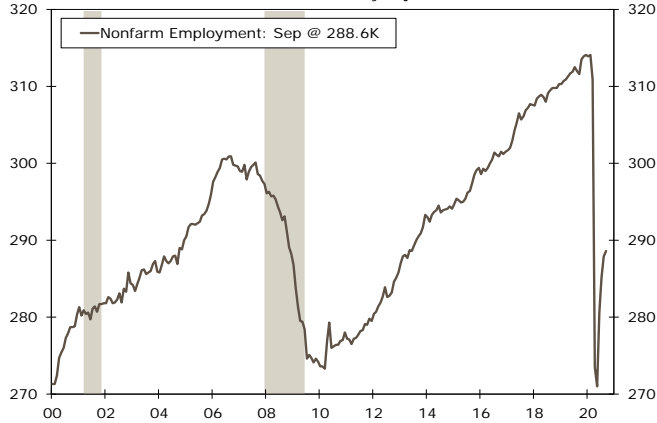
Figure 4



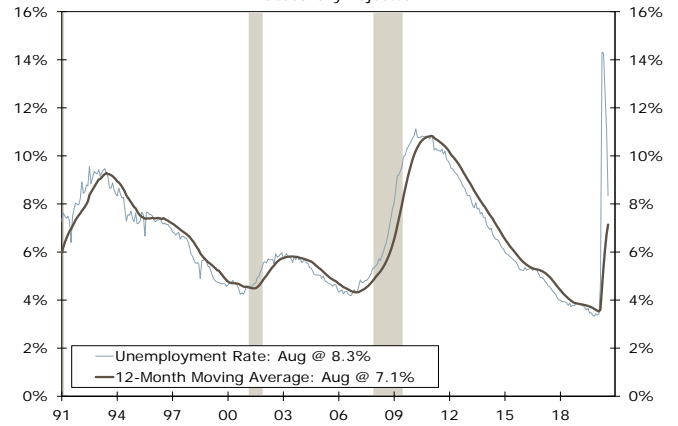
Source: Opportunity Insights and Wells Fargo Securities

Ventura County Economic Conditions

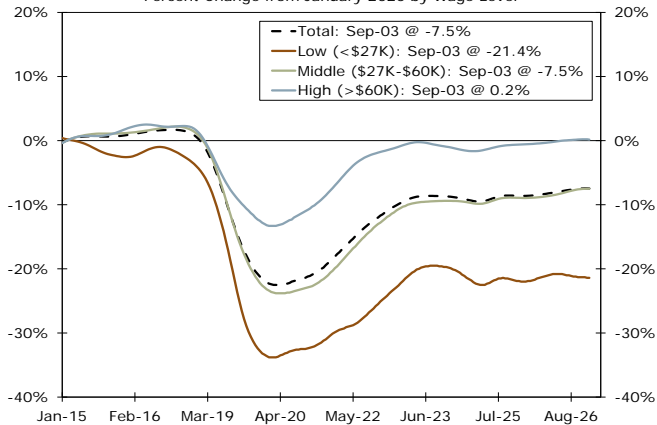
Oxnard MSA Nonfarm Employment
Thousands; Seasonally Adjusted



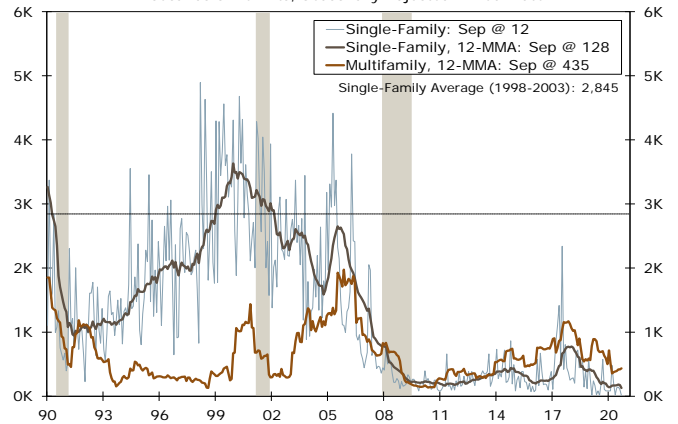
Oxnard MSA Unemployment Rate
Seasonally Adjusted



