DID COVID-19 RESTRICTIONS KILL THE CALIFORNIA DREAM?

Jerry Nickelsburg
Director
UCLA Anderson Forecast
Adjunct Professor of Economics
UCLA Anderson School of Management

Twitter: @jnickelsburg

October 2021
Florida governor’s coronavirus dilemma: health vs. economy

By TAMARA LUSH  March 25, 2020
TO CLOSE OR NOT TO CLOSE?

BUSINESS

MASKS

STAY AT HOME/CURFEW

SOURCE: NY TIMES
Beginning of the Pandemic
Implied Unemployment Rate by state after removing estimated unemployment due to NPI (October 2020)

US AVERAGE

SOURCES: BLS.GOV, UCLA ANDERSON FORECAST
Implied employment losses by state after removing estimated decline due to NPI (January 2020 to January 2021)

SOURCES: BLS.GOV, UCLA ANDERSON FORECAST
The reserves of emotion pent up during those many months when for everybody the flame of life burned low were being recklessly squandered to celebrate this, their survival.


- The 2021 euphoria ended with delta but
  - Those who are vaccinated do not want new closures
  - Those who are not vaccinated do not want new closures
- We are entering a Swedish model regime for the run of the delta wave (and maybe more).
WHAT HAPPENED IN 2020?

RETURN TO THE OFFICE & OTHER DRIVERS OF THE CA ECONOMY

LEAVING CA

SIGNALS & THE RECOVERY

WHAT HAPPENED IN 2020?
Real GDP Growth Rates
(>5M Pop. % Change, 2020)
RETAIL SALES UNCORRELATED WITH INTERVENTIONS

Percent Change in Retail Sales vs NPIs
(July 2019 to July 2020)

Percent Change in Retail Sales vs NPIs
(Dec. 2019 to Dec. 2020)
2000—2004 Monthly Domestic Airline Traffic

US Airline Revenue Passenger Miles
(Seasonally Adjusted, 000)

Regulatory Shutdown of Airline Flights
Followed by Fear of Flying

SOURCE: US DEPARTMENT OF TRANSPORTATION
## Is Everyone Leaving California?  
### The Bay Area Evidence

<table>
<thead>
<tr>
<th>Event</th>
<th>Los Angeles</th>
<th>Bay Area</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1990 Aerospace Contraction</strong></td>
<td>Rents Fell by 14.3%</td>
<td>Rents Fell by 13.0%</td>
<td>Fell by 3.5%</td>
</tr>
<tr>
<td>Home Prices Fell by 3.5%</td>
<td>Rents Fell by 25.0%</td>
<td>Rents Fell by 13.0%</td>
<td>Fell by 3.5%</td>
</tr>
<tr>
<td>Employment Fell by 3.5%</td>
<td>Home Prices Rise by 2.9%</td>
<td>Home Prices Rise by 2.9%</td>
<td>Fell by 2.5%</td>
</tr>
<tr>
<td><strong>2001 Dot-Com Bust</strong></td>
<td>Bay Prices Fell by 3.5%</td>
<td>Home Prices Fell by 2.4%</td>
<td>Fell by 7.5%</td>
</tr>
<tr>
<td>Excluding leisure &amp; hospitality, retail, other svs. &amp; ed.</td>
<td>Bay Prices Fell by 2.4%</td>
<td>Home Prices Fell by 2.4%</td>
<td>Fell by 10.1%</td>
</tr>
<tr>
<td><strong>2020 Pandemic Recession</strong></td>
<td>Bay Prices Fell by 3.5%</td>
<td>Home Prices Rise by 2.9%</td>
<td>Fell by 8.8%</td>
</tr>
<tr>
<td>Excluding leisure &amp; hospitality, retail, other svs. &amp; ed.</td>
<td>Bay Prices Fell by 2.9%</td>
<td>Home Prices Rise by 2.9%</td>
<td>Fell by 2.5%</td>
</tr>
</tbody>
</table>
Was it a shift to homebuying?
Factors to explain declines in rents

• Students & junior faculty not on campus
• Tech workers leaving
  – Low-income renters
  – Pied-a-terre
• Overshooting of rents pre-pandemic
• Restaurant and other low-income workers leaving
  – Restaurant concentration
  OR
• Mass exodus
  – The end of Silicon Valley
  – The high cost of housing
What explains Bay Area rents?

Percent Rent Change, Predicted vs Actual
1/20 to 1/21, Full Sample, 1-Bedroom

Actual Percentage Rent Change vs Predicted Rent Change
Where are they going?

Washington, Texas top Bay Area out-of-state destinations

While three-quarters of the residents who filed for a change of address during March through November 2020 stayed in the Bay Area, more than 24,000 moved elsewhere in California and more than 4,000 left the state.
Is Tech leaving with them?

FOLLOW THE MONEY

New Venture Capital Investment
(2nd Half 2020, M$)

SOURCE: PWC MONEY TREE
IF THE COMPANIES ARE NOT LEAVING AND THE PEOPLE ARE NOT GOING FAR, WILL THEY RETURN TO THE OFFICE?

- Networking
- Social Aspect
- Higher productivity
- Promotions and Pay
- On-Boarding and Supervision
- Separation of work and non-work life
- Not everyone can afford a home office
THANK YOU

QUESTIONS & COMMENTS?