SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

ITEM: 3.23
(ID # 13637)
MEETING DATE:
Tuesday, October 06, 2020

FROM: SUPERVISOR KAREN SPIEGEL AND SUPERVISOR MANUEL V. PEREZ:

SUBJECT: SUPERVISOR KAREN SPIEGEL AND MANUEL V. PEREZ: Requesting the Governor and State Legislature to Open a Special Session [All Districts][$0]

RECOMMENDED MOTION:
That the Board of Supervisors direct the Executive Office to contact Riverside County's state legislative delegation to assist in petitioning the Governor to call a special legislative session.

ACTION: Policy

Karen S. Spiegel
Supervisor Karen Spiegel, Vice-Chairwoman 10/1/2020

V. Manuel Perez
Supervisor V. Manuel Perez, Chairman 10/1/2020

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Spiegel, seconded by Supervisor Perez and duly carried, IT WAS ORDERED that the above matter is approved as recommended.

Ayes:	Spiegel, Washington and Perez
Nays:	Jeffries, Hewitt
Absent:	None
Date:	October 06, 2020
xc:	Supvr. Spiegel, Supvr. Perez, EO

Kecia R. Harper
Clerk of the Board
By: ______
Deputy

BACKGROUND:

Summary

On September 25th the California Department of Finance released revenue receipts for the first two months of the fiscal year. Cash receipts are $4.544 billion above the 2020-21 budget forecast. The states leading source of revenue, personal income tax (which includes capital gains tax) was $3.646 above forecast.

While the State of California is seeing increased revenue from individuals and companies that are benefiting from continued growth during the COVID-19 lockdown, we have an obligation to help the struggling businesses and individuals who have been forced into near, or complete bankruptcy.

On March 4, 2020, Governor Newsom proclaimed a State of Emergency and issued an emergency Executive Order N-33-20 ordering "all individuals living in the State of California to stay home or at their place of residence." The stay at home order effectively closed millions of businesses in California. The Board of Supervisors voted on September 2, 2020 to use $45 million in Federal Coronavirus Aid, Relief and Economic Security Act (CARES) funding in order to create a Business Assistance Grant Program to help closed and impaired businesses. After providing financial help to over 3,466 struggling businesses, the program will have depleted its funding allocation. People and businesses are having their property and income taken from them as a result of the shutdown orders. We have a duty to protect our resident's physical and economic health, economic freedom and assist in their recovery efforts. In addition, CARES Act funding has been provided to support various programs throughout Riverside County (see attached).

According to the recent report from the Inland Empire Economic Partnership (IEEP) Claremont McKenna College (dated July 21, 2020), the current unemployment rate for Riverside County of 16% (seasonally adjusted) is higher than it was at the height of the Great Recession. In 2008-2009, the majority of job losses were in construction and manufacturing. Of the 100,500 jobs that were lost during the COVID-19 shutdown months of March and April, most job losses (84,970 or 85%) occurred in just five sectors as follows: Leisure and Hospitality (44,370); Retail Trade (15,820); Health and Education (10,730); Professional and Business Services (8,520); and Other Services (5,530). In just two months of the shutdown during March and April, the economy lost $1.033 billion or 1.1% of output, based on conservative estimates by the IEEP.

According to a recent analysis by the Washington Post (dated September 30, 2020 https://www.washingtonpost.com/graphics/2020/business/coronavirus-recession-equality/), the impacts of COVID-19 overwhelmingly affected "low-wage, minority workers most." "Seven months into the recovery, Black women, Black men and mothers of school-age children are taking the longest time to regain their employment." Furthermore, the Washington Post analysis goes on to state, "At the height of the coronavirus crisis, low-wage jobs were lost at about eight times the rate of high-wage ones, The Post found. The devastation was deepest among the lower-paid, but middle-class jobs were not spared. A clear trend emerged: The less workers earned at their job the more likely the were to lose it as businesses across the country closed."

The Board is calling on the Governor and the state legislature to open a special session to allocate the unexpected tax revenue, on a per capita basis, to counties in order to provide relief to businesses that are still under a state mandate which prohibits certain businesses from fully utilizing their capacity to generate income. Per Article IV, Sec. 3(b) of California's State Constitution: "On extraordinary occasions the Governor by proclamation may cause the Legislature to assemble in special session. When so assembled it has power to legislate only on subjects specified in the proclamation but may provide for expenses and other matters incidental to the session. "

ATTACHMENTS:

1. Department of Finance Bulletin – September
2. IEEP Recovery Report from July 2020
3. IEEP Inland Empire Market Update
4. Thornburg Presentation 9-23-20
5. Riverside County Responds (dated 8-18-20)

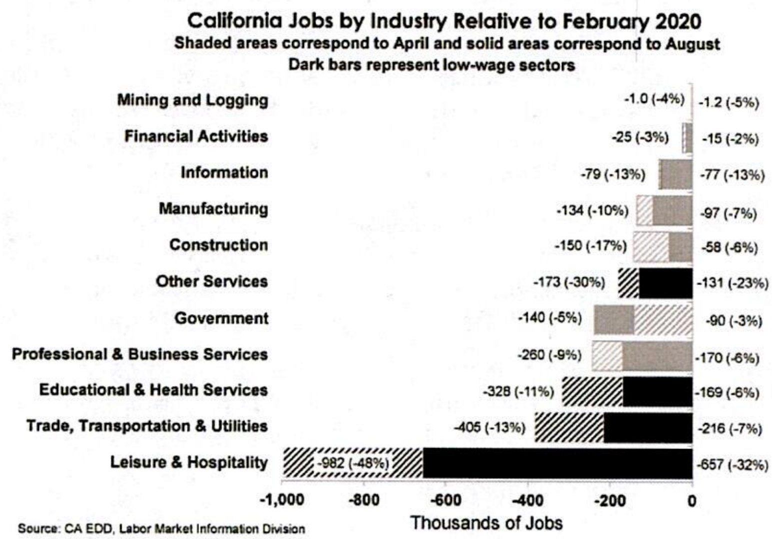
California Department of Finance
September 2020
Finance Bulletin
Keely Bosler, Director

Economic Update

The U.S. unemployment rate fell from 10.2 percent in July to 8.4 percent in August 2020 and is now 4.9 percentage points above the pre-pandemic level of 3.5 percent in February. The U.S. labor force participation rate rose 0.3 percentage point to 61.7 percent and civilian employment rose by 3.8 million to 147.3 million in August. Compared to the 164.5 million in the February labor force, 89.5 percent were employed in August. The U.S. gained 1.4 million jobs in August after 4.8 million and 1.8 million jobs were added in June and July, respectively. This followed 22.2 million jobs lost in March and April.

Labor Market Conditions

- California's civilian unemployment rate fell to 11.4 percent in August after reaching an average of 15.9 percent in the second quarter and a 13.5-percent rate in July. The unemployment rate is now 0.9 percentage point lower than The Great Recession's peak in March 2010. Civilian employment increased by 291,700 people (1.8 percent) while the labor force shrank by 117,100 people (-0.6 percent) to 18.7 million. California's labor force participation decreased 0.3 percentage point to 59.9 percent. Compared to the 19.5 million in the February labor force, 16.6 million people, or 84.9 percent were employed in August.



- The state gained 101,900 nonfarm payroll jobs in August, bringing the total jobs recovered since May to 885,700, roughly one-third of the 2.6 million jobs lost in March and April. California's nonfarm employment remains 1.7 million jobs or 9.8 percent below February's level of 17.6 million. While six out of the 11 major industry sectors added jobs in August, all 11 major industry sectors remained below February levels: leisure and hospitality (656,800 fewer jobs in August than in February); trade, transportation and utilities (216,000); professional and business services (169,600); educational and health services (169,400); government (140,300); other services (130,900); manufacturing (96,500); information (77,200); construction (57,600); financial activities (14,600); and mining and logging (1,200).

Building Activity

- California housing units authorized by building permits totaled 115,600 units in July 2020 (seasonally-adjusted annualized rate), up 54.4 percent from June 2020 but down 6.6 percent from February's 123,700 units. In July, single-family units increased by 24.2 percent from June to 61,800 units and multifamily units increased by 114.1 percent to 53,800 units. Year-to-date, authorized residential housing units averaged 95,900 (down 10.3 percent from the same period in 2019), split into 51,800 single-family units (down 4.8 percent) and 44,200 multifamily units (down 16.1 percent). California's nonresidential building valuation in July was $27.8 billion, down 4.4 percent from June 2020 but up 2.2 percent from February's $27.2-billion valuation. Year-to-date, nonresidential building valuation averaged $23.8 billion, down 33.5 percent from the same period in 2019.

Real Estate

- The California existing single-family median home sales price reached a new record-high of $706,900 in August, exceeding $700,000 for the first time in history, and surpassing the previous record set in July 2020 by 6.1 percent. This is up 21.9 percent from February 2020 and up 14.6 percent from August 2019. Statewide sales volume rose by 6.3 percent to 465,400 units—the highest sales volume since May 2010 and 10.4 percent higher than February 2020 level.

Monthly Cash Report

Preliminary General Fund agency cash receipts for the first two months of the fiscal year were $4.544 billion above the 2020-21 Budget Act forecast of $35.604 billion. Cash receipts for the month of August were $1.632 billion above the forecast of $8.17 billion. Preliminary General Fund agency cash receipts for the entire 2019-20 fiscal year were $1.135 billion above the 2020-21 Budget Act forecast of $123.395 billion, or 0.9-percentage point above forecast. Total collections for March through August 2020 were down by 5 percent from the same period in 2019.

- Personal income tax cash receipts to the General Fund for the first two months of the fiscal year were $3.646 billion above forecast. Cash receipts for August were $975 million above the forecast of $4.999 billion. Withholding cash receipts were $837 million above the forecast of $4.799 billion. Other cash receipts were $359 million higher than the forecast of $647 million. Refunds issued in August were $203 million higher than the expected $358 million. Proposition 63 requires that 1.76 percent of total monthly personal income tax collections be transferred to the Mental Health Services Fund (MHSF). The amount transferred to the MHSF in August was $19 million more than the forecast of $88 million.
- Sales and use tax cash receipts were $1.176 billion above forecast for the first two months of the fiscal year. Cash receipts for August were $574 million above the forecast of $2.086 billion. August cash receipts include a portion of the final payment for the second quarter sales, which was due July 31. August cash receipts also include the first prepayment for third quarter sales.
- Corporation tax cash receipts for the first two months of the fiscal year were $176 million below the forecast of $5.029 billion. Cash receipts for August were $176 million above the month's forecast of $228 million. Estimated payments were $133 million above the forecast of $117 million, and other payments were $56 million higher than the $172 million forecast. Total refunds for the month were $14 million higher than the forecast of $61 million.
- Insurance tax cash receipts for the first two months of the fiscal year were $31 million below forecast. Insurance tax cash receipts for August were $32 million below the forecast of $604 million. Cash receipts from alcoholic beverage, tobacco taxes, and pooled money interest were $23 million below forecast for the first two months of the fiscal year, and were $4 million below the forecast of $58 million for the month of August.

  "Other" cash receipts for the first two months of the fiscal year were $48 million below forecast and $57 million below the forecast of $196 million for the month of August. The Year-To-Date figures shown below reflect a correction to the forecast amount for "Other" July revenues that were displayed in the August Finance Bulletin.

2020-21 Comparison of Actual and Forecast Agency General Fund Revenues

(Dollars in Millions)

	AUGUST 2020				2020-21 YEAR-TO-DATE			
Revenue Source	Forecast	Actual	Change	Percent Change	Forecast	Actual	Change	Percent Change
Personal Income	$4,999	$5,974	$975	19.5%	$26,003	$29,649	$3,646	14.0%
Sales & Use	2,086	2,660	574	27.5%	3,371	4,547	1,176	34.9%
Corporation	228	403	176	77.2%	5,029	4,853	-176	-3.5%
Insurance	604	572	-32	-5.2%	629	599	-31	-4.9%
Estate	0	0	0	0.0%	0	0	0	0.0%
Pooled Money Interest	22	14	-8	-34.5%	61	33	-29	-46.7%
Alcoholic Beverages	30	34	4	13.3%	69	75	6	9.3%
Tobacco	6	6	0	-7.8%	12	10	-1	-10.7%
Other	196	139	-57	-29.1%	430	381	-48	-11.2%
Total	$8,170	$9,802	$1,632	20.0%	$35,604	$40,148	$4,544	12.8%

This is an agency cash report and the data may differ from the Controller's report to the extent that cash received by agencies has not yet been reported to the Controller.

Totals may not add due to rounding. The forecast is from the 2020-21 Budget Act.

The Pandemic and The Economy in Riverside County

by
Manfred W. Keil and Robert A. Kleinhenz
July 21, 2020

The Coronavirus pandemic prompted officials to shut down large parts of the economy beginning in mid-March of this year. The resulting job losses have been epic in proportion and can be hard to comprehend by simply looking at numbers without a reference (some sort of measuring tape). The unemployment rate peaked in April at 14.7% for the U.S., reached 16.4% in April in California, and increased to 16.0% in May in Riverside County (all seasonally adjusted). Perhaps one way to illustrate the severity of this recession is to mention that we had slightly over 23 million people unemployed in the nation in April 2020. By comparison, during the Great Depression of 1929-1930, the number of unemployed peaked at around 15 million. To be fair, the U.S. population was less than half the current size compared to today's, but we find this figure remarkable, nonetheless. Actually, the number of employees who lost their job from March to April is roughly 16 million, meaning that the unemployment created in a single month through the government shutdown was higher than the unemployment total during the peak of the Great Depression.

The stay-at-home orders enabled Riverside County and all of California to flatten the dreaded hospitalization curve in April and May. As the economy began to reopen in phases in late May and June, the number of cases started to surge again, as people increased social and/or family gatherings, increased workplace interactions, and may not have taken the disease seriously. At this point the County has lost precious ground in the fight against the Coronavirus. The rise of the disease is once again taxing the health care system and has already forced officials to shut down parts of the economy to limit the spread of the disease again. In the meantime, the general public has become increasingly restless about the prospect of restricting economic activity, perhaps best described as "COVID fatigue." This has reached a point where there has been open resistance with regard to wearing face masks in public. Given that the "positivity rate" (the rate at which COVID-19 tests are coming back positive) has reached values in the double digits, Riverside County had no choice but to follow the State's roll back some of the previous openings in Phase 2 and Phase 3 of Governor Newsom's plan to gradually reopen the economy. It is this conflict between the "COVID fatigue" and the need to restrict economic activity that is the motivation behind this report. We will show below that implementing public health practices to prevent the spread of COVID-19 and keeping the economy open are not mutually exclusive objectives. However, the failure to adopt safe public health practices will result in long term damage to the economy.

There seems to be a perceived "trade-off" between fighting the spread of the virus in certain policy circles as well as in parts of the public debate. There is little doubt regarding the massive costs of the shutdown. Simply consider the dollar losses from first postponing the Coachella Music Festival and then cancelling it completely. It has been estimated that the economic impact of the two weekends of having 225,000 attendees plus the 70,000 who flock to Stagecoach at the Empire Polo

Club in Indio is $450 million. This is just one of the many events that have been cancelled in Riverside County.

Riverside, of course, is not the only county in California that is heavily impacted. Los Angeles County has been affected as is reflected in its substantially higher unemployment rate (19.4% with the latest numbers). Other parts of the state and nation have likewise been hard hit as everyday routines have been disrupted or shut down altogether. Consider a relatively small activity, namely the absence of tourism/business travelers from China to California. Prior to the crisis, there were roughly 150 weekly direct flights from Chinese cities to either the Los Angeles or San Francisco area. Assume, conservatively, that there were 350 foreign visitors on board, and that, on average, they would stay for 14 days, spending $100 a day. The lost revenue from this simple activity is almost $300 million a month, or $1.2 billion for the four months of May to June. The sum total of these events has caused extensive damage to the economy that cannot be reversed overnight. Now maybe we should only calculate a percentage of this total, since some of the passengers will not be Chinese nationals, and perhaps business travelers do not stay for 14 days. Regardless, the numbers from this event only are still large.

This report evaluates the economic consequences of the shutdown and describes the path of the economy's recovery. It answers the following questions for Riverside County:

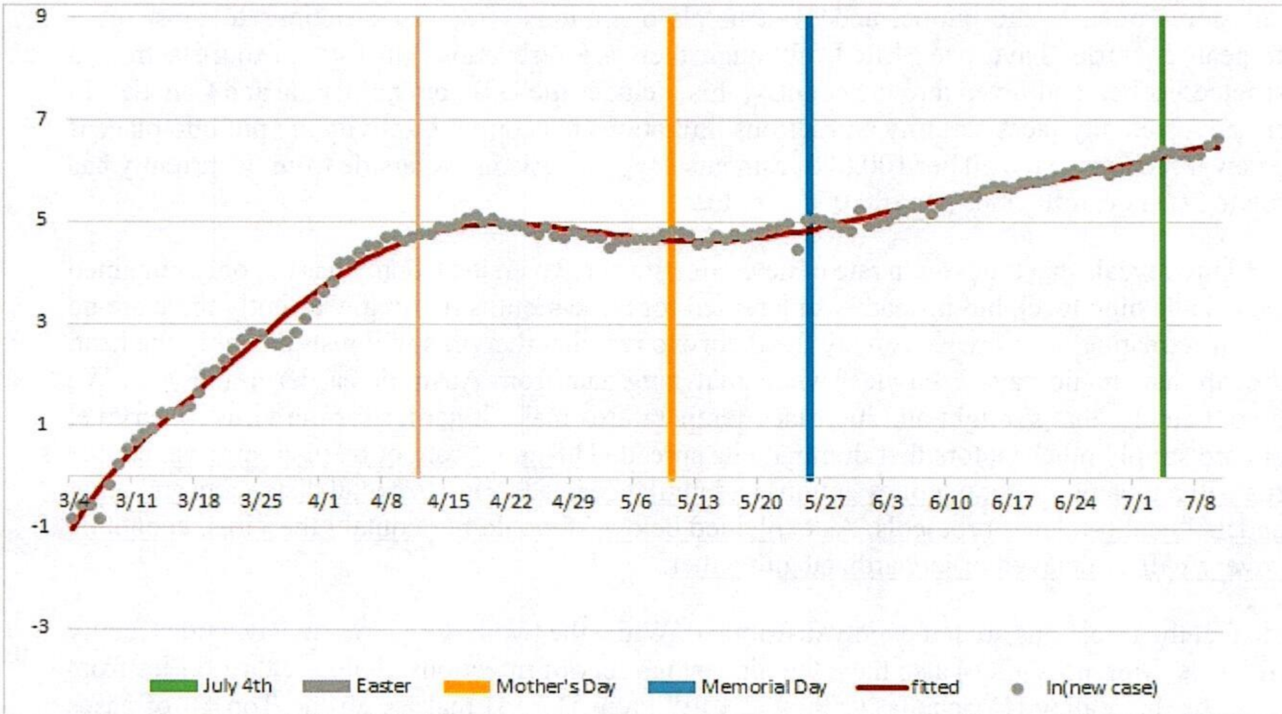
- How big were the job losses during the pandemic shutdown and which sectors were hit the hardest?
- What were the dollar losses to the economy overall and hardest hit sectors?
- What will the recovery look like and how long will it take?
- What damage is done when shutdown orders are reinstituted?