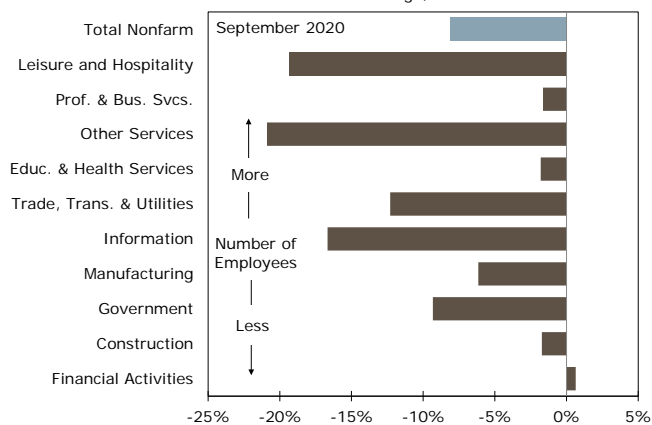
Ventura Employment Rates
Percent Change from January 2020 by Wage Level



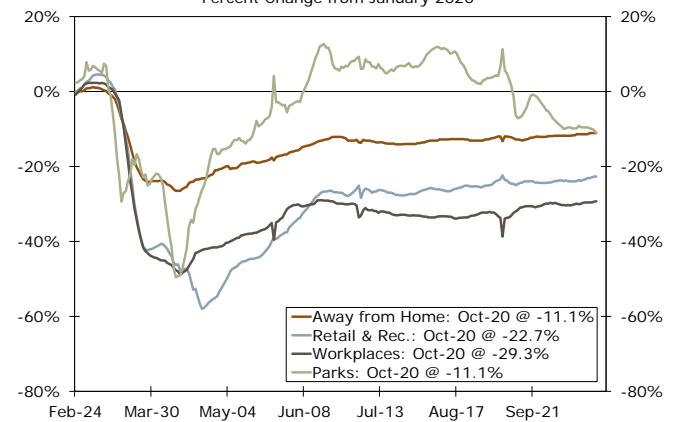
Oxnard MSA Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate



Oxnard MSA Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA



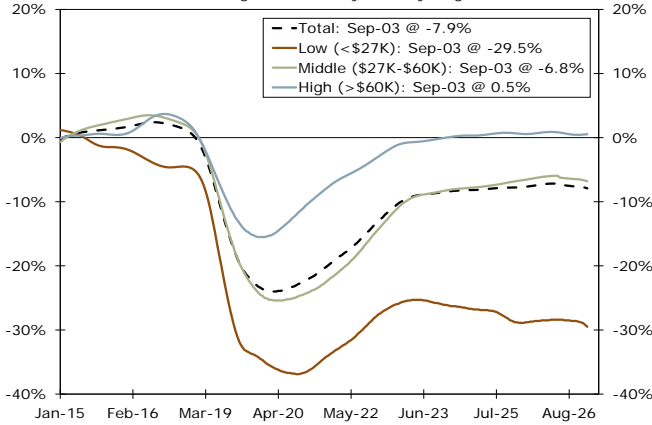
Ventura: Time Away from Home
Percent Change from January 2020



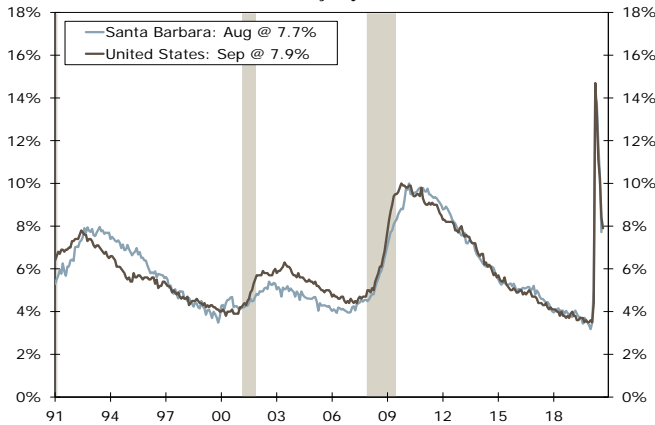
Source: U.S. Dept. of Labor, U.S. Dept. of Commerce, Opportunity Insights and Wells Fargo Securities

Santa Barbara Economic Conditions

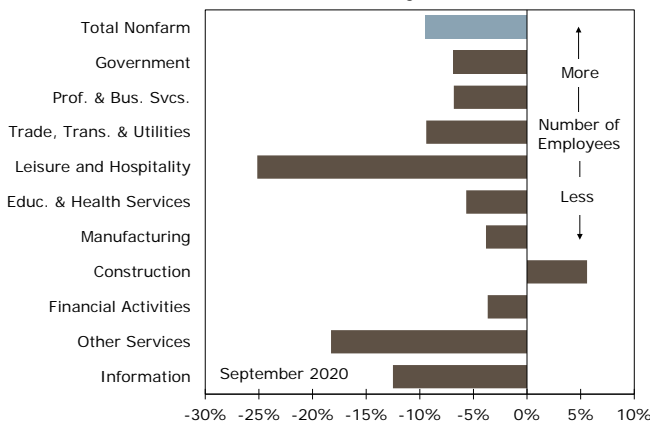
Santa Barbara Employment Rates
Percent Change from January 2020 by Wage Level



