

Regional Commentary — January 22, 2021

The Resurgence in COVID Upends California's Recovery

Summary

California's Recovery Was Interrupted by Renewed Lockdowns

California's economic recovery took a step back in December, as employers cut 52,200 jobs across the state and the unemployment rate rose back to 9.0%. The drop in nonfarm payrolls was widely expected. The national data, reported two weeks ago, showed a 140,000-job drop. We noted then that the more stringent operating constraints imposed in California and New York were likely behind much of the drop in the national figures. That appears to be the case, with most of the nation's and California's job losses coming from the leisure & hospitality sector.

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Lockdowns Hit High-Contact Services Particularly Hard

Nonfarm employment fell by 52,200 jobs in December, marking the first drop since April. While another drop is certainly possible in January, we view the current weakness in the employment data as more of an interruption in the recovery process rather than a sign that the economy is slipping back into recession.

December's drop in payrolls was concentrated in a small handful of industries. The latest spike in COVID infections prompted another round of restrictions on high-contact industries, such as restaurants, bars and entertainment venues. Employment in California's leisure & hospitality sector, which had been on the mend, fell by 117,000 in December, with the bulk of that drop coming from restaurants. There were a smattering of job losses elsewhere, including a 2,000-job drop in real estate services and a 2,400-job drop in private educational services. Both were likely adversely impacted by renewed operating restrictions and rising apprehension about COVID.

Manufacturing payrolls also declined, losing 3,600 jobs, but employment remains well above the lows hit earlier this year. Construction employment rose by a hefty 31,600, and employment in California's logistics sector added 6,000 jobs.

Employment in professional, scientific & technical services, which captures much of California's tech sector, rose by a robust 20,300 jobs. With this increase, employment in this closely-watched sector is now back above its pre-pandemic level.

The strength in California's tech sector hardly comes as a surprise. Demand for tech services has surged during the pandemic and the industry has been one of the best at adapting to remote work. Both trends were highlighted in the monthly employment report published by CompTIA, which noted a substantial uptick in tech job postings in California

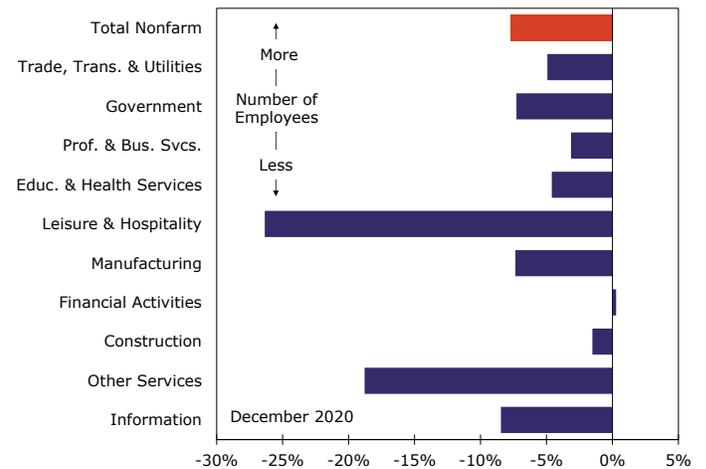
While professional, scientific & technical services capture the swing in tech employment, tech jobs are the most rapidly growing part of most industries today. This is particularly true in California's motion picture and digital entertainment industry, which is now largely being driven by steaming content.

California Nonfarm Payrolls
Seasonally Adjusted, Millions



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

California Employment Growth By Industry
Year-over-Year Percent Change of 3-MMA



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

Hospitality Layoffs Hit Large Urban Areas Hardest

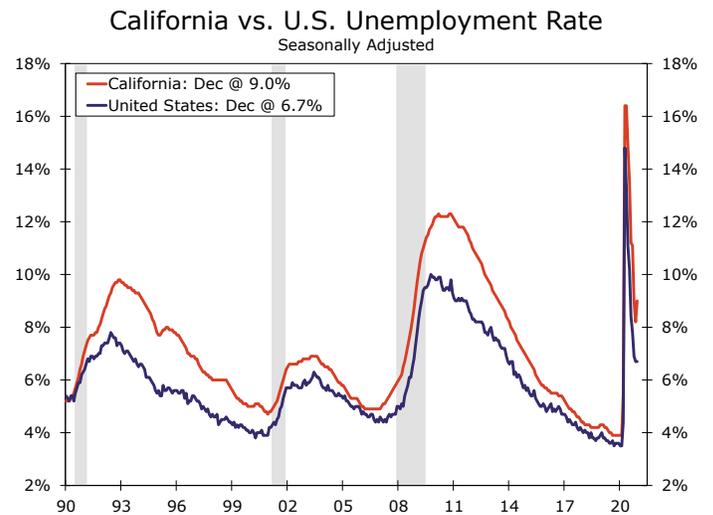
Southern California bore the brunt of the impact from the latest round of layoffs in the leisure & hospitality sector. Los Angeles lost 33,400 jobs in December, with most of that coming from shuttered restaurants and bars. Another 7,800 jobs were cut in Orange County/Anaheim and 2,700 jobs were lost in Ventura County. San Diego lost 3,500 jobs this past month.

Job losses were somewhat more modest in Northern California. San Francisco's tourist trade never really rebounded, so the latest round of operating restriction resulted in somewhat more modest job losses. Employment still tumbled in December, however, with employers cutting 6,700 jobs in San Francisco and 7,800 jobs in San Jose. Oakland managed to eke out an 1,100-job gain.

California's Central Coast fared the best in December. While Santa Barbara saw a modest 300-job loss, employers added 2,200 jobs in San Luis Obispo. Further to the north, Salinas-Monterey and Santa Cruz-Watsonville both lost just 200 jobs during the month.

California's unemployment rate rose back to 9.0% in December. The increase in the jobless rate resulted from a 91,700-drop in the number of employed Californians combined with a 72,000-person rise in the number of California's civilian labor force.

While December's employment headlines are discouraging, we believe the latest data are more of a temporary setback rather than the start of a slide back into recession. The number of new COVID infections has been trending down the past couple of weeks, while vaccinations are finally ramping up after a frustratingly slow start. With California's tech sector rolling along and international trade set to ramp back up, we see better days ahead.



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

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