These questions are addressed herein, based on preliminary estimates of county-level indicators such as output and employment that have been produced for this report.

Impact of the Pandemic Shutdown

Three graphs describe much of the most relevant information regarding the Coronavirus recession. Figure 1 shows the 7-day (log) average of newly confirmed cases in Riverside County, Figure 2 displays the unemployment rate in the area, and Figure 3 gives you the number of jobs lost by industry in Riverside County since February 2020.

Figure 1: Newly Confirmed Cases, 7-Day Average, logarithm, Riverside County, Day 1 (first identified case) to Present



Technical Note: The variable on the vertical axis (Y-axis) is the logarithm of the 7-day average of new infections. For example, a value of 5 means that you had an average of 148 new *daily* infections over the previous week. The purpose of reporting the logarithm rather than the actual numbers is two-fold: (i) an exponential line (observations increasing exponentially) becomes a straight line, hence taking the logarithm just lowers the scale, (ii) the observations and fitted line values have a straightforward interpretation: they are growth rates in the 7-day average. For example, if you observe 5.1 now but had recorded 5.0 the week before, then the growth rate of new infections increases by 5.1-5.0 = 0.1 or 10%. If the line increases (upward sloping), then the growth rate is increasing; if the line is straight, then the growth rate is the same as previously; if the line slopes downward, then the growth rate decreases (meaning it has become smaller), but is still positive. Hence the aim is not just to flatten this curve, but to decrease it as we saw between April 22 and May 5. Eventually we will be able to predict when there is a 0% growth rate, at which point the virus no longer spreads.

The points indicate growth rates in the 7-day-average of new infections: for example, a change from 5 to 5.2 represents a 20% increase over the previous 7-day period. If the dots are higher, it means that the growth rate of the 7-day-average is still increasing, implying that we are far from having the virus under control. Even a flat curve only implies that the growth rate remained the same, that is, the number of cases will continue to increase at the same rate as before.

As of Tuesday, July 21, Riverside County had 31,163 cases, a 14.8% increase from the previous week. Note that at this rate, the number of newly confirmed cases doubles roughly every month. There have been 588 deaths, an increase of 6.9% from the previous week. By comparison, the confirmed cases in California are 400,769 with 7,755 deaths. We want to stress here that this is not some "Second Wave" of the virus. We are still in the "First Wave" and have so far failed to get it under control. Existence of a "Second Wave" requires that the "First Wave" is brought under control, and that new cases would arrive sometime late in the fall.

How does Riverside County compare to locations where the Coronavirus is under control? Take Germany, for example. Like the U.S., Germany has a local government structure similar to our counties. Much of everyday life is back to the "new normal" with people dining out in restaurants, retail stores open to the public, and even hotels operations - travel restrictions to most other European countries have been lifted (although there are restrictions on foreign tourists from a restricted list being allowed into the country; this includes the U.S., but not China and Canada). In Germany, a county faces scrutiny and serious limitations to economic activity are put into place if the new infections reach 50 per 100,000 residents. By comparison, Riverside County currently has close to 200 new infections per 100,000 people.

The figure reveals that the growth rate of new infections in Riverside County has not only remained elevated at a high level, but instead has increased for three months running. Currently there are no signs of retreating. By now we can lay the theory to rest that the virus will just die out in the heat, although that should have been clear when analyzing data from Australia earlier in the year. We are not denying that sunlight and increased temperatures make it harder for the virus to survive; there are simply other factors that dominate its spread. This point cannot be overemphasized: the virus will not vanish without policy actions and vigilance in adhering to social distancing and other mandated health-related protocols. As explained below, if we do not contain the virus, economic recovery will be delayed or jeopardized altogether.

Note that the infections are not evenly distributed. While the two largest cities in Riverside County (Riverside, Moreno Valley) also have the highest number of infections, there are three cities from the Coachella Valley (Coachella, Cathedral City, Palm Desert) that are in the Top 10 of cases infected, which are not on the list of most populated cities. On the other hand, three cities down the I-15 (Murrieta, Temecula, Menifee) have larger populations, but do not show sufficiently high numbers of infections to be included here. Table 1 lists the number of infections and the population size.

Table 1: Confirmed Coronavirus Cases, Top 10 Cities in Riverside County, June 13, 2020

City	Confirmed Cases	Top 10 Rank by Population
Riverside	3,387	1
Moreno Valley	2,232	2
Indio	1,879	9
Coachella	1,438	-
Jurupa Valley	1,261	6
Corona	1,191	3
Cathedral City	923	-
Perris	795	10
Hemet	629	7
Palm Desert	564	-

Figure 2: Unemployment Rate, Riverside County, Non-Seasonally Adjusted and Seasonally Adjusted, January 1990 - May 2020

Figure 2 shows the unemployment rate for Riverside County in raw (not seasonally adjusted or NSA) terms and in seasonally adjusted (SA) terms. The county rate rose sharply to record-setting highs during the shutdown. Clearly the current unemployment rate of 16% (seasonally adjusted) is higher than it was at the height of the Great Recession. However, the unemployed are concentrated in different sectors now than they were during the Great Recession. In 2008-2009, the majority of job losses were in construction and manufacturing. By comparison, of the 100,500 jobs that were lost during the shutdown months of March and April, most job losses (84,970 or 85%) occurred in just five sectors.

These are:

- Leisure and Hospitality (44,370)
- Retail Trade (15,820)
- Health and Education (10,730)
- Professional and Business Services (8,520)
- Other Services (5,530)

Leisure and Hospitality has been most severely affected as workers were at least temporarily laid off due to the closing of hotels and restaurants, and the absence of most tourists. Of course, Retail Trade has been impacted from the closing of stores. The industry category Other Services includes establishments in personal services that were not allowed to open until Phase 3 of the Governor's plan, such as hairdressers, nail salons and tattoo parlors.

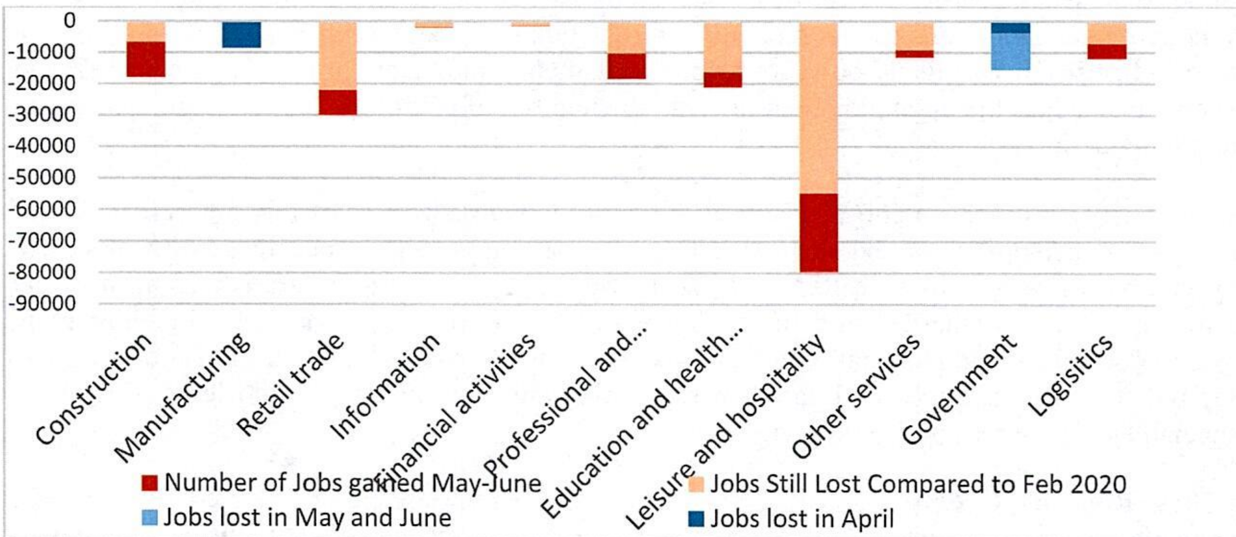
Perhaps surprising to some is the inclusion of Health and Education on this list. However, note that many medical services that were not related to the treatment of Coronavirus patients were scaled back significantly (non-essential medical services, dental visits, etc.). While health care is expected to recover gradually, the outlook for education in general remains uncertain, particularly for K-12 education. Gov. Gavin Newsom announced on July 17 that more than 5.5 million California students will not be allowed to attend school for in-person education this fall. Instead, all education for at least 90% of the state's children must be held online. Under the requirements, California school districts cannot reopen campuses until their counties stabilize coronavirus infections and hospitalizations. Of course, getting K-12 schools to open is not only important for the learning process of children, and especially minorities, but also because it frees parents from providing education and supervision at home.

In addition, UCR, CSUSB, and junior colleges will have primarily online courses, but this will not have immediate employment consequences for employees there (although there will also be no new hires). Some smaller institutions are still in the process of making a final decision regarding the form of instructions during the fall semester/quarter.

Many industries within Professional and Business Services involve firms in the private sector that may have employees continue to work from home, or that will gradually re-open under very new guidelines from what existed before. But most of the job losses during the shutdown occurred in building services and in employment services, where positions are temporary and were among the first to be cut as businesses pulled back.

Changes in other sectors such as Government may matter, but these job losses are dwarfed by what we observe in the most affected sectors, especially leisure and hospitality, retail trade, and other services. The policy implication is clear: to return to the (new) normal, policy must focus on these sectors.

Figure 3: Job Losses and Gains by Industry, Riverside County, February 2020 - June 2020



(*Note*: if the bars are light/dark red, then the sector is recovering; if it is light/dark blue, then additional jobs have been lost in addition to the initial decline.)

Recovering employment in the most affected sectors is important, and not just because they bore the brunt of job losses during the shutdown. More significantly, recovery in the overall economy <u>will only</u> occur with gains in containing the virus itself. These industries will be our "canaries in the coal mine." To clarify, containing the virus is a pre-requisite for the recovery of the economy, not an alternative.

There is renewed hope of a vaccine being available by the end of the year. Two groups -- one from the University of Oxford, the other from China -- seem to have made the most progress according to medical journals. At the same time, there seems to be concern regarding some evidence about the rapid decay in antibodies for persons with a mild case of COVID-19.

Recovery Trajectory

So, what will the recovery look like, how long will it take, and how will individual sectors fare over the near future? To begin, recall how severely the county economy was affected by the shutdown. From February to April of this year, the Riverside County economy lost 100,500 jobs.

This was a sharp 13.3% decrease in just two months. As mentioned earlier, some industries were more successful than others at moving from the workplace to remote work during the pandemic shutdown. These industries include Professional and Business Services. They may have seen some job cuts, but to the extent that they could move successfully to remote work, recovering lost jobs and lost business will largely be dictated by customer demand and specifically how quickly it is restored. We already mentioned that the Health sector should experience a recovery sooner rather than later as regular medical services will be provided again.

For other industries, particularly those hardest hit by the shutdown, a quick look at news headlines from across the nation tells us that reopening will be bumpy at best. With 85% of all job losses in just 5 industries, it will likely be years before fundamental indicators of economic well-being in the county, such as the unemployment rate and the number of payroll jobs in the region, return to pre-pandemic levels.

Let us clarify a bit at this point. The Bureau of Labor Statistics stated in its July report that 60% of unemployed persons classified their layoff status was temporary. Hence these 60% have the expectation that they will be called back. What we are trying to stress here is that most of the sectors that were hit hardest are in the business of face-to-face interaction with their main customers (Leisure and Hospitality, Other Services, Retail Trade, Health and Education). Hence, they will face the toughest road ahead in re-opening and returning to the old level of activity, especially with the return of shutdowns.

In 2019, Riverside County added 19,200 jobs, a 2.6% increase over 2018. If recovery from the pandemic proceeded at that pace, it would take 5 years to recover the 100,500 jobs lost in the two-month shutdown period! At 4.9% per year, equivalent to the growth rate from 2013 to 2014 which was the fastest annual growth rate during the recovery from the Great Recession, it would take roughly 3 years to regain those jobs. The point is: under plausible assumptions regarding the recovery, it will take 3 to 5 years to regain jobs that have been lost so far. If more jobs are lost because of repeated shutdowns, the recovery period will be even longer! This is, of course, the known downside of closing down businesses again.

Up to this point, the damage from the pandemic shutdown has been measured in terms of job losses and lost wages, but we need to understand how the shutdown has affected the economy in terms of economic activity. With a population of over 2 million, Riverside County is one of the most populous in the country. Its economy is also large with an estimated $93.2 billion in output (nominal Gross Domestic Product or GDP) in 2019.

Assuming the county economy had remained on trend this year, it would have grown, in conservative terms, by approximately 2% or $2 billion to roughly $95 billion this year. Instead, in just two months of the shutdown during March and April, the economy lost $1.033 billion or 1.1% of output, based on conservative estimates by the IEEP. In a growing economy such as the county's, the economic "hole" created by the shutdown is more than the $1 billion lost during the shutdown, because you should also account for the $2 billion in trend growth that would have occurred in 2020 in the absence of the pandemic shutdown. Roughly speaking, it might take 18 months to recover $3 billion in lost output. But if there are repeated surges in COVID-19 cases over the next several months, parts of the economy will be shut down, adding to those losses and making the output gap even larger.

If history is any guide, the subsequent boom following the Great Recession may offer some insights. County GDP began to recover in 2010 after falling 6.8% over the period 2008 and 2009. Over the three-year period of 2010 through 2012 when the county recouped lost output, it grew by an average of 3.2% annually. The single strongest year was 2011 when the growth rate was 4.9%. The fastest growth rate over the period of expansion occurred in 2015, when nominal GDP grew by 8.6%.

The bottom line here is not to expect a "V" shape recovery but rather a "Nike Swoosh" type: a steep decline, followed by a period with gradually increasing growth rates.

Any recovery trajectory must assume that the virus is being contained and the hardest hit industries are able to reopen at a pace that is sustainable. The Governor's July 13 shutdown orders in response to the latest surge in cases illustrates that containment is not a foregone conclusion. The county can expect to go through a cycle of shutting down and reopening until it succeeds in containing the virus, Such a cycle makes it that much harder for businesses to get going again, and will jeopardize the long run survival of more and more of those businesses.

It will also take a toll on households. The average wage of a worker in Riverside county was just over $43,000 in 2019 (Source: Quarterly Census of Employment and Wages), but workers in many of the hardest hit private sectors earned less:

- Retail trade: $34,000
- Education: $41,000
- Leisure and hospitality: $24,000
- Personal services: $28,000

Despite being known as one of the more affordable parts of Southern California, the average rent in the Inland Empire[1] is $1,900 per month. Data from the 2018 American Community Survey show that 56% percent of renting households in Riverside County are rent-burdened, meaning they devote at least 30% of their household income to rent. It is beyond the scope of this report to determine the rent burden for households with workers in the four industries shown above, but given their below-average wages and average monthly rent approaching $2,000, a large share of these households are likely to be rent-burdened even if they have two or more working household members. They are also very likely to have limited savings. Like the businesses that employ these workers, a cycle of shutting down and reopening compromises their ability to pay their rent, to feed their families, and to meet other household expenses.

Conclusion

[1] County-level rents were not available.

The Coronavirus recession has been severe in terms of economic and human cost. It has become increasingly clear over the last few weeks that we have been unable to control the spread of the virus given our current regulations. New restrictions have been announced which will result in further curtailment of activity. At the same time, there is a certain amount of COVID-19 fatigue.

What can be done to convince the public to follow recommended or required public health practices rather than ignoring them? One message must be clear: there is no trade-off between fighting the virus (until there is a vaccine) and a functioning economy. Rather, fighting the virus is a prerequisite for returning the economy to a new normal.

There is empirical evidence from a University of Chicago academic paper that a higher number of deaths results in fewer subsequent visits by the public to stores and businesses. At this point, it is of utmost importance that the general public understand that higher infection and death rates act as a direct deterrent to future economic activity. There is no choice between going to a party and having fun now versus staying at home. The simple fact is that if we do not stay at home now, there will be no party tomorrow.

The bottom line is: if we do not bring the virus under control, there will be no economic recovery.

Inland Empire Labor Market Update
08/21/2020

Manfred Keil, Chief Economist, Inland Empire Economic Partnership, Associate Director, Lowe Institute of Political Economy, Claremont McKenna College
Robert Kleinhenz, Kleinhenz Economics, California State University Long Beach

1. The labor market data for July released by the EDD today was *somewhat encouraging* for California and the Southern California region, including the Inland Empire. Nationally, the May to July period saw the gradual reopening of businesses across the nation, but some states and sectors experienced renewed closures in the last half of July (reflected in these numbers). As a result, the decrease in the unemployment rate at the national level was only 0.9 percentage points (published earlier in the month) compared to the 2.2 percentage point decrease from May to June. The unemployment rate in California fell by 1.6 percentage points, or by almost the same amount as for the previous month, from 14.9% to 13.3%. California still has the sixth highest unemployment rate in the U.S., with Massachusetts (16.1%), New York (15.9%), Nevada (14.0%), New Jersey (13.8%), and Pennsylvania (13.7%) showing higher rates. This coincided with employment growth of 140,000, which is a deceleration from the over half a million jobs (558,000) gained in May. Hence, the increase of 0.9% in employment is significantly less than the 3.7% increase in May. Almost all U.S. states showed employment growth when compared to June, and the California growth rate is towards the lower part of the pack (32th highest). There were fewer "discouraged workers" returning to the labor force in California, which actually decreased by 0.1%. This discouraging news actually contributed to the fall in the unemployment rate of 1.6 percentage points, which would have been smaller had the labor force actually increased.