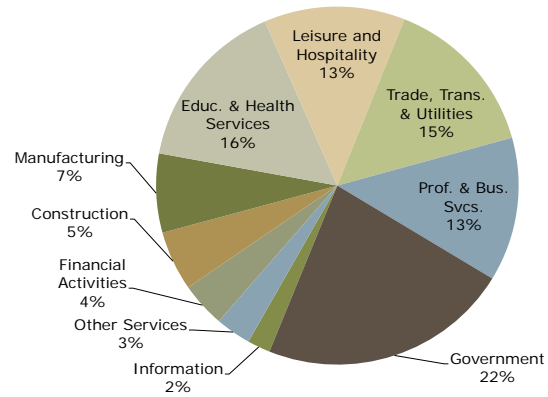
Santa Barbara MSA Unemployment Rate
Seasonally Adjusted



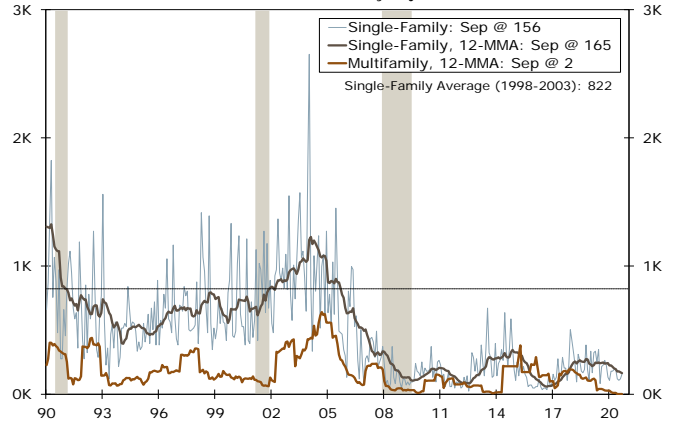
Santa Barbara MSA Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA



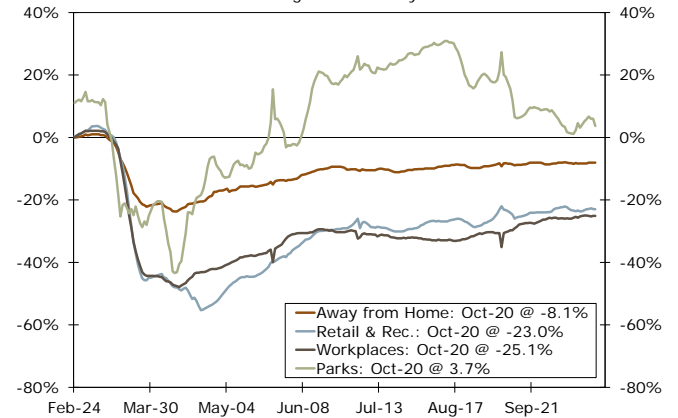
Santa Barbara MSA Employment Composition
September 2020



Santa Barbara MSA Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate



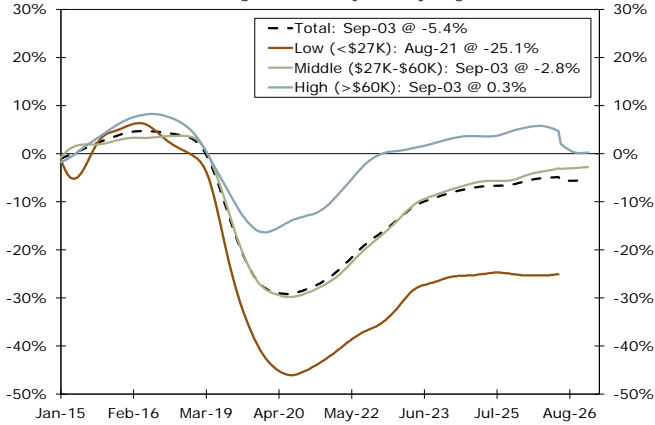
Santa Barbara: Time Away from Home
Percent Change from January 2020



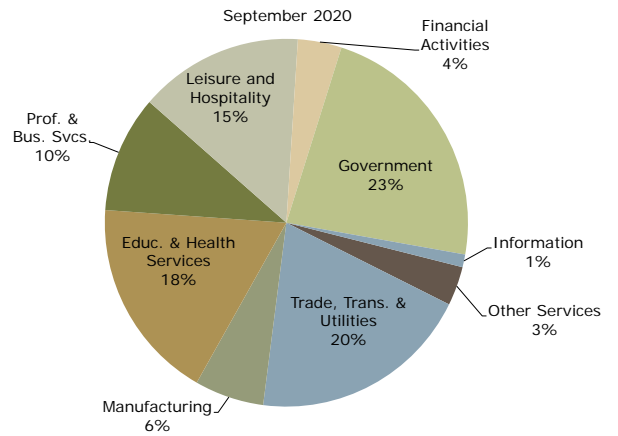
Source: U.S. Dept. of Labor, U.S. Dept. of Commerce, Opportunity Insights and Wells Fargo Securities

