THE SAN DIEGO ECONOMY

COVID-19 IMPACTS

A YEAR IN REVIEW

MARCH 2021

SANDAG

As the regional leader in economic analysis, the SANDAG Data Science and Analytics team uses complex, descriptive, and predictive data to inform and support policy decisions that promote economic, social, and environmental prosperity in the San Diego region. The team works to provide critical information for policy makers and elected officials to make intelligent investments for the San Diego region.

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INTRODUCTION

The COVID-19 pandemic dominated the news in 2020 and led to significant business closures and job losses nationally and in the San Diego region. The impacts resulting from the stay home order have reshaped the local economy and the effects will be long-lasting. During the past 12 months, SANDAG produced a number of reports that provided critical information related to unemployment statistics, the impact of the pandemic by business sector, and analyses of the hardest hit around the region. This Year in Review report analyzes 12 months of data to provide insights into what the recovery might look like for the region as the COVID-19 pandemic continues into 2021.

Highlights

- **While COVID-19 and consumer behavior change had a significant impact on the economy (San Diego Real Gross Regional Product (GRP) is down 3.1% to 4.5% which measures between $7-$10 billion in calendar year 2020), it could have been far worse. This is due in large part to the unprecedented $3.5 trillion in capital influx approved by the federal government through stimulus payments and supplemental unemployment benefits.**
- **Unlike typical recessions, during the COVID-19 recession, the stock market reached new highs and asset prices went up, all while the economy was contracting and job losses were increasing. The real estate market posted increases in home prices. The Federal Reserve lowered its benchmark interest rate,[1] leading to historically low mortgage rates below 3% and allowing many people to purchase a home. This in turn has fueled the housing market where prices increased nearly 9% in 2020 from the previous year.**
- **There was considerable variation in how COVID-19 impacted local businesses, with 89%[2] of the region's job loss in three sectors – tourism (52%), education (22%), and retail (15%).[3] According to the San Diego Tourism Authority, visitor spending in 2020 fell to the lowest level in 20 years.**
- **Similarly, individuals and households were disproportionately affected, with some professionals able to work from home with little economic impact, and others, often those with fewer years of formal education, were significantly negatively impacted. Nearly 64% of Hispanic and 60% of Black individuals who responded to the Census Household Pulse Survey reported loss of employment income for themselves or someone in their household since March 13, 2020.**
- **Looking forward, as stimulus funding and vaccines continue to arrive locally, businesses will start to reopen. For the hardest hit local businesses, recovery is expected to start later in 2021 as pent up demand for services such as travel increases. Sectors such as innovation will continue with business as usual, and others, such as home improvement, will continue their slow but steady growth.**

[1] https://www.federalreserve.gov/monetarypolicy.htm

[2] Based on SANDAG estimates February to December 2020.

[3] The tourism industry includes leisure and hospitality (arts, entertainment, recreation, accommodation, and food services). The retail industry includes retail, wholesale trade, other services such as equipment and machinery repairing, promoting or administering religious activities, grantmaking, advocacy, dry cleaning and laundry, personal care, death care, pet care, photofinishing, temporary parking, and dating services. The education industry includes all public and private education.

How significantly was the economy impacted by COVID-19?

The extended stay home order that was first issued in March 2020 continued to have an impact on the San Diego region's economy as the year ended. As Figure 1 shows, the San Diego region's unemployment rates were significantly impacted and remained higher than they were during the 1991 or 2008 recessions. Current estimates are that the 2020 Real San Diego Gross Regional Product (GRP) will be somewhere between 3.1% to 4.5% lower ($7 to $10 billion) than the previous year. However, due in part to Federal intervention, the numbers were significantly better than what was initially expected when the pandemic began last year.[4]

Some of the factors that helped moderate this decrease in GRP include the $3.5 trillion in government subsidy through stimulus payments. The success of this cash infusion was evidenced by national indicators such as a booming stock market (in 2020 S&P was up by 16.3%, Dow was up by 7.3%, and the Nasdaq was up 43.6%[5]) and historically low mortgage rates (below 3%), allowing more individuals to purchase a home. This in part has fueled the San Diego region's housing market where prices have increased nearly 9% in 2020 from the previous year (Figure 2).