2. The story of the Inland Empire resembles "The Good, the Bad, and the Ugly" except that "The Ugly" is not as bad as it seems at first. The good news is that the unemployment rate fell by 0.9 percentage points from 14.3 to 13.4% (non-seasonally adjusted). This is a similar decline to the previous month. This is therefore a positive development, although you would have hoped for a more than 0.9 percentage points. The bad news is that these jobs were primarily created through increases in self-employed and by IE residents who found jobs outside of the Inland Empire. Despite a gain of 8,000 in IE private sector jobs, household employment actually fell by roughly 16,000. Here comes what at first appears as "The Ugly:" Half of the decline is due to employment losses in local government (not in state or federal government). However, the losses came primarily in education and were mainly due to seasonal layoffs associated with the end of the school year and occur each year in July. On a marginally negative note, there was a small decrease in the labor force (more "discouraged workers") with the labor force actually shrinking by 0.1%.

3. We have stressed before that the recovery will depend primarily on reclaiming jobs in the sectors most affected by the slowdown. These are Leisure and Hospitality, Health and Education, Retail Trade, Other Services, and Professional and Business Services. Of these, Retail Trade saw the largest gains (4,900 positions), followed by Health and Education (2,900 almost all centered in Health), and Professional and Business Services (1,800 jobs). As could be expected from the July 13 shutdown orders, Other Services were negatively affected (loss of 700 positions) since hair salons and nail salons were only allowed to operate outdoor. On the other hand, Leisure and Hospitality added 1,000 positions despite the July 13 orders. Mostly disappointing this month were the losses in Construction and in Logistics, two sectors that are crucial to the long-term economic prospects in the Inland Empire.

4. Within the Southern California Region, the Oxnard-Ventura MSA had the lowest unemployment rate with 11.3%. This was followed by Orange County (12.3%), San Diego (12.3%), the Inland Empire (13.4%), and Los Angeles 17.5%.

5. For the state, we had feared that the July 13 partial shutdown would result in only modest labor market improvements. Unfortunately, that became true. In particular, the person-to-person sector of Leisure and Hospitality only saw minimal gains which were dwarfed by the previous month's improvements. Government employment declined for the same reasons as we explained for the Inland Empire: seasonal factors were dominating employment in government education. Of the other crucial sectors in terms of previous job losses, Retail Trade and Health and Education saw the largest gains.

6. Los Angeles County, together with Ventura County (Oxnard MSA) saw stronger employment growth percentage wise in Southern California. This is good news for Los Angeles County in particular, as more than one-fifth (21.1%) of the labor force was unemployed just two months ago.

7. In terms of a bigger picture, we need to see continued recovery in the Leisure and Hospitality, Health and Education, Retail Trade, and Other Services sectors. Progress will depend on successfully fighting the worrisome numbers of new cases of the Coronavirus. While there have been some improvements in hospitalization rates and number of patients in intensive care, most areas in Southern California are quite some distance away from having no more than 100 new cases per 100,000 residents over the previous 14-day period. Bringing the virus under control is a prerequisite for further improvements in the job numbers for the crucial face-to-face industries.

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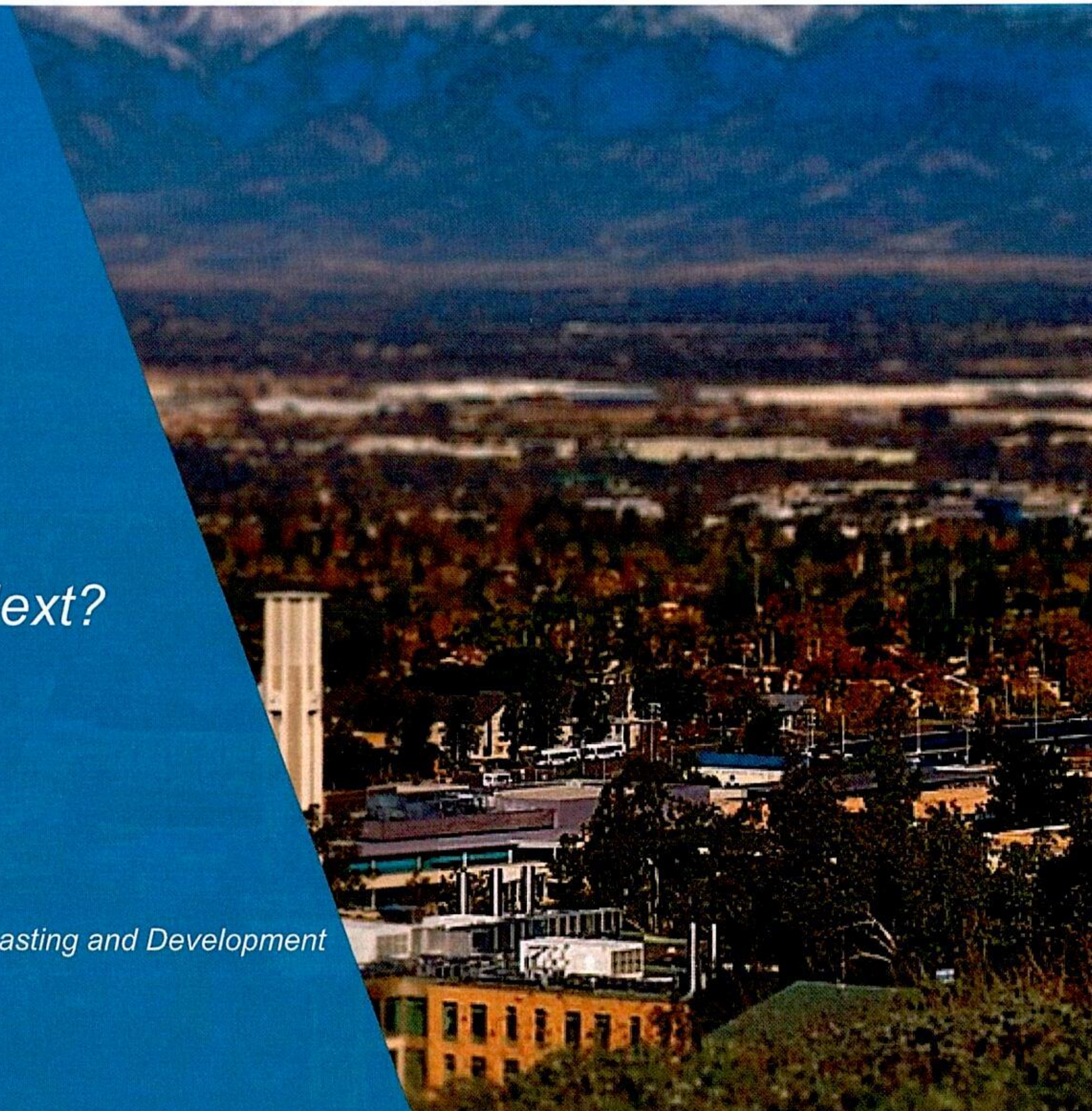


To "V" or not to "V"…

The COVID Recession: Where Next?

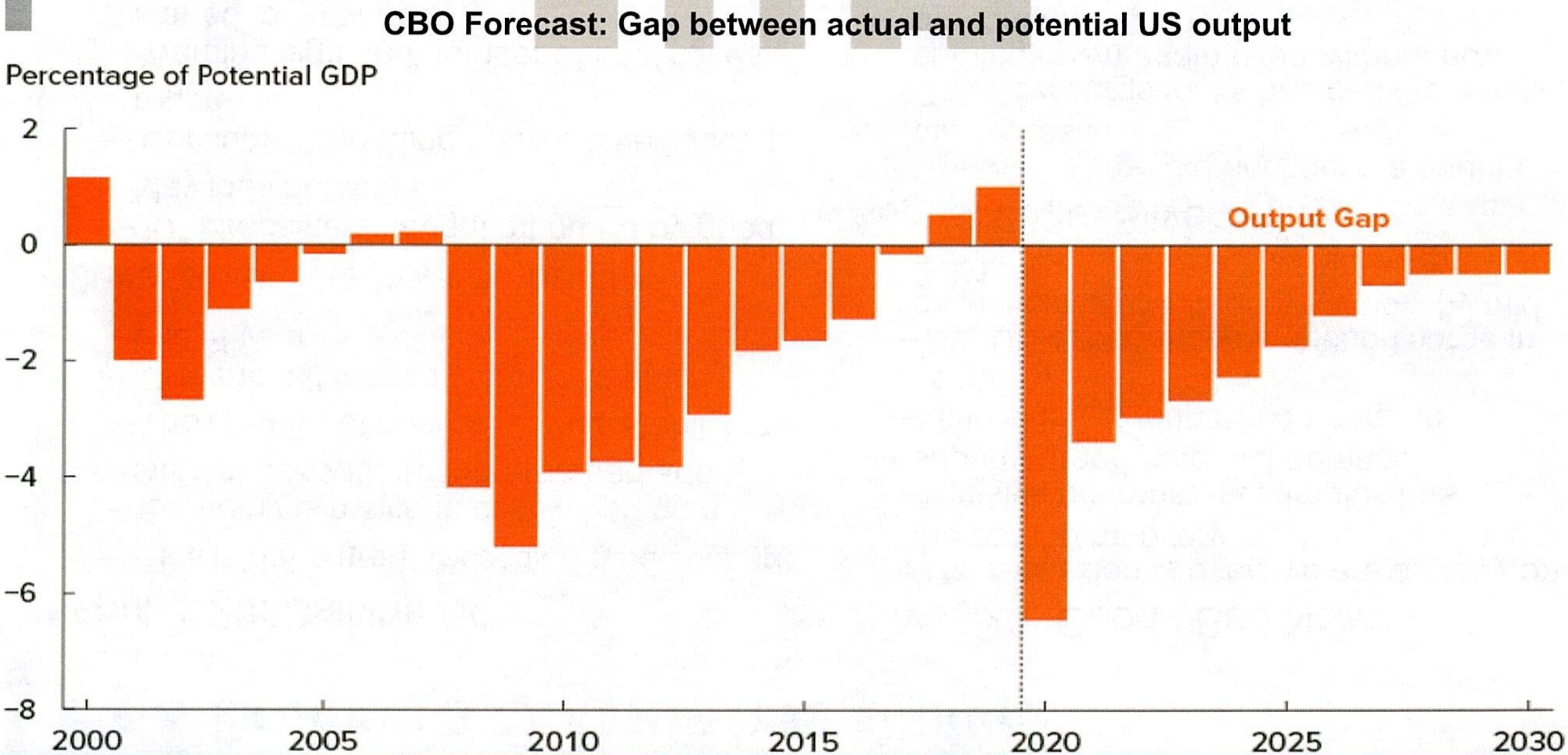
August 2020

Christopher Thornberg, Ph.D.
Director, UCR School of Business Center for Economic Forecasting and Development
Founding Partner, Beacon Economics LLC

The Pandemic Recession

- Covid-19: Tracking the Disease
  - —30 million cases globally, 1 million deaths
  - —US roughly one fifth of all cases, deaths
  - —Ultimately US will experience ~230,000 additional deaths this year (typical year ~ 3 million)
- The Pandemic Recession
  - —A unique business cycle
  - —Consumer Fear / Health Mandates sharply slowed economic activity
  - —Q4 19 to Q2 20 ~11% decline in real GDP (Great recession 6% decline over 6 quarters)
  - —Unemployment jumped to post WWII high levels
- The big question: where from here?
  - —The "U" or "V" or "whatever" debate
  - —Driver 1: the path of the virus itself
  - —Driver 2: The economic response to the presence of the virus
  - —Driver 3: Damage to the economy from pandemic driven closures

How Bad?



CBO Forecast: Gap between actual and potential US output
Percentage of Potential GDP
2
0
−2
−4
−6
−8
Output Gap
2000
2005
2010
2015
2020
2025
2030

How Beacon’s Outlook has Shifted

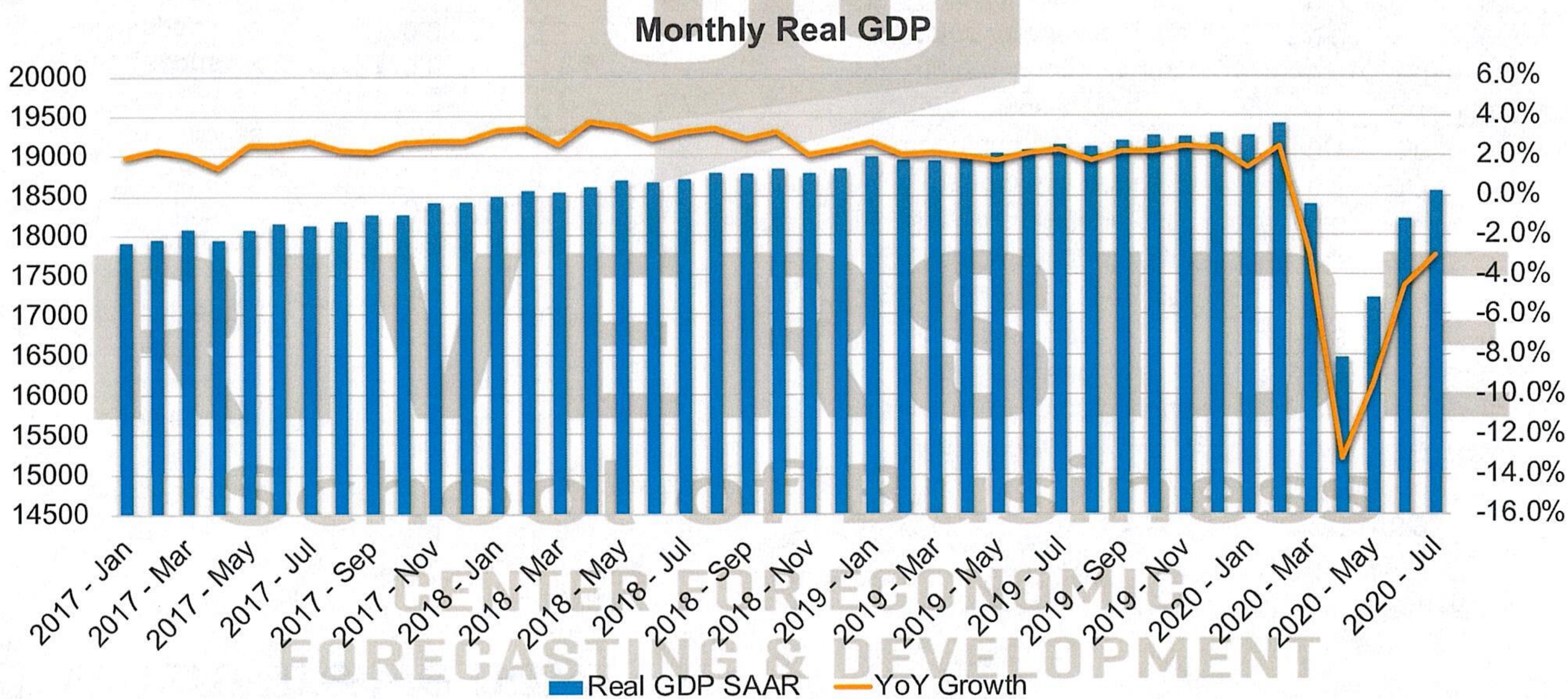
- April 2020: Call the “V”
  - —This is not a great recession type scenario
  - —Economy is resilient: can withstand a large shock without long-run damage
  - —The number of new cases has stabilized
  - —Close to full recovery can take place by end of year
- June 2020: The bounce begins
  - —“U” forecasters caught off guard by good May jobs numbers
  - —Consumer spending numbers verify jobs report
  - —Warning sign: the number of new cases started to grow again
- July 2020: Good / Bad News
  - —The recession is over, we are already on the path to recovery
  - —Massive government stimulus has supercharged potential demand
  - —Little signs of long run damage to economy
  - —The US experienced a second surge in cases, close to full recovery now by mid 2021
- August 2020: Silver linings
  - —The new surge did not cause a double dip recession
  - —The new surge looks has peaked and is coming down again even without new draconian restrictions

Where are we now?