San Luis Obispo Economic Data

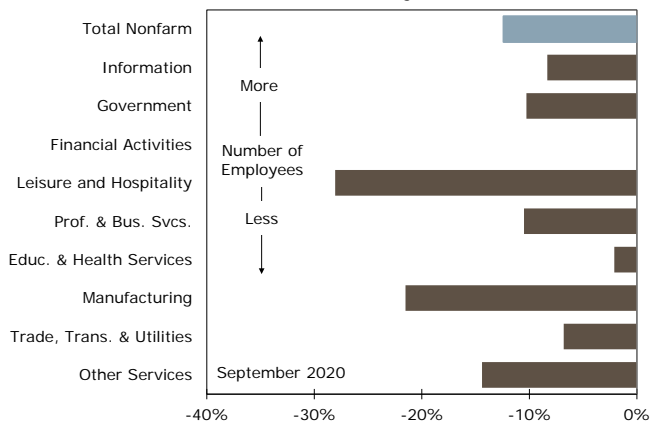
San Luis Obispo Employment Rates
Percent Change from January 2020 by Wage Level



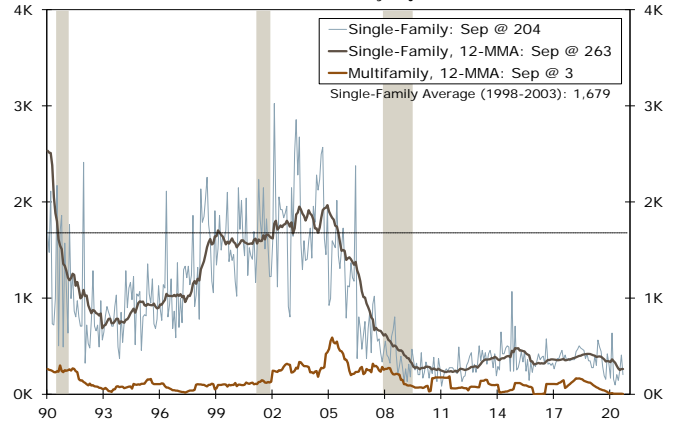
San Luis Obispo MSA Employment Composition



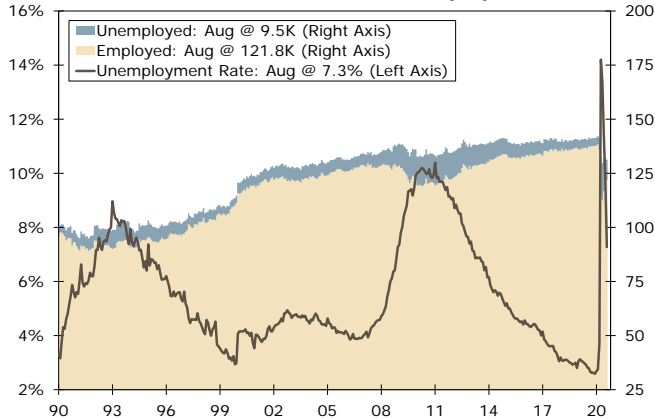
San Luis Obispo MSA Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA



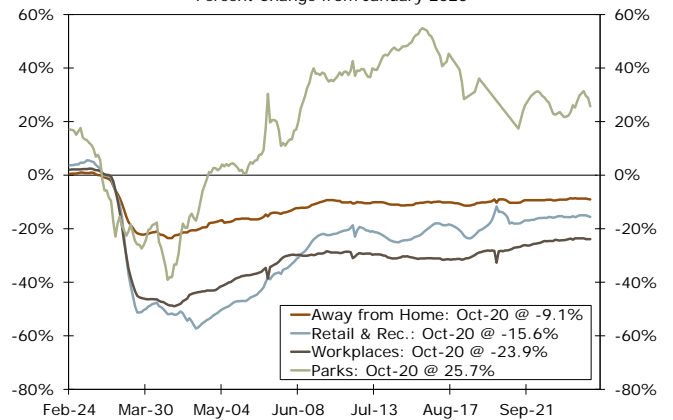
San Luis Obispo MSA Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate



San Luis Obispo Unemployment & Labor Force
Percent, Thousands of Workers, Seasonally Adjusted



San Luis Obispo: Time Away from Home
Percent Change from January 2020



Source: U.S. Dept. of Labor, U.S. Dept. of Commerce, Opportunity Insights and Wells Fargo Securities

Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC. And Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2020 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE