California’s Economy Succumbs to COVID-19 Cutback

Shutdowns and stay-at-home orders to contain COVID-19 brought an abrupt end to a record 10-year run of job gains in California. Nonfarm employment tumbled by 99,500 jobs in March and the jobless rate jumped to 5.3%.

California’s Economy Deals With an Avalanche of Job Losses

California’s longest uninterrupted run of employment gains came to an abrupt end in March, when businesses began to slash payrolls in response to new social distancing guidelines and stay-at-home orders. Restaurants, bars and entertainment facilities, including movie theaters, theme parks and casinos, all took an immediate hit—losing 67,200 jobs in March. Business, household and personal services and construction also posted notable job losses during the month. On the plus side, government payrolls rose modestly in March and the state’s important information sector posted modest gains. Information includes new media such as internet search, software and digital streaming, as well as motion pictures and slower growing portions of traditional media, such as printed publications and landline telecommunications.

With more than two-thirds of the state’s job losses occurring in the leisure & hospitality sector, mostly at restaurants & bars, job losses were heavily skewed toward California’s largest metropolitan areas. Southern California was particularly hard hit. Los Angeles—Long Beach—Glendale lost 39,600 jobs and Orange County lost 16,500 jobs. Job losses were more modest in the Inland Empire (-4,100), and Ventura County (-500). In total, greater Los Angeles lost 60,700 jobs during the month, while San Diego also had a bad month, posting a net loss of 14,500 jobs.

The San Francisco Bay area saw widespread job losses as well. While the Bay area is full of tech companies whose services are in high demand, the region’s important tourism sector appears to have been the weak spot. San Francisco lost 13,700 jobs and Marin County lost another 1,400. Job losses were slightly less prevalent in East Bay and South Bay, with Oakland losing 3,300 jobs and San Jose losing 8,400 jobs. As bad as March was, we know job losses are set to surge even further in coming weeks. Weekly initial unemployment claims have surged over the past four weeks, totaling 2.8 million since mid-March. While in a typical recession there would not be a one-for-one decrease in nonfarm employment for each new jobless claim, the relationship is likely to be tighter this go-round because there are so few jobs being created. Jobless claims are also being pushed higher by contract workers, however, which will not be reflected as much in the monthly payroll data.

California’s economy began to deal with COVID-19 earlier than the rest of the country, and the state’s mitigation efforts appear to have produced positive results ahead of many other areas. Restarting the economy will be difficult, however, particularly given that social distancing guidelines are likely to remain in place for quite some time. Tourism and entertainment spending will also take longer to get back on track, particularly from overseas visitors. International trade is also likely to be soft spot until growth rebounds in the U.S. and around the world.

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