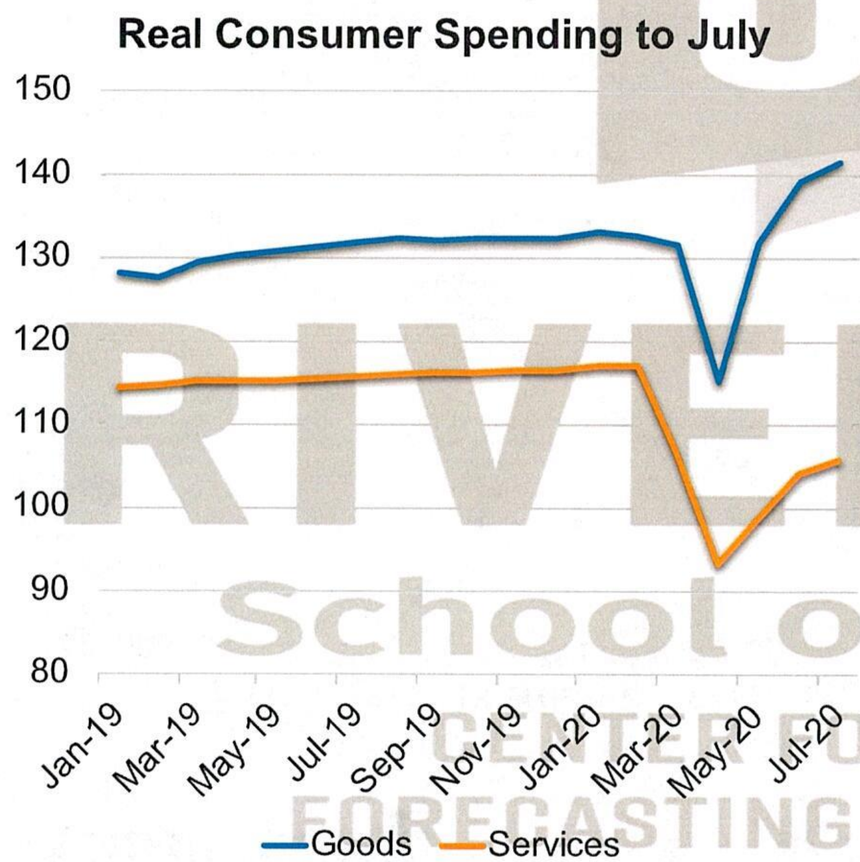
	2019	2020 Q1	2020 Q2
GDP	2.4	-5.0	-32.9
Final Demand	2.4	-4.8	-29.6
Consumption	1.7	-4.8	-25.1
Goods	0.8	0.0	-2.1
Services	0.9	-4.8	-22.9
Investment	0.3	-0.2	-5.4
Structures	0.1	-0.1	-1.2
Equipment	-0.1	-0.9	-2.1
IPP	0.2	0.1	-0.3
Residential	0.1	0.7	-1.8
Inventories	-0.4	-1.3	-4.0
Trade	0.3	1.1	0.7
Exports	0.0	-1.1	-9.4
Imports	0.3	2.3	10.1
Government	0.5	0.2	0.8
Federal	0.3	0.1	1.2
State local	0.2	0.1	-0.4

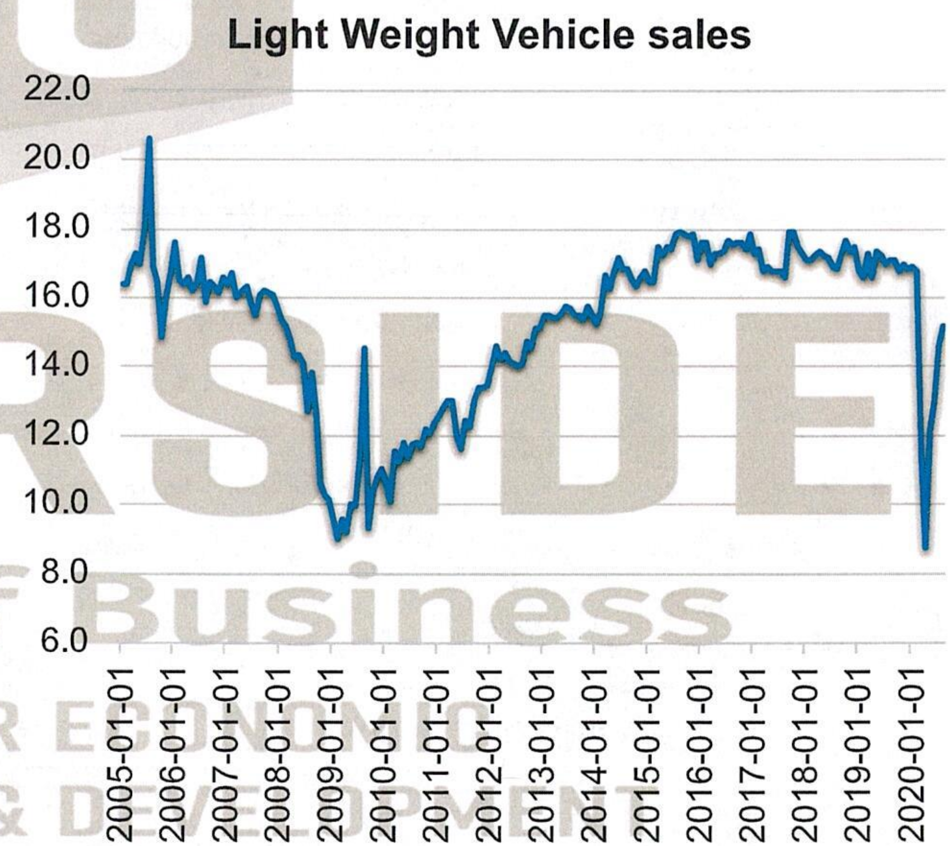
	2019	2020 Q1	2020 Q2
(PCE)	2.5	-6.9	-34.6
Health care	0.6	-2.9	-13.7
Food / accommodations	0.1	-2.4	-7.8
Recreation services	0.1	-1.5	-6.7
Other services	0.3	-1.1	-5.6
Transportation services	0.1	-1.0	-4.1
Clothing and footwear	0.1	-1.1	-1.3
Gasoline and energy	0.0	-0.4	-1.2
Other durable goods	0.1	-0.3	-1.0
Food and beverages	0.1	2.0	-0.4
Furnishings	0.1	-0.1	-0.2
Other nondurable goods	0.4	1.0	0.0
Motor vehicles and parts	0.0	-1.1	0.3
Financial services	0.2	-0.2	0.4
Housing and utilit	0.2	-0.1	1.0
Recreational good	0.4	0.2	1.2

The Rebound: Overall Activity

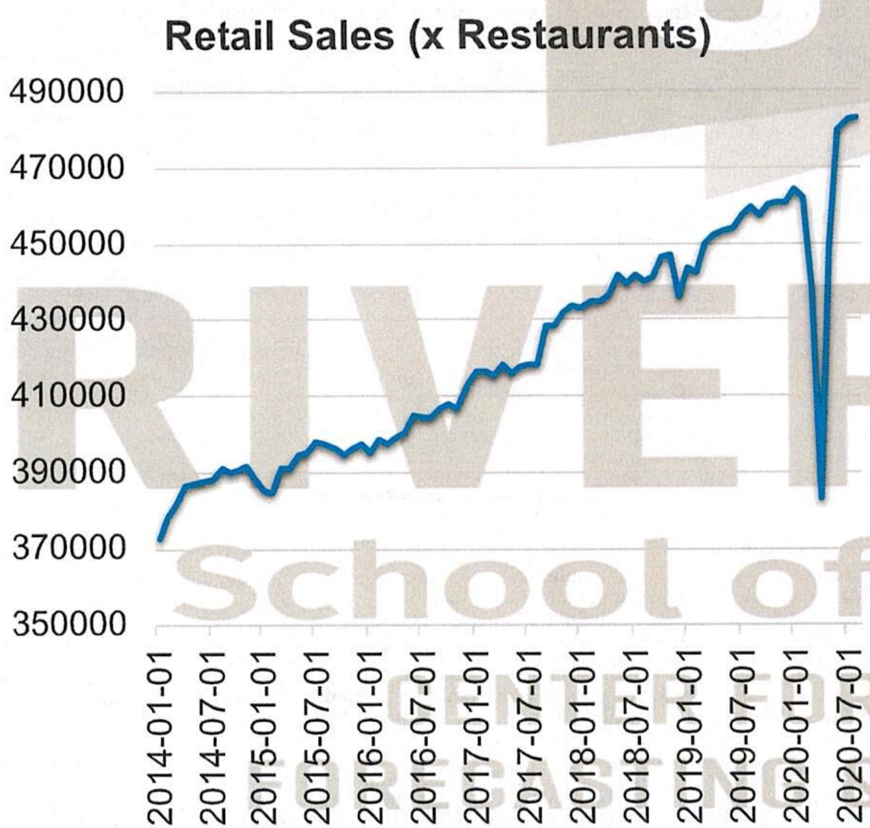


Consumers Leading the Way





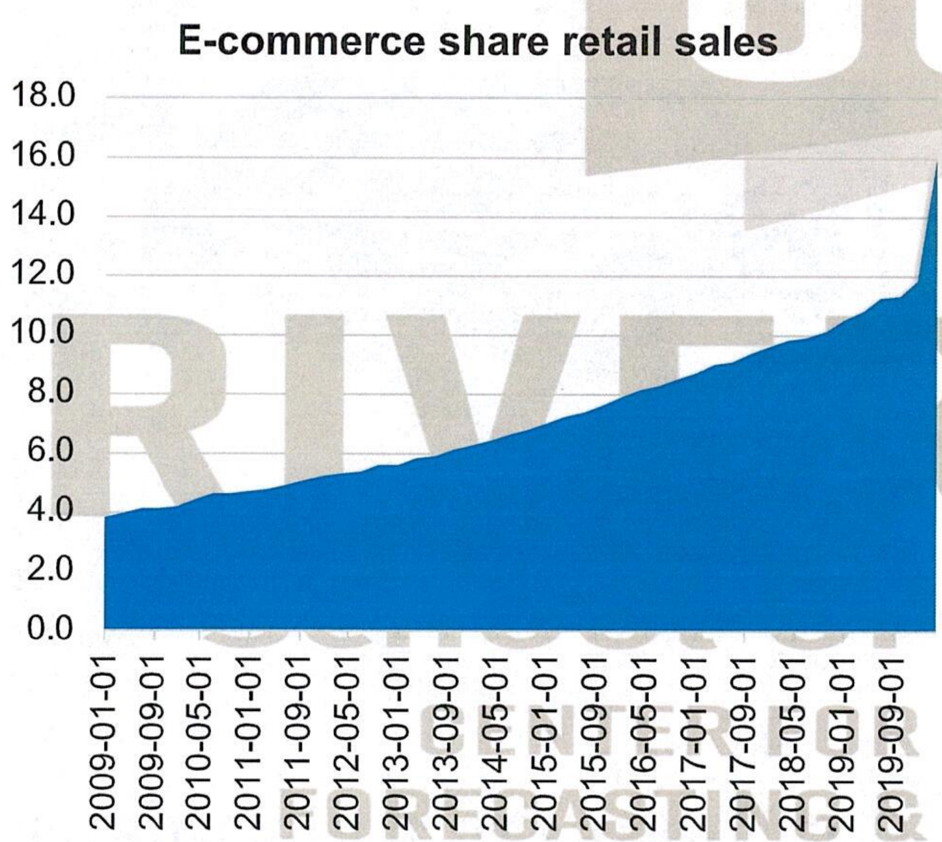
Retail Sales

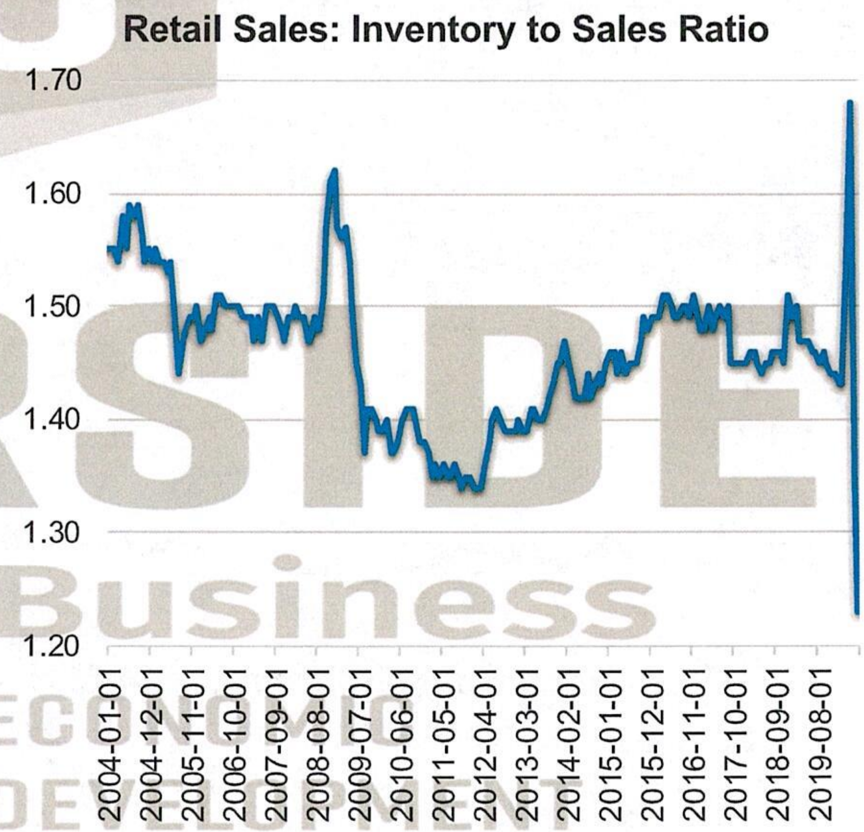


Aug to Aug Change

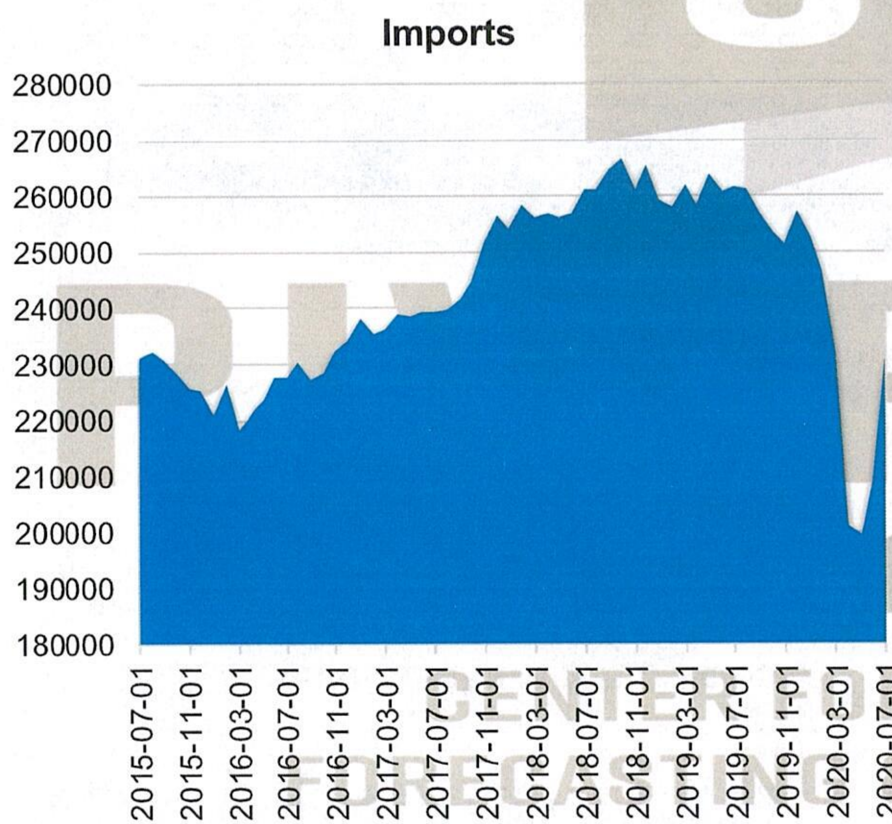
Total	545,890	0.1%
Nonstore retailers	78,297	20.1%
Building material	37,417	11.9%
Food & beverage stores	71,634	8.3%
Sporting goods, hobby, musical	8,105	8.0%
Health & personal care stores	30,972	3.3%
Motor vehicle & parts dealers	116,453	1.6%
Furniture & home furn stores	10,386	0.4%
General merchandise stores	61,353	-0.2%
Electronics & appliance stores	7,763	-3.4%
Miscellaneous store retailers	11,484	-4.3%
Gasoline stations	37,752	-16.2%
Food services & drinking places	56,119	-17.1%
Clothing & clothing accessories	18,155	-23.5%