FIGURE 1:
SAN DIEGO REGION EMPLOYMENT DURING RECESSIONS

Source: U.S. Bureau of Economic Analysis

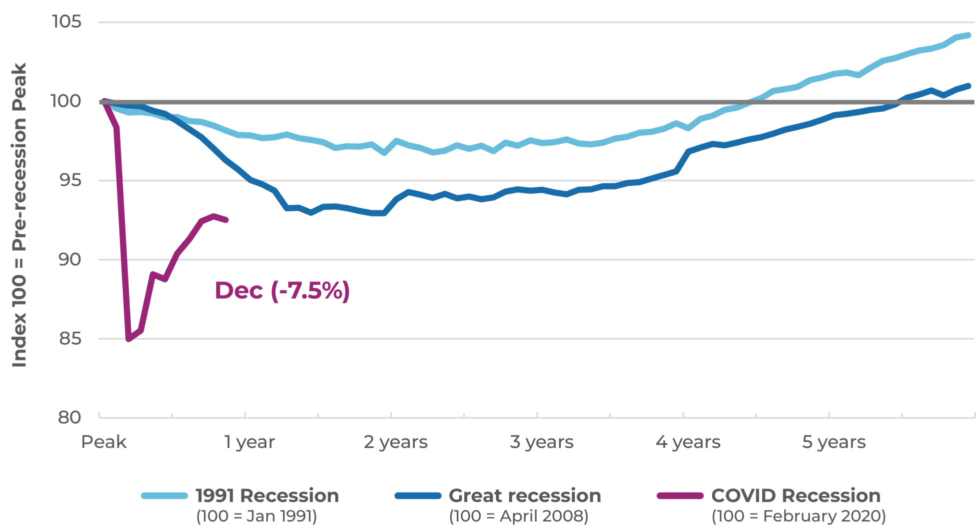
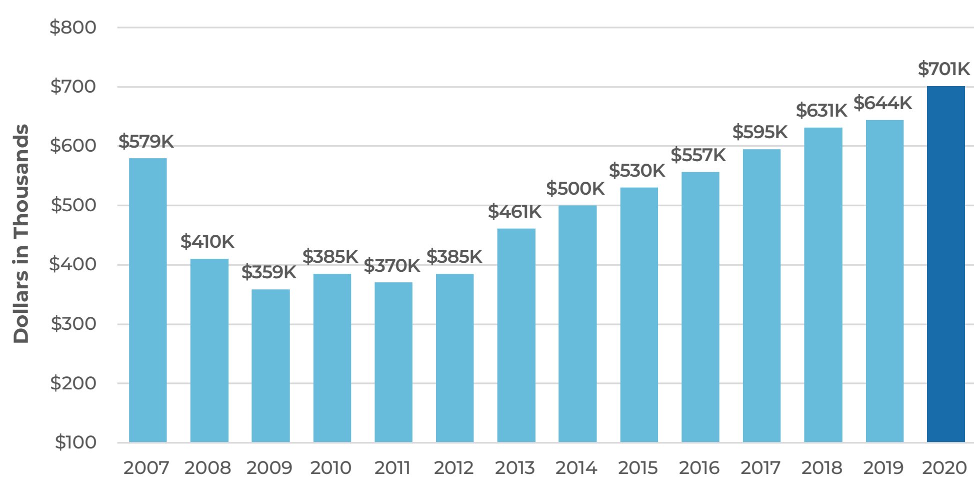


FIGURE 2:
SAN DIEGO REGION HOUSING PRICES: MEDIAN PRICE
(existing single-family detached homes, annual average)

Source: California Association of REALTORS®



[4] For comparison purposes, the 2009 GRP during the Great Recession was down 5% from the prior year.

[5] https://www.marketwatch.com/story/stocks-on-track-to-open-near-records-in-final-session-of-2020-11609416728

Public income support in the form of stimulus checks also more than compensated for the loss in labor income in 2020 and disposable income increased by 7% in 2020 on average.[6] In addition, the savings rate more than doubled from 7.5% in 2019 to 16.4% on average in 2020 (Figure 3). While consumption has been partly limited by the business shutdowns (fewer opportunities to spend due to access restrictions), several other factors have contributed to the increase in the savings rate including the time it took to be able to spend stimulus money and precautionary saving behaviors due to concerns about future economic disruption and income losses.

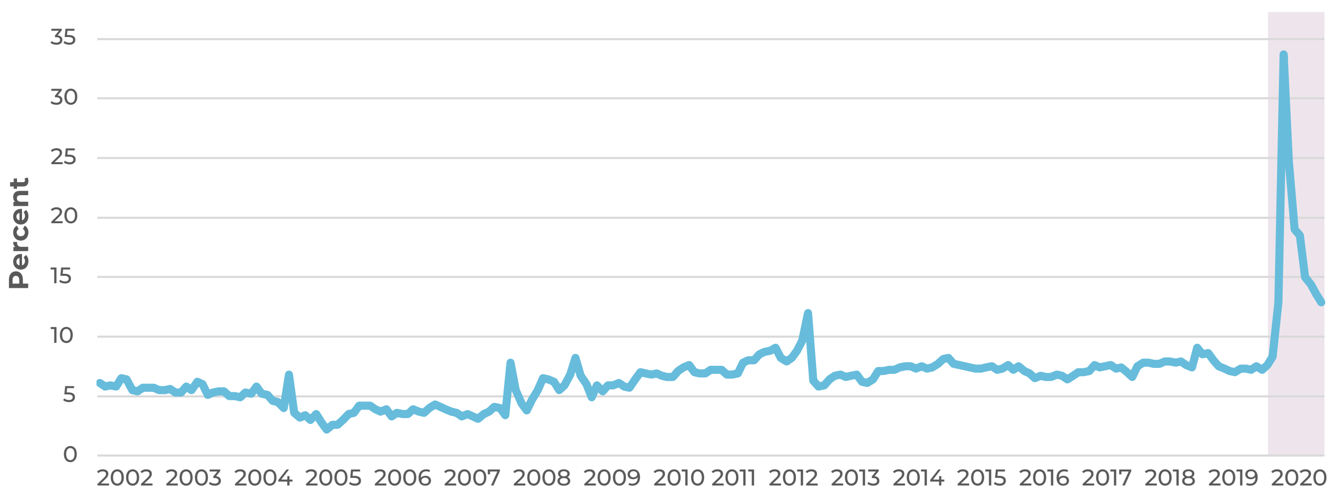
According to a recent survey, the top 3 ways Californians reported spending their stimulus checks included:

22% FOOD

16% UTILITIES

14% RENT

FIGURE 3:
U.S. PERSONAL SAVINGS RATE (2002–2020)
Personal savings (disposable income – expenses) as a percentage of disposable personal income (DPI)



Note: Each year includes data for January, May, and September.
Source: U.S. Bureau of Economic Analysis

[6] U.S. Bureau of Economic Analysis

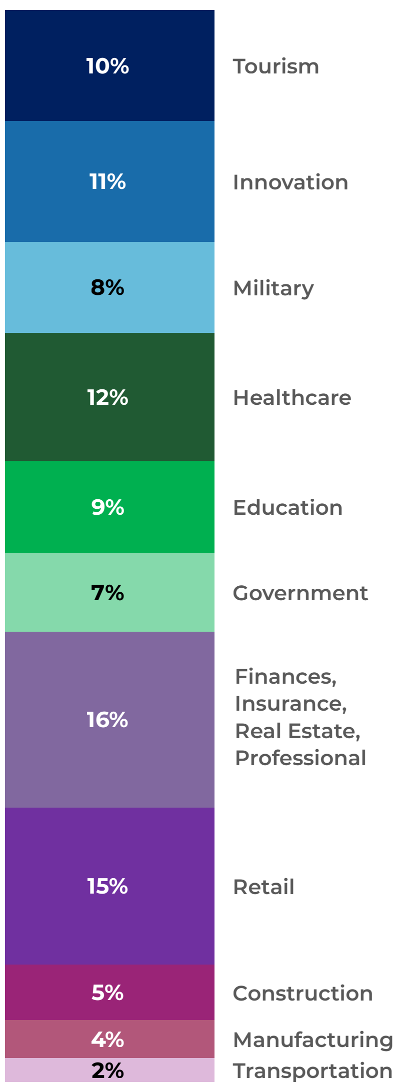
Which employment sectors were the hardest hit?