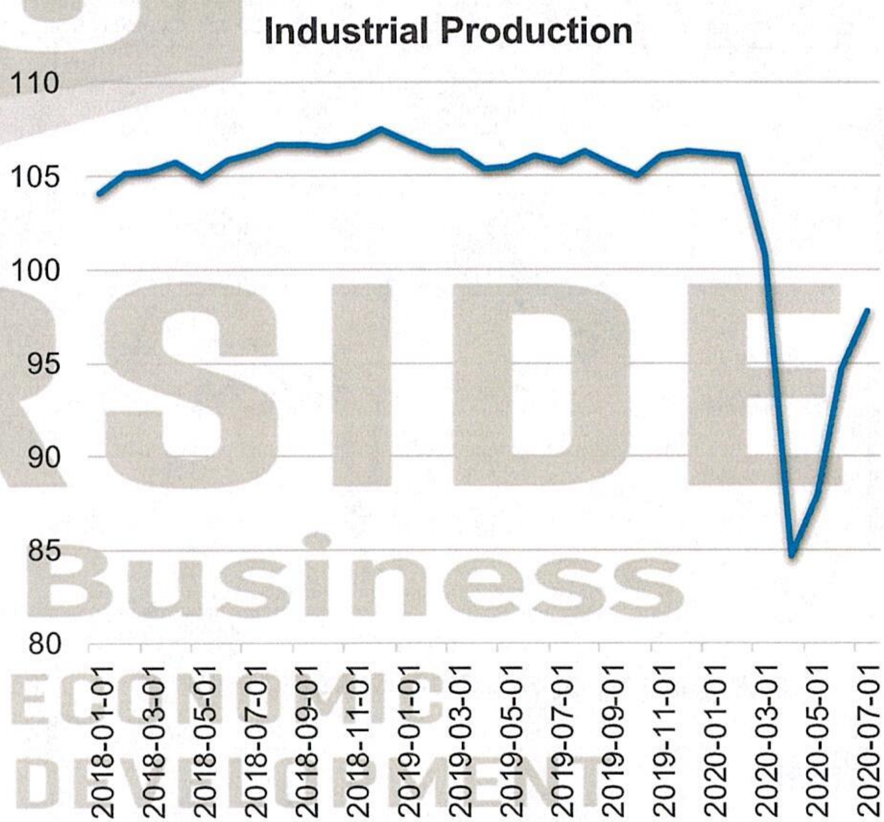
A Shifting Retail World



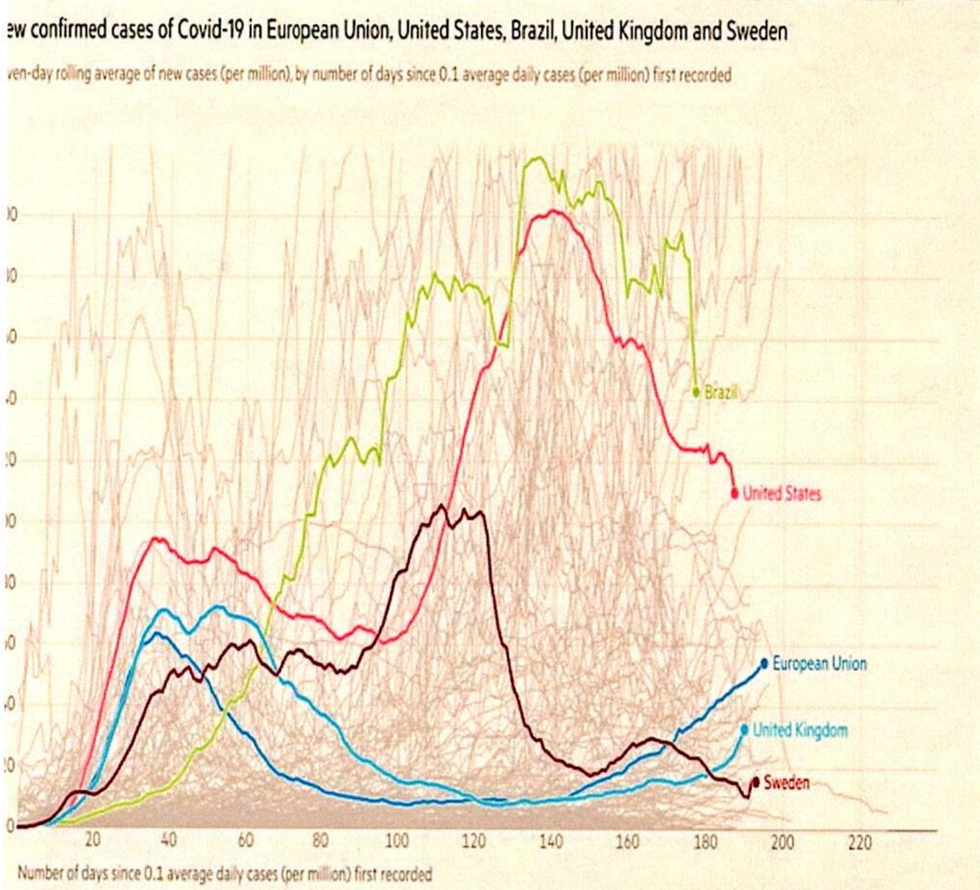


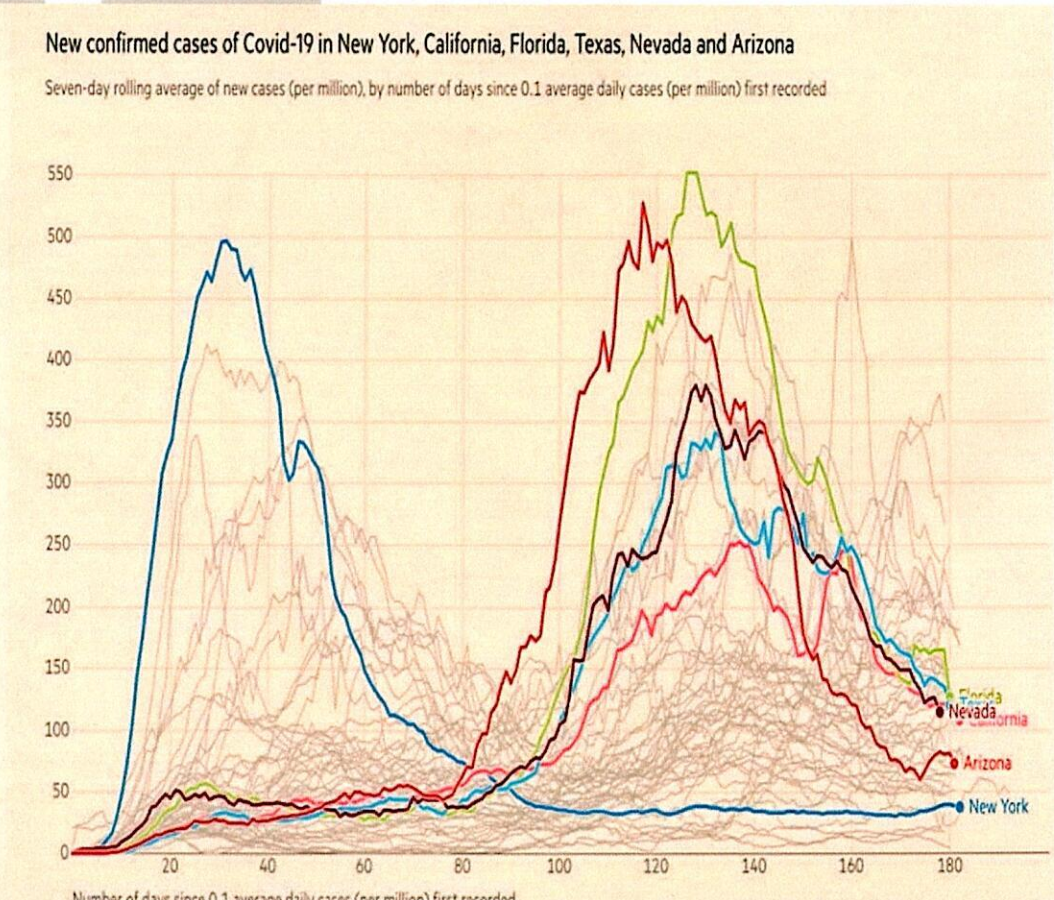
The Bounce in Production



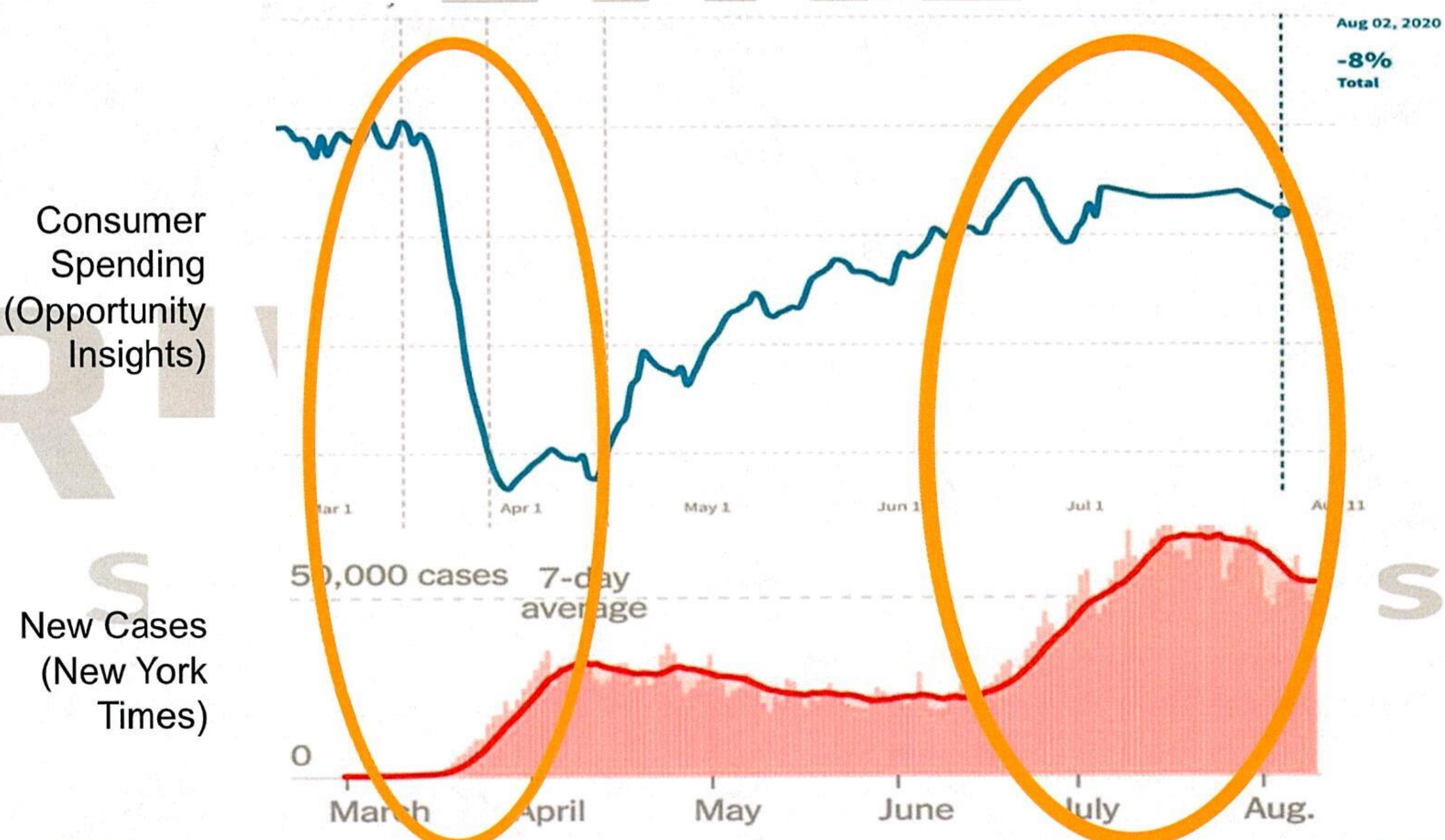


The Second Surge





No New Recession



COVID-Statistics

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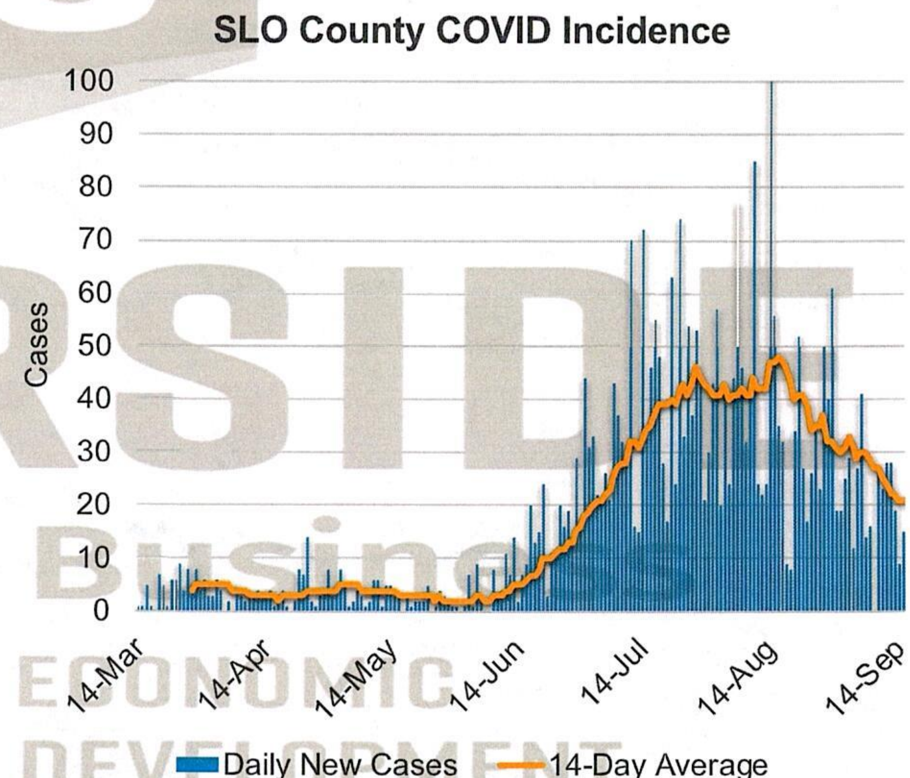
County	Total Cases	Cases/100,000
California Total	769,917	1,949
	Top Five Counties	
Los Angeles	255,049	2,541
Riverside	55,986	2,266
Orange	52,316	1,647
San Bernardino	50,978	2,338
San Diego	43,244	1,295
	Central Coast Counties	
Ventura	11,903	1,407
Monterey	9,089	2,094
Santa Barbara	8,741	1,958
San Luis Obispo	**3,293**	**1,163**

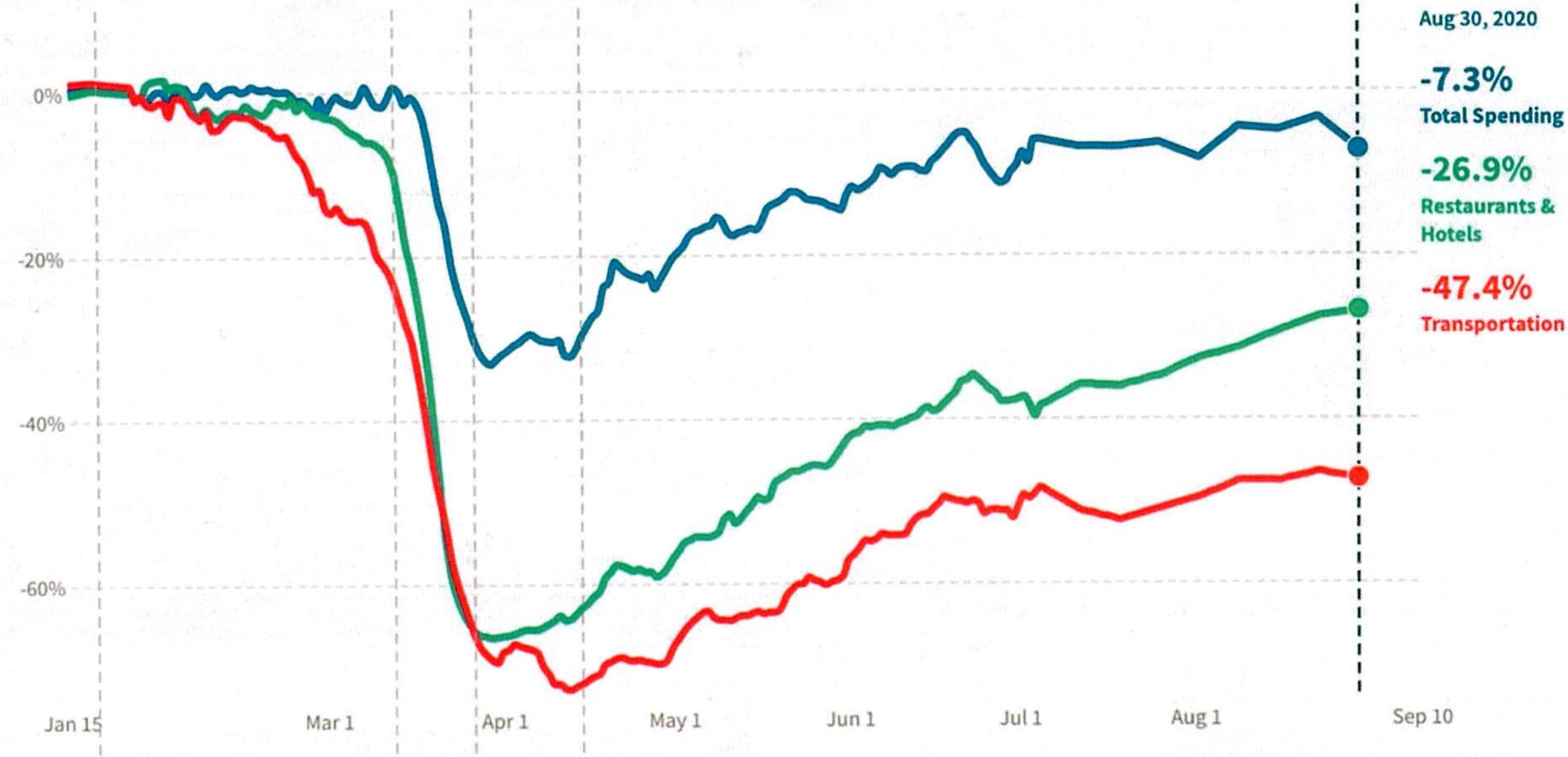
*As of September 16, 2020



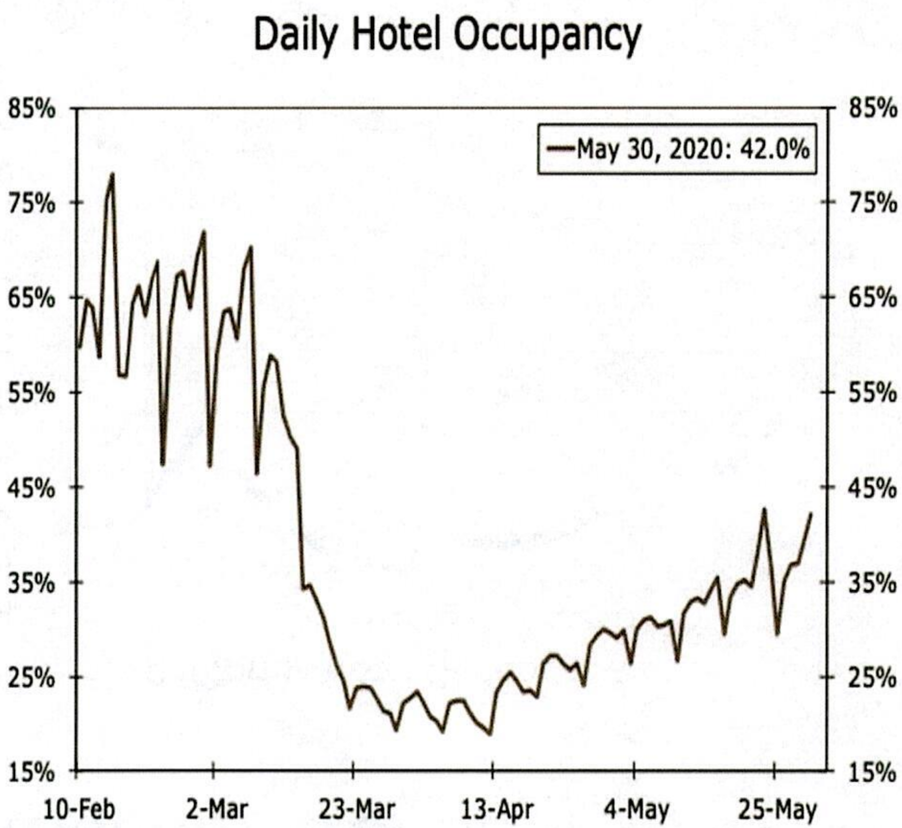
Source: San Luis Obispo County, State and local health agencies and hospitals

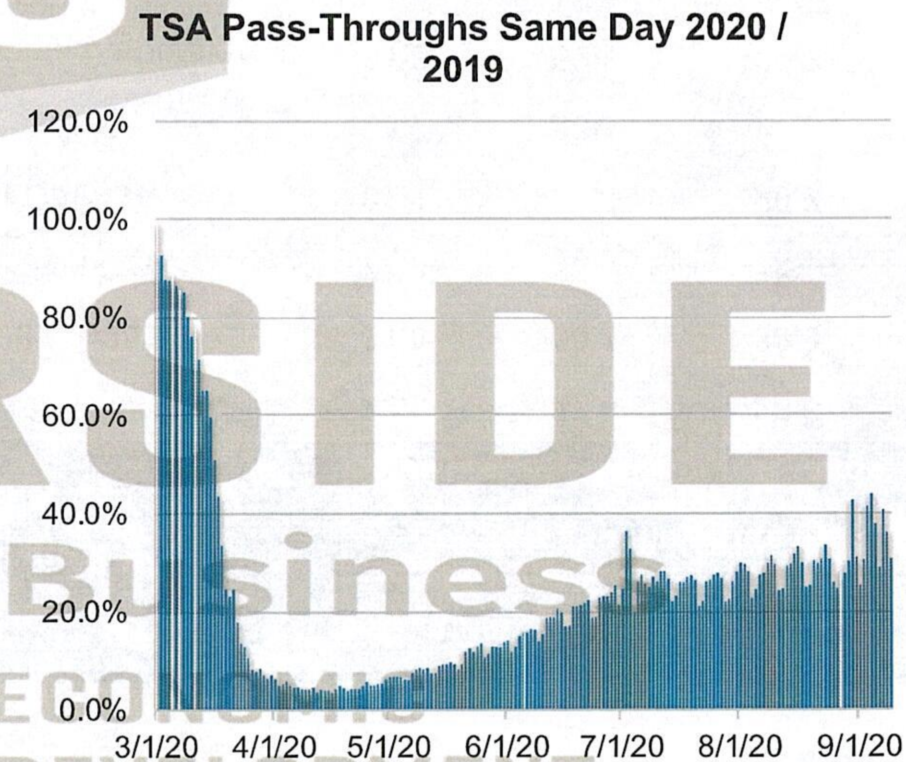
UCR Center for Economic Forecasting & Development

Some sectors recovering faster than others



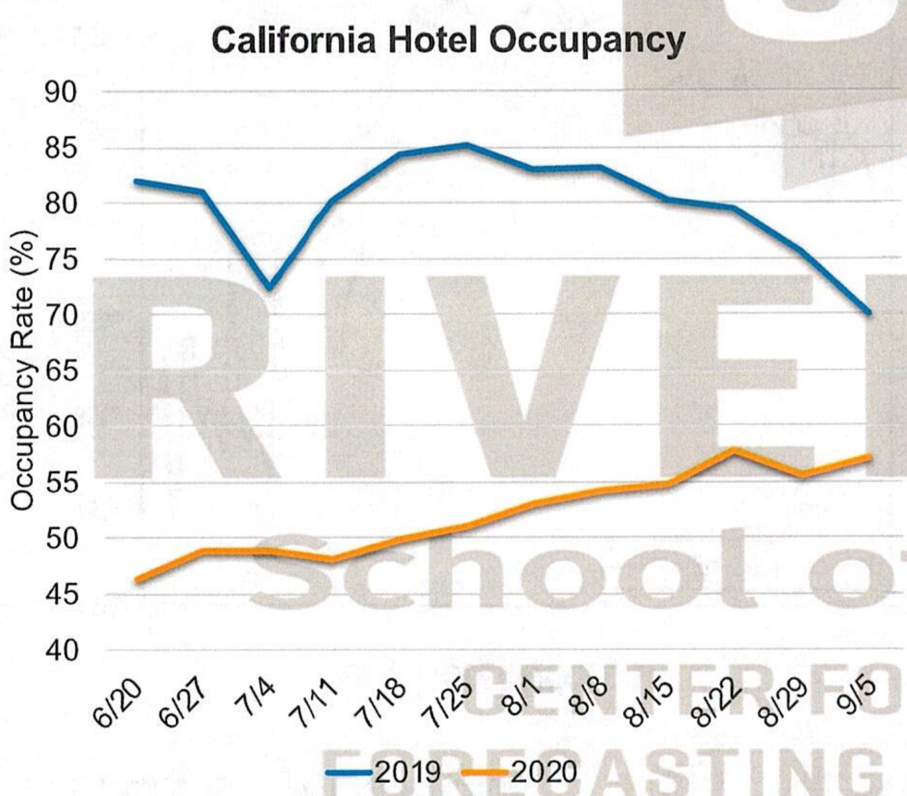
Travel Trends





Source: Wells Fargo

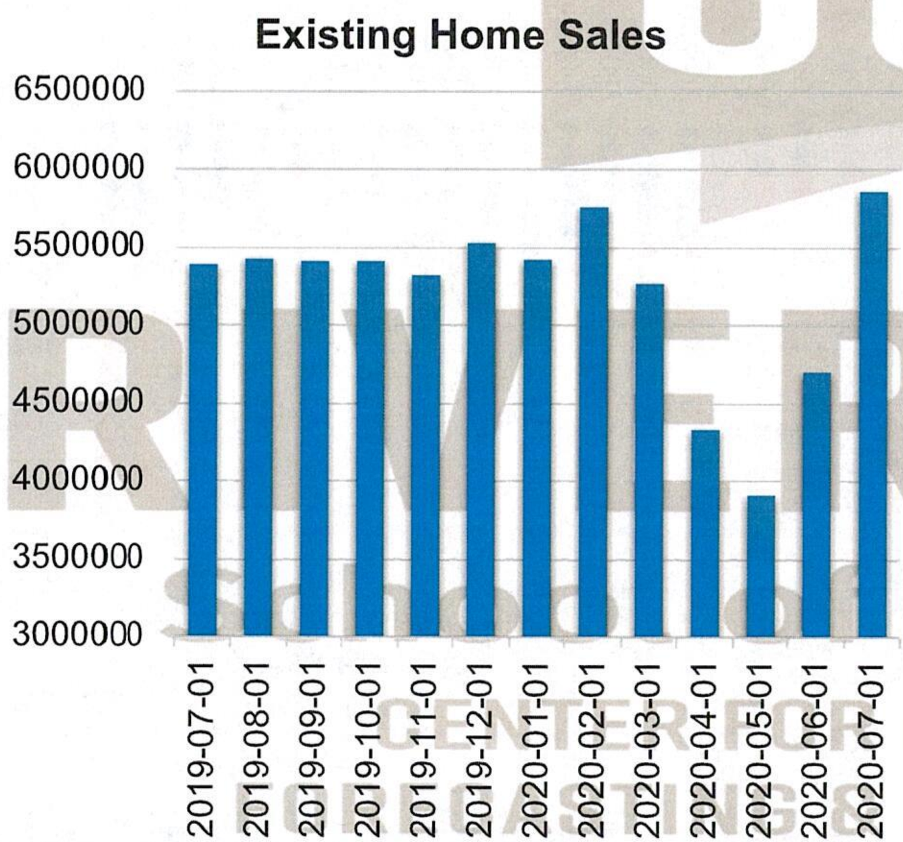
Tourism Trends



Region	January - July YTD Average		
	Hotel Occupancy Rate (%)		
	2019	2020	Change
U.S.	**73.6**	**47.0**	**-26.6**
California	**81.0**	**50.1**	**-30.9**
Shasta Cascade	77.3	72.0	-5.3
SLO Area	81.1	60.4	-20.7
Monterey	83.7	56.1	-27.6
Santa Barbara Area	81.8	52.1	-29.7
Napa Valley	78.1	42.9	-35.2
SF Bay Area	80.7	42.0	-38.7

Source: VisitCalifornia

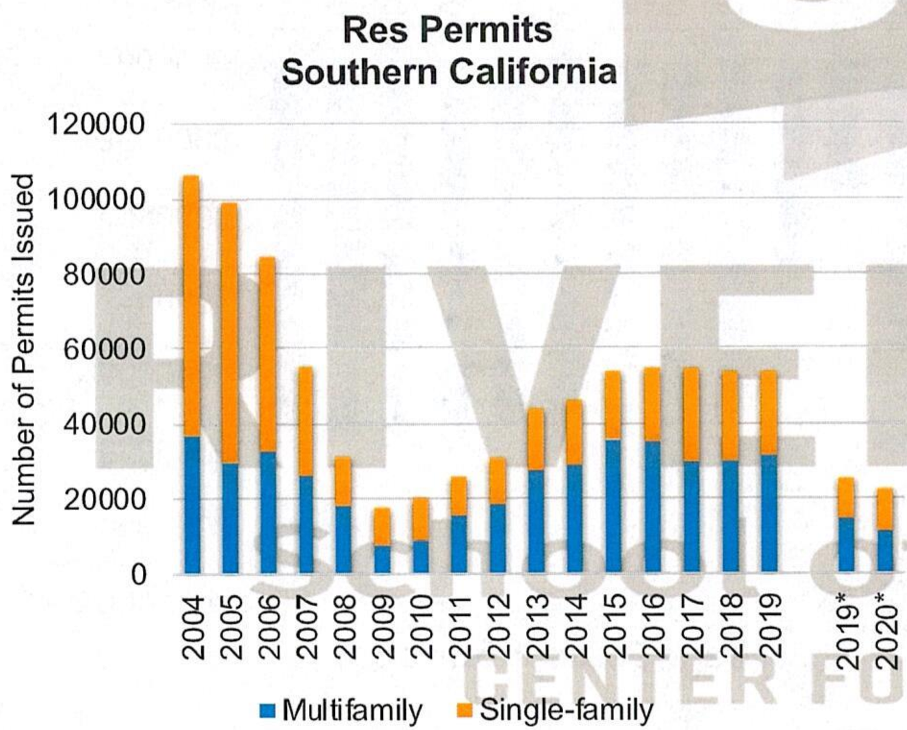
Housing



Case Shiller HPI (SA)

	2019	2020 Ann%
U.S. National	3.9%	4.7%
Phoenix	6.9%	10.8%
Cleveland	4.0%	10.5%
Tampa	4.8%	8.7%
Minneapolis	3.7%	8.2%
Miami	2.9%	5.1%
Charlotte	4.8%	5.1%
San Diego	5.1%	5.1%
Las Vegas	3.2%	4.8%
Boston	4.5%	4.3%
Los Angeles	3.4%	4.2%
Seattle	5.1%	3.9%
Denver	3.7%	3.9%
Chicago	0.4%	3.3%
New York	0.9%	3.0%
DC	3.5%	2.7%
Atlanta	4.5%	2.0%
Portland	4.3%	2.0%
San Francisco	3.1%	1.8%
Dallas	2.6%	0.9%

Residential Permits

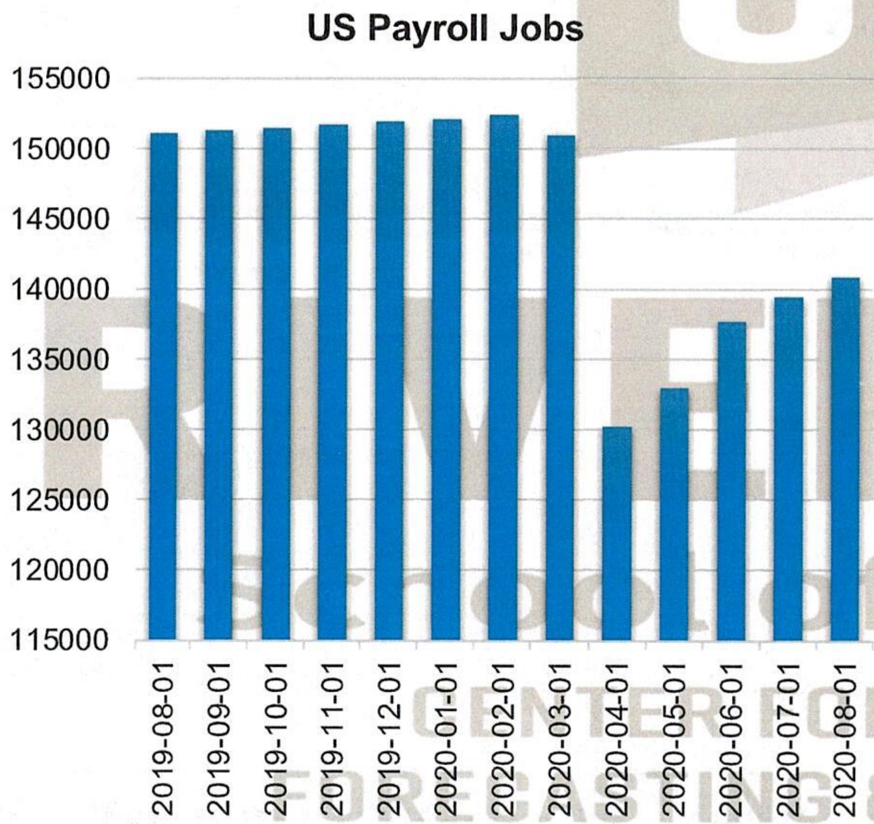


*Year-to-date Q2

County	Single-family		Multifamily	
	Q2 YTD	1-Yr Chg	Q2 YTD	1-Yr Chg
Inland Empire	3,070	725	336	-715
San Diego	1,771	202	2,217	-1,457
Los Angeles	2,654	-102	6,702	-1,000
Orange	1,287	-360	1,660	-1,563

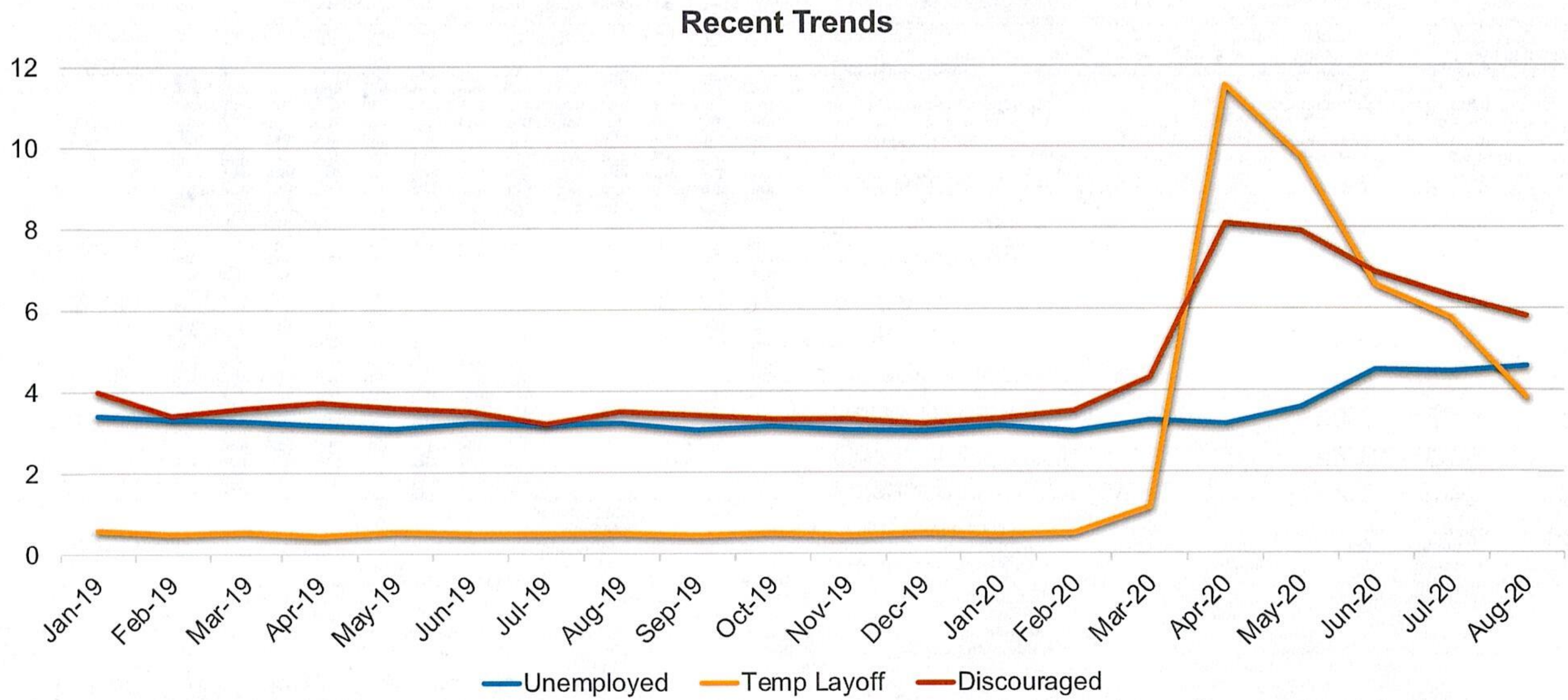
Source: CIRB

Lagging indicators

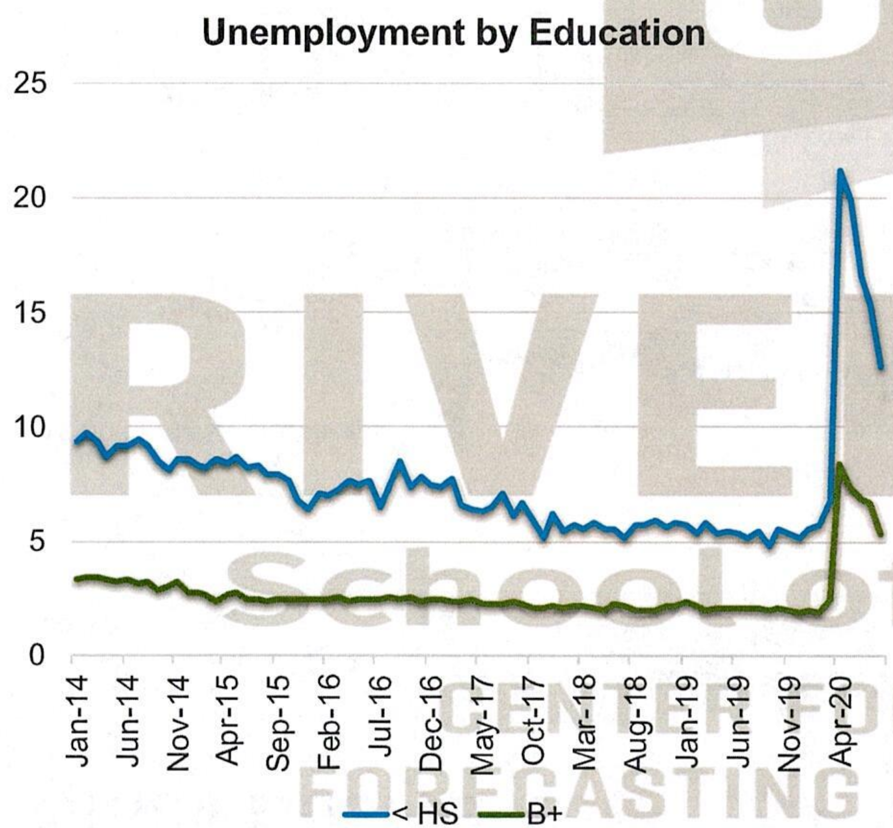


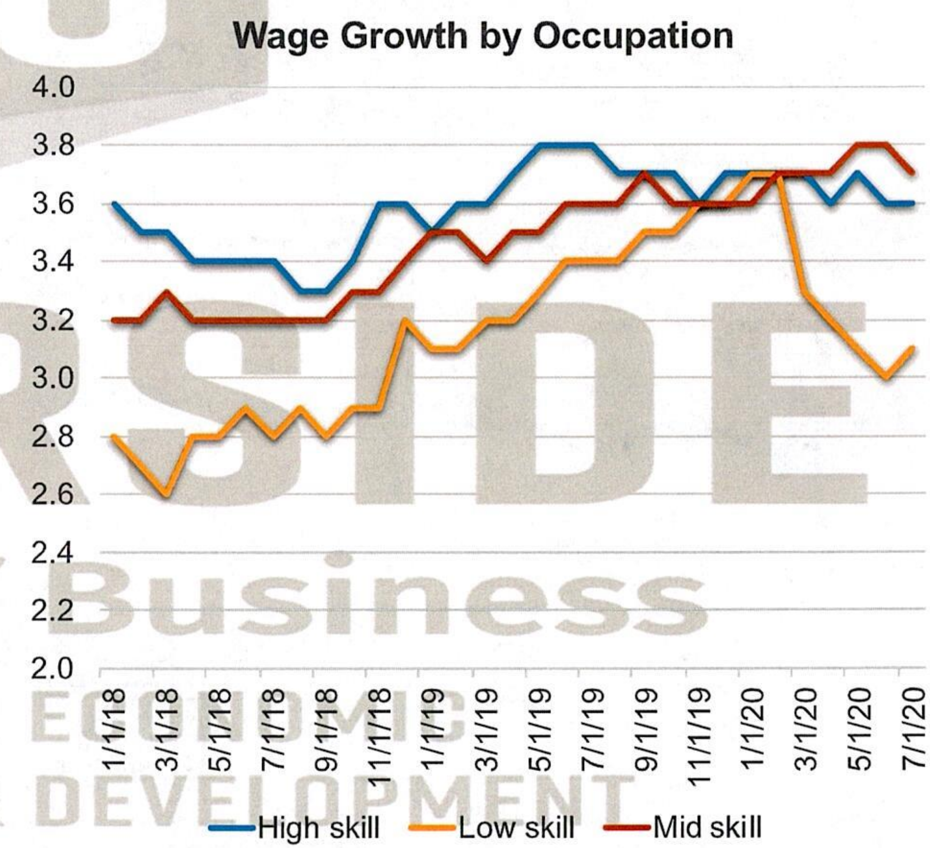
California	Jul-20		
Total Nonfarm	15796.1	-9.4%	-1643.6
Leisure and Hospitality	1412.1	-30.5%	-619.8
Government	2442.2	-6.2%	-160.9
Retail Trade	1498.7	-9.4%	-156.3
Other Services	458.6	-20.7%	-119.9
Health Care	2315.4	-4.8%	-116.2
Admin Support	1028.8	-9.1%	-102.8
Manufacturing	1220.4	-7.4%	-98.1
NR/Construction	855	-6.2%	-56.5
Prof Sci Tech	1287	-3.9%	-51.7
Information	514.4	-8.1%	-45.6
Wholesale Trade	653.9	-5.8%	-40.5
Logistics	674.3	-4.3%	-30.2
Education	357.8	-6.7%	-25.8
Management	241.7	-5.2%	-13.2
Financial Activities	835.9	-0.7%	-6.1