The key economic sectors that comprise the San Diego region's economy are shown in Figure 4. As described in earlier publications, the effect of the pandemic and consumer behavior change was not felt equally across all sectors. Tourism, education, and retail were among the hardest hit industries, representing a third of our region's economy, and accounting for almost nine in every ten jobs lost since the stay home order went into effect (Figure 5).

According to the San Diego Tourism Authority, visitor spending in the San Diego region fell from

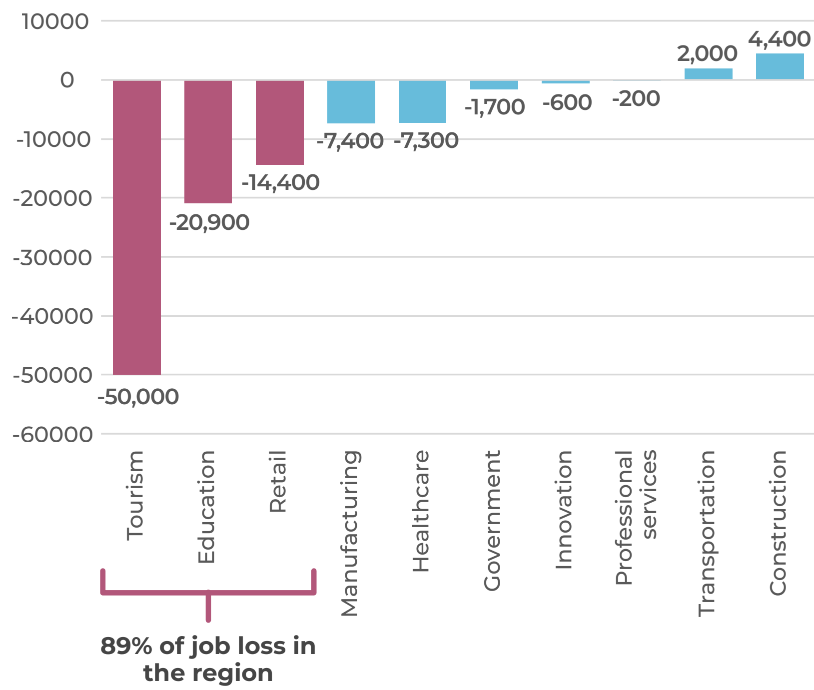
$11.6 billion in **2019** to **$5.2 billion** in **2020**

FIGURE 4:
2020 COMPOSITION OF THE SAN DIEGO REGION BY KEY ECONOMIC SECTOR



Note: Percentages do not equal 100 due to rounding.
Source: SANDAG calculation based on State of California Employment Development Department Labor Market Information – Industry Employment and Labor Force, and Quarterly Census of Employment and Wages for San Diego-Carlsbad Metropolitan Statistical Area 2019.

FIGURE 5:
ESTIMATED JOB LOSS BY SECTOR IN THE SAN DIEGO REGION FEBRUARY TO DECEMBER 2020



Source: SANDAG Estimates based on Employment Development Department Labor Market Information Division data

Cancellation of events such as those held at the San Diego Convention Center caused an enormous multiplier effect on local businesses such as hotels, restaurants, attractions, audio visual (AV) companies, printers, caterers, grocery stores, dry cleaners, and gas stations. According to the San Diego Tourism Authority (SDTA), the visitor industry lost 20 years of economic gain in 2020 and expects a five-year recovery horizon. Specifically, visitor spending fell from $11.6 billion in 2019 to $5.2 billion in 2020 (below the 2001 visitor spending level of $5.9 billion), and the meeting and special event industry, which included 2.7 million visitors and $3.5 billion in spending, essentially came to a stop and has yet to pick up.