Unemployment by Reason

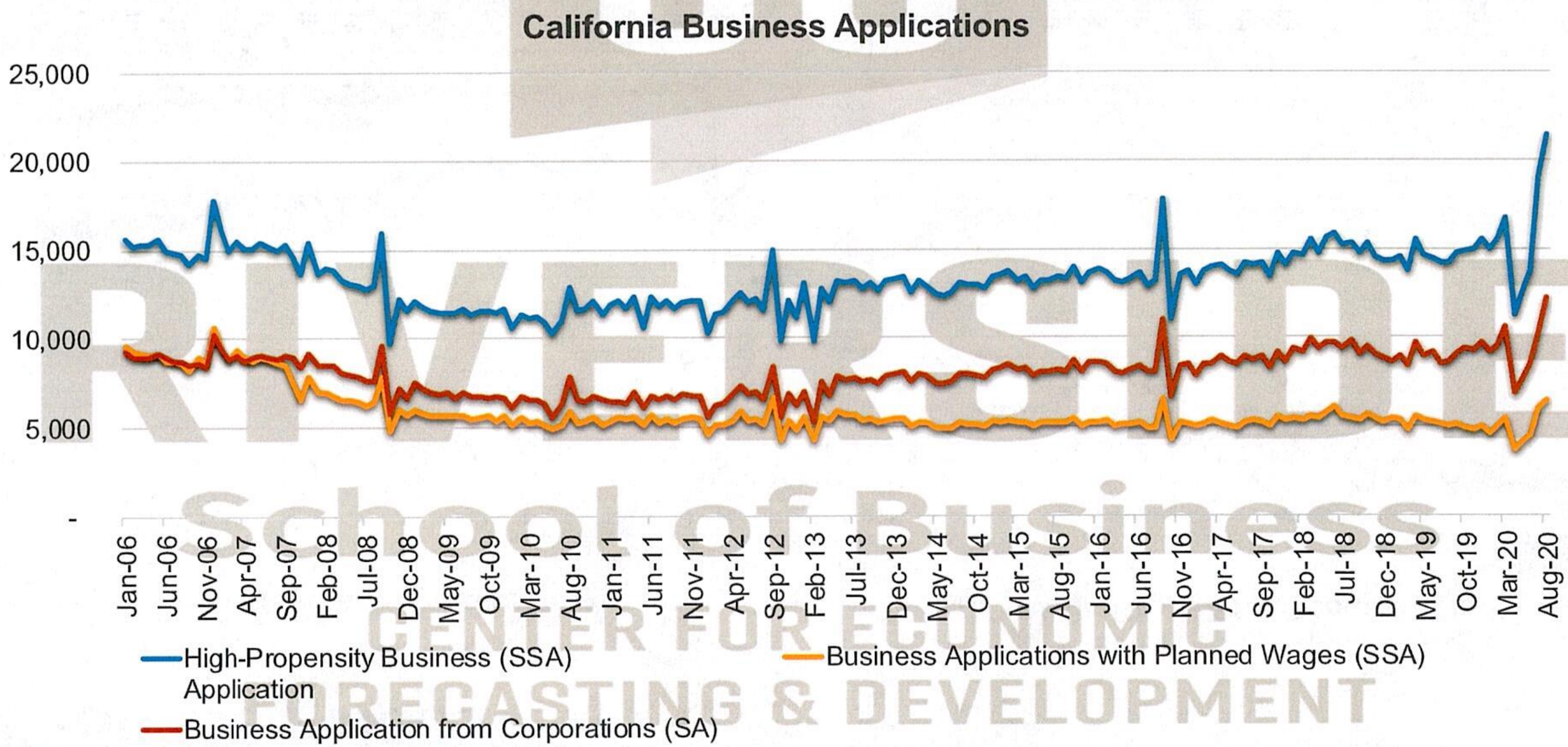


K-Shaped Recovery?





Small Business?



Inland Empire Jobs

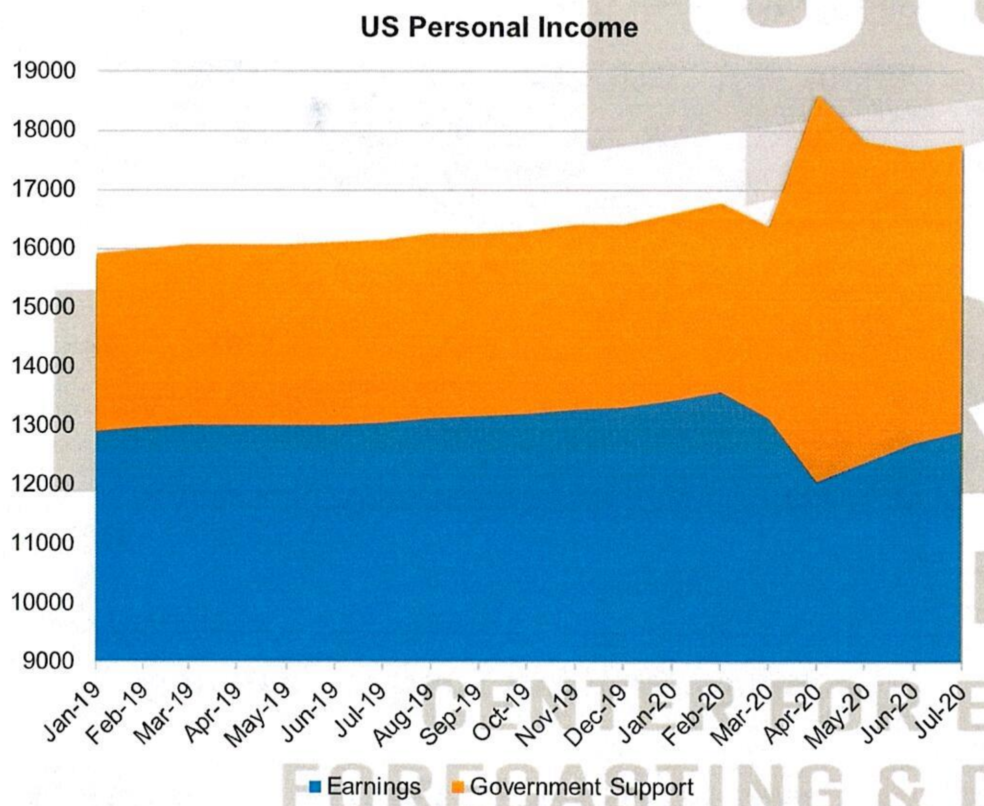
	Aug-19	May-20	Aug-20			
Household Employment	1,975,100	1,716,400	1,809,700	-13.1%	5.4%	-8.4%
Civilian Unemployment Rate	4.4%	15.1%	11.0%			
Total, All Industries	1,552,100	1,368,600	1,418,900	-11.8%	3.7%	-8.6%
Construction	110,500	101,000	103,400	-8.6%	2.4%	-6.4%
Durable Goods	65,000	58,700	58,200	-9.7%	-0.9%	-10.5%
Nondurable Goods	36,400	31,400	31,800	-13.7%	1.3%	-12.6%
Wholesale Trade	66,700	61,400	67,800	-7.9%	10.4%	1.6%
Retail Trade	179,700	149,300	163,200	-16.9%	9.3%	-9.2%
Transportation, Warehousing & Utilities	145,000	140,300	144,700	-3.2%	3.1%	-0.2%
Information	11,500	9,400	9,600	-18.3%	2.1%	-16.5%
Finance & Insurance	24,100	24,600	23,900	2.1%	-2.8%	-0.8%
Real Estate & Rental & Leasing	20,300	18,700	19,800	-7.9%	5.9%	-2.5%
Professional, Scientific & Technical Services	43,100	38,400	38,800	-10.9%	1.0%	-10.0%
Administrative & Support & Waste Services	106,100	95,300	99,100	-10.2%	4.0%	-6.6%
Educational Services	18,500	18,200	16,700	-1.6%	-8.2%	-9.7%
Health Care & Social Assistance	232,200	217,200	226,700	-6.5%	4.4%	-2.4%
Arts, Entertainment & Recreation	18,300	9,700	12,400	-47.0%	27.8%	-32.2%
Accommodation & Food Services	154,100	87,200	105,400	-43.4%	20.9%	-31.6%
Other Services	46,200	34,400	34,200	-25.5%	-0.6%	-26.0%
Federal Government	21,300	21,900	25,400	2.8%	16.0%	19.2%
State & Local Government	230,300	226,800	216,200	-1.5%	-4.7%	-6.1%

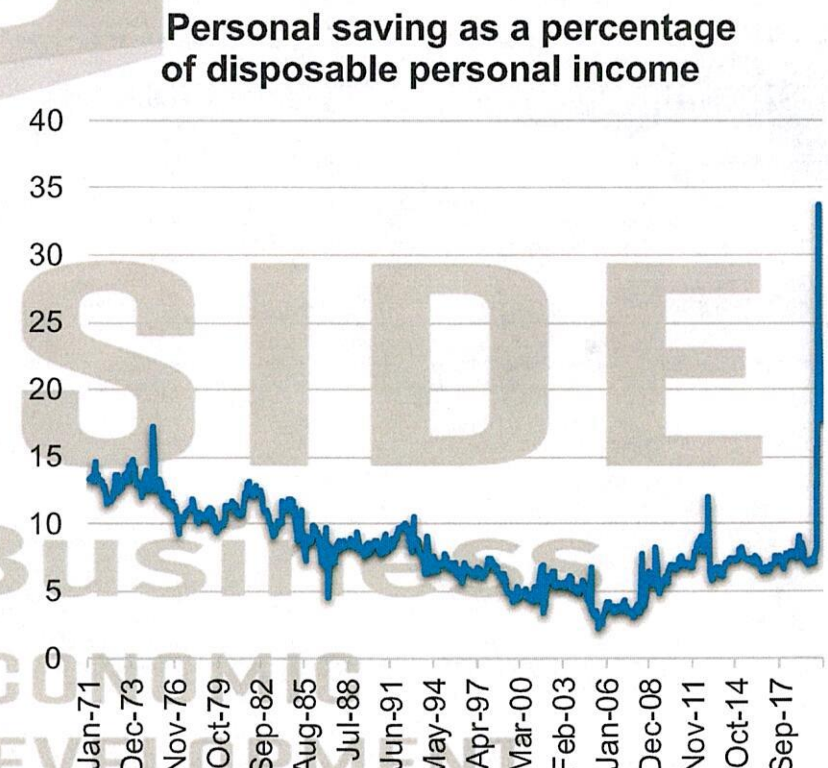
Policy (Over)reaction

CARES Act: $3 trillion in a $5.5 trillion quarter

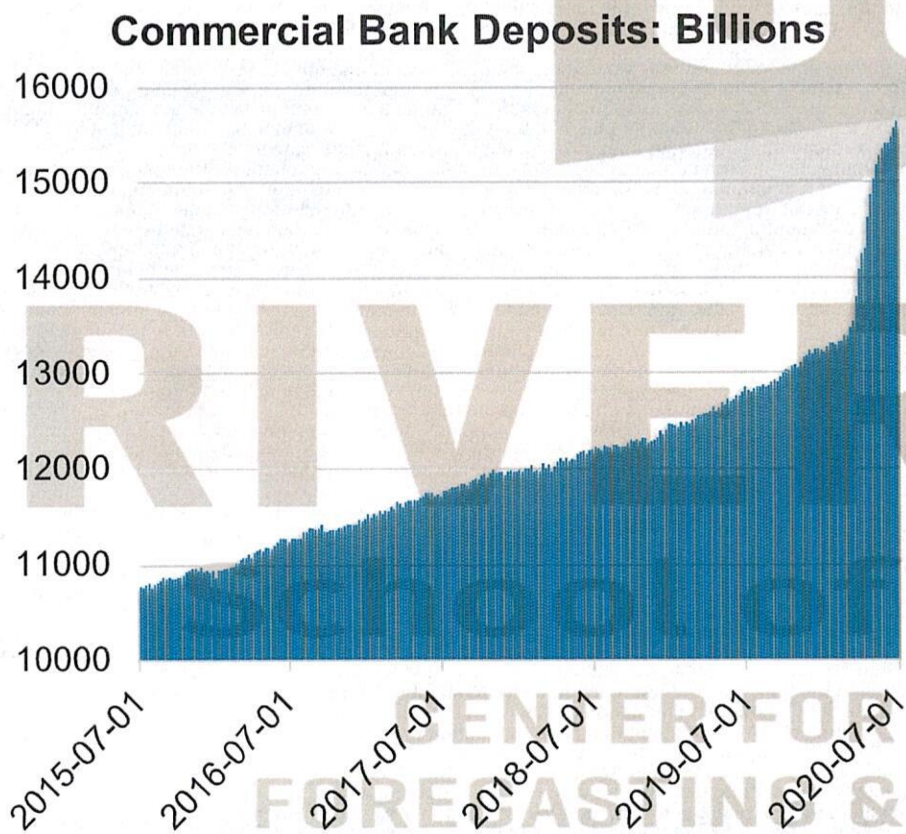
- Households
  - —$300 billion direct payments
  - —$250 billion unemployment expansion
  - —Potential benefits = median weekly income
- Business
  - —$400-600 billion small business loans
  - —$500 billion economic stabilization for airlines, national security important industries etc.
- Local government support
  - —$350 billion, direct payments to governments, hospitals, airports, transit
- The Fed
  - —Rate cuts
  - —Full QE efforts
- Other Efforts
  - —IRS, states: delaying tax payments
  - —Local government moratorium on evictions
  - —Large landlords providing rent deferral
  - —Large public mortgage holders allowing owners to defer mortgages
  - —Food programs expanding

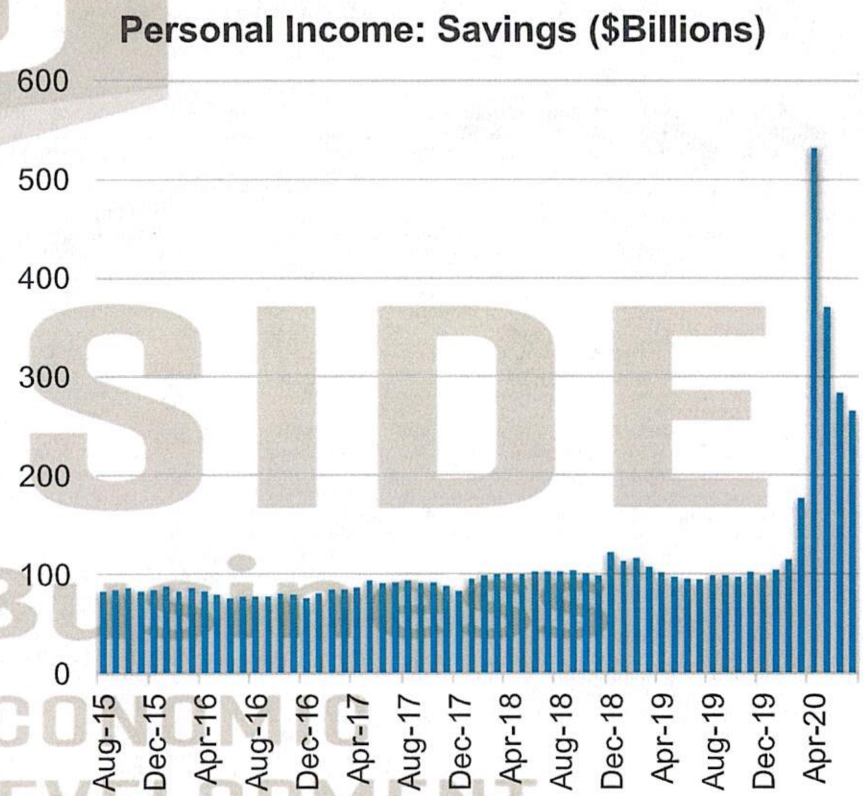
The Balance between spending and incomes



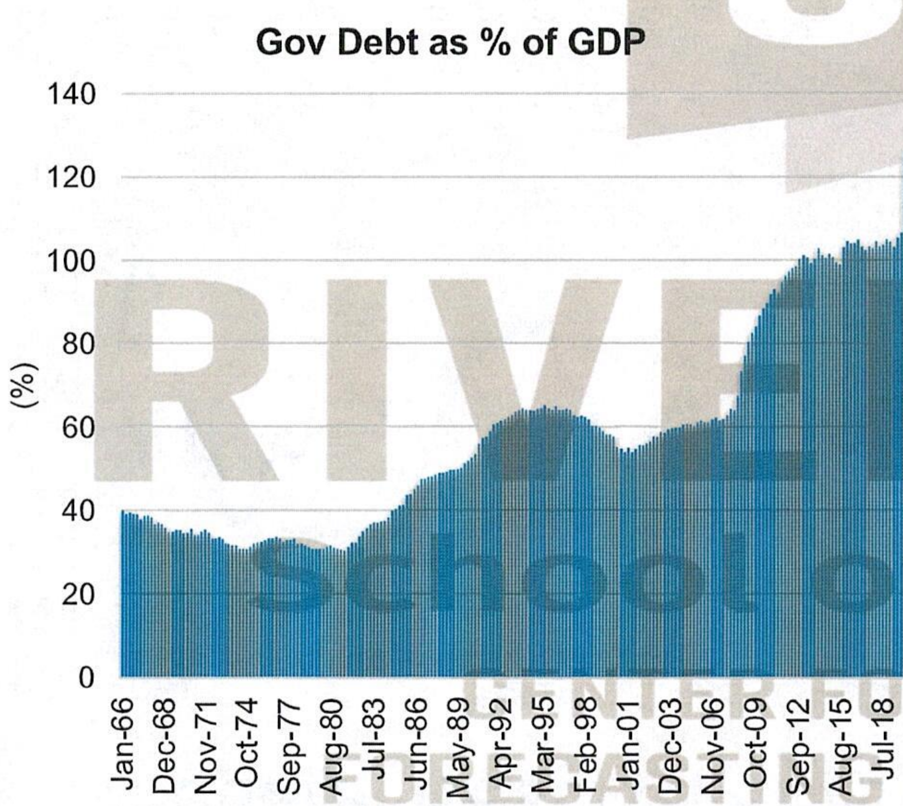


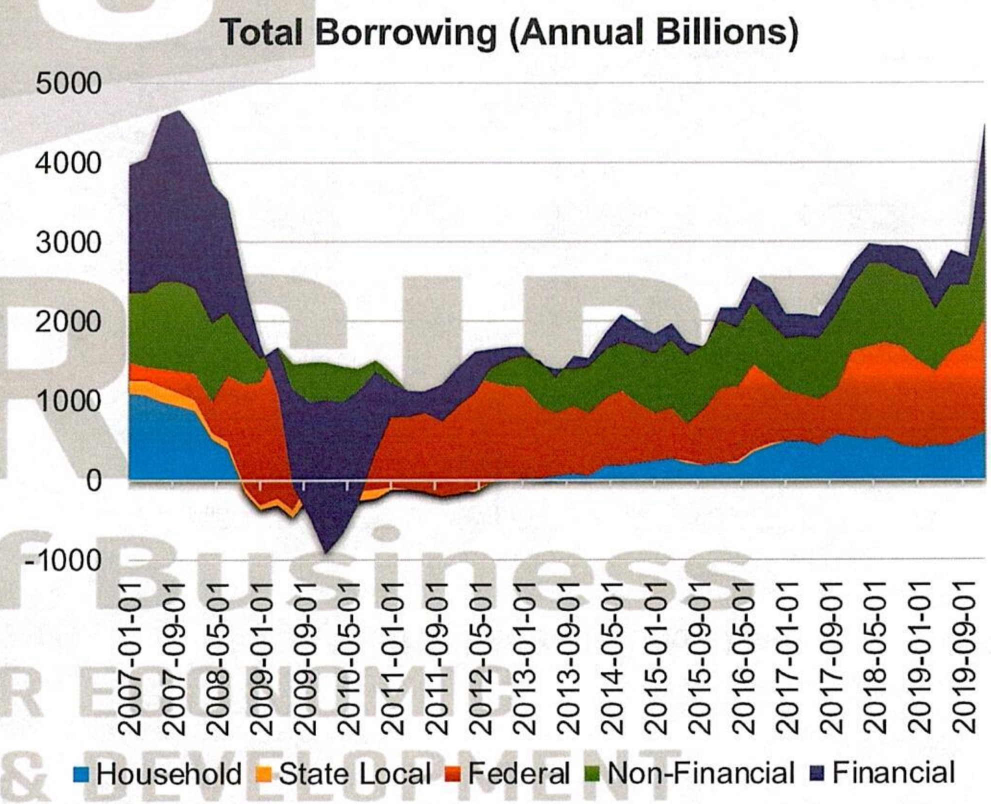
The Banking Conundrum



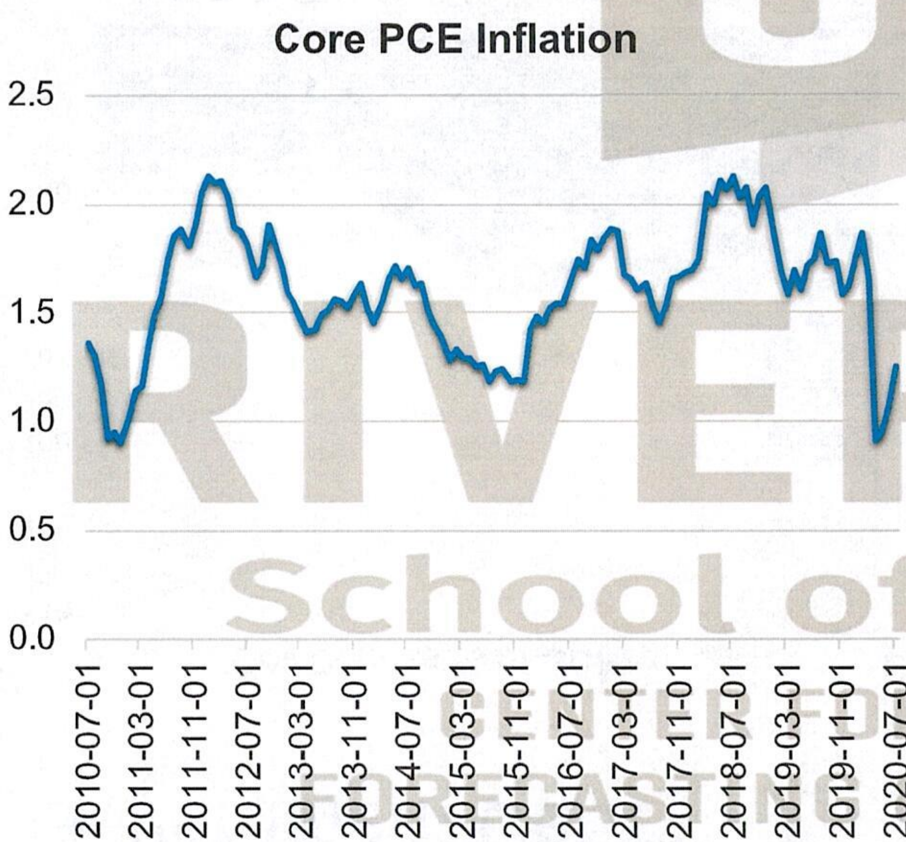


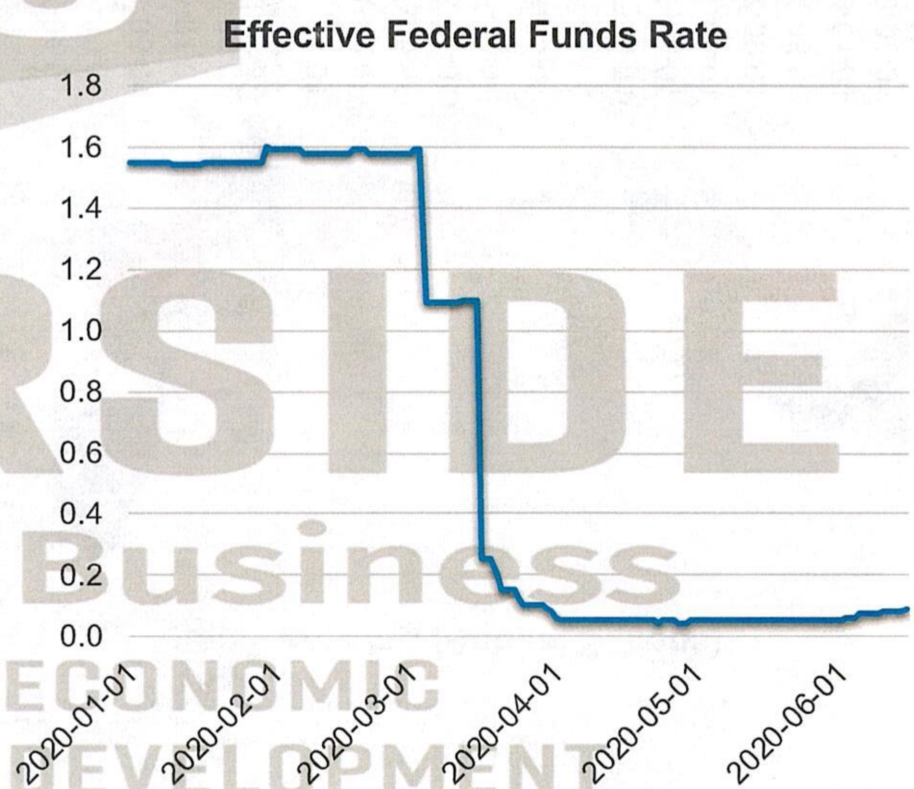
Government Debt



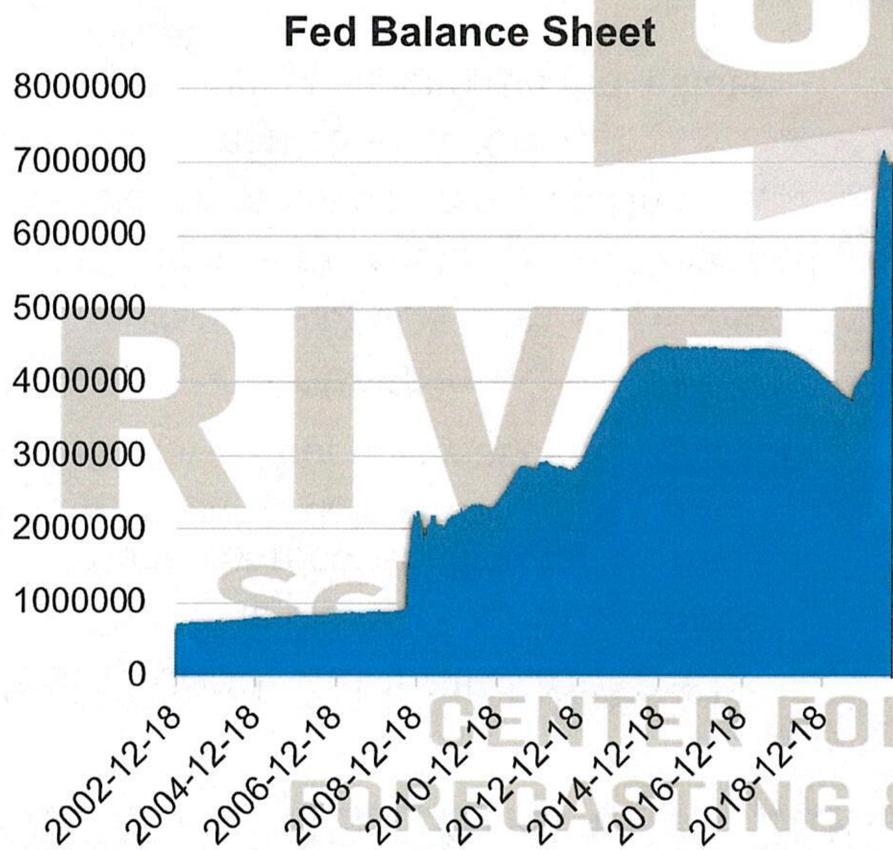


Federal Reserve Policy

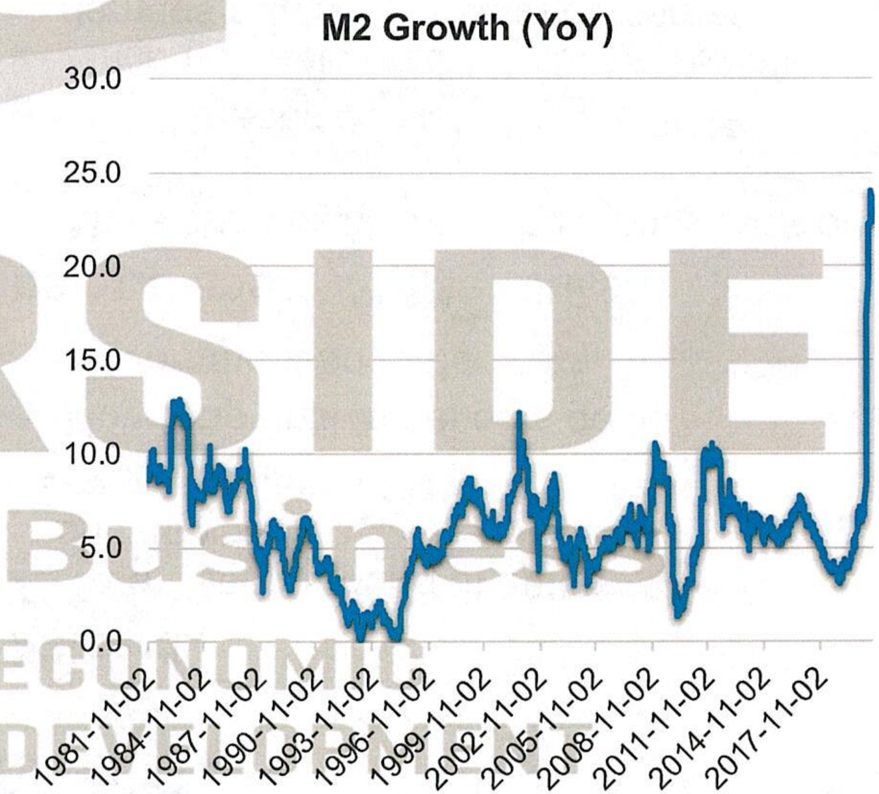




Warning



Fed Balance Sheet
8000000
7000000
6000000
5000000
4000000
3000000
2000000
1000000
0
2002-12-18
2004-12-18
2006-12-18
2008-12-18
2010-12-18
2012-12-18
2014-12-18
2016-12-18
2018-12-18



M2 Growth (YoY)
30.0
25.0
20.0
15.0
10.0
5.0
0.0
1981-11-02
1984-11-02
1987-11-02
1990-11-02
1993-11-02
1996-11-02
1999-11-02
2002-11-02
2005-11-02
2008-11-02
2011-11-02
2014-11-02
2017-11-02

2020: The Long Run Still Matters

- It ain't good, but it ain't *that* bad..
  - —The "V" is the only logical outcome
  - —Speed of recovery dictated by pace at which virus gets under control again
  - —Behavior, not policy at center of issue
- Baseline Forecast
  - —-4.8% Q1, -32%Q2, 26% Q3, 8% Q4
  - —Unemployment below 7% by year end
  - —Moderate upticks in debt distress
  - —Stock market—who knows
  - —Little impact on long run real estate values
  - —Retail / restaurants / tourism to lag
- Wildcards
  - —True Second round of outbreaks / shutdowns
  - —Global situation
  - —How long until travel gets going
  - —Government budgets
- The true enemy: Miserabilism
  - —More bad policy driven by a basic lack of context
  - —Health needs conflated with culture wars
  - —Uncomfortable math: A lot of economic damage relative to health outcomes
  - —More targeted policies needed

What can the UCR Center do for you?

Connect with us.

To view again or download this presentation and for further information, go to: **www.ucreconomicforecast.org**

Continue the conversation.

Contact **Dr. Chris Thornberg** directly at chris.thornberg@ucr.edu or **951.827.2792**

Let's discuss your goals and needs.

Beacon has **6 Practice Areas** covering a range of services and products.

Our 6 Practice Areas

- *Housing, Land Use, & Real Estate Advisory*
- *Sustainable Growth and Development*
- *Economic & Revenue Forecasting*
- *Economic, Fiscal and Social Impact Analysis*
- *Regional and Sub-Regional Analysis*
- *Litigation and Testimony*

Partner with local leaders on research

We partner with local cities, counties, & businesses to do local analysis

Types of analysis the Center specializes in:

- Economic, Demographic & Revenue Forecasting
- Economic Impact Analysis
- Regional Intelligence Reports
- Employment and Industry Cluster Analysis

A Selection of local Center partners:

- County of Riverside EDA
- County of San Bernardino EDA
- South Coast Air Quality Management District
- BNSF Railway
- Riverside Public Utilities
- Autoclub Speedway
- City of Ontario
- Coachella Valley

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Thank You

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RivCo Responds

#RivCoNOW

RIVERSIDE COUNTY COVID-19 RECOVERY

*Numbers as of 8/18/20

RESIDENTS

Mask Giveaway
10 million
Includes 3 million to nonprofits and places of worship

Mobile Lab
$1.8 million

Rental Relief
$33 million

Project Roomkey
Emergency hotel rooms to combat homelessnes
760 people helped
86 transitioned to permanent housing

Homeless Shelters
3,000 face masks
600 face shields

Great Plates Program
85,405 meals deliverd to seniors

Food Access Coordination
521 food banks, pantries, shelter and school lunch sites

Food Banks, Pantries & Food Shelter Support
$4.1 million

Youth Community Corps
$2 million

Student Laptops
$10 million

Tests
440,300 tests performed

CRITICAL WORKERS

PPE to Healthcare Workers and First Responders
3.4 million

Skilled Nursing Facility Outreach Teams
918 visits to group living facilities

Childcare for Essential Workers
$5 million

Hospital Coordination
17 acute care hospitals

Contact Tracers
361 newly hired disease investigators

BUSINESS & NONPROFIT SUPPORT

Small Business Grants
$46.5 million

Nonprofit Grants
$5 million

Masks for Businesses
2 million

Business Ambassador Program
12 ambassadors