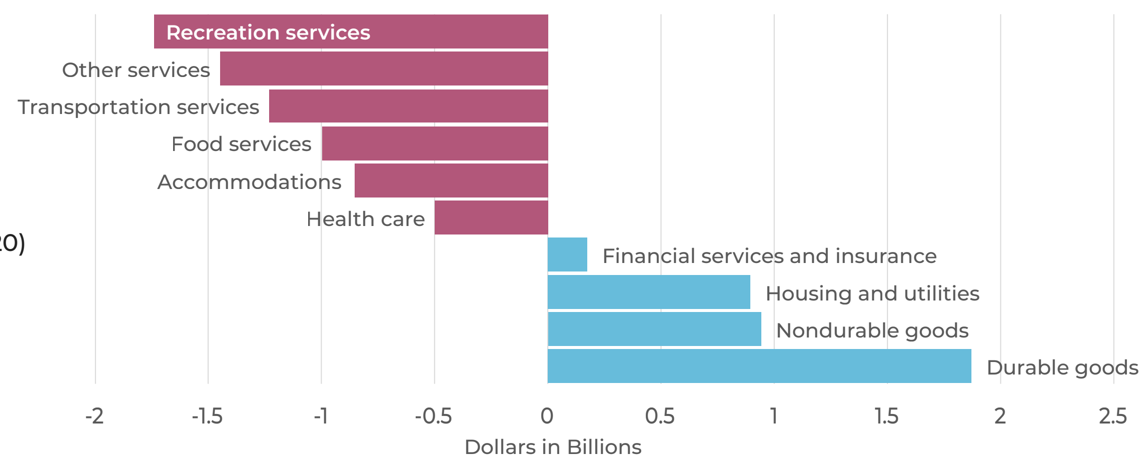
Domestic air travel decreased by 74% and international air travel by 90% as of January 2021[7] and according to the Port of San Diego (the Port), 93 of the scheduled 123 cruise ship calls in 2020 were canceled, resulting in approximately $158.6 million in lost economic activity.[8]

Both locally and nationally, some industries were not affected as much, including innovation, manufacturing, construction, finance, insurance, military, which had a stabilizing effect on the region.

Some additional data that sheds light on how things have shifted during 2020 relate to consumer spending and foot traffic around the region. As Figure 6 shows, there has been a shift in consumer spending behavior during 2020 in the San Diego region, with less money spent on recreation and personal care services, and more on durable (e.g. appliances, electronics, jewelry, home furnishings) and nondurable goods (e.g. food, paper products, clothing, cleaning products). In addition, as Figures 7 and 8 show, consumer spending nationally has been greater for food stores than restaurants, but they had trended together up until the pandemic, at which point spending at food stores spiked, as would be expected, and spending at restaurants decreased significantly. However, the shifts between online shopping and shopping at brick-and-mortar stores have shown an interesting difference. Specifically, while online sales jumped at the time of the stay home order and sales at brick-and-mortar businesses dropped, the increase in sales at the latter has not resulted in a comparable drop in the former. That is, it appears that while individuals are frequenting actual stores to make some purchases, they are continuing to purchase more things online than they did pre-pandemic.

FIGURE 6: ESTIMATED CHANGES IN SPENDING IN THE SAN DIEGO REGION POST COVID-19
(Q4 2019 to Q4 2020)

Source: SANDAG Estimates based on U.S. Bureau of Economic Analysis data



[7] Data compiled online at: https://www.san.org/News/Air-Traffic-Reports January 01, 2021 report

[8] In terms of how this affected the Port directly, it is important to note that the Port does not collect taxes, but rather, operates with funding from the Port's hotel, restaurant, retail, and attraction tenants as portion of their sales (5% to 10%). These concession sales fell by $31 million in calendar year 2020, with revenues of $84.3 million in 2019 and $53.2 million in 2020. The Port's total operating revenues fell by nearly $50 million in calendar year 2020, from $188 million in 2019 to $138 million in 2020.

FIGURE 7:
U.S. SALES FOR FOOD STORES VERSUS RESTAURANTS

Source: U.S. Census Bureau, Advance Monthly Retail Trade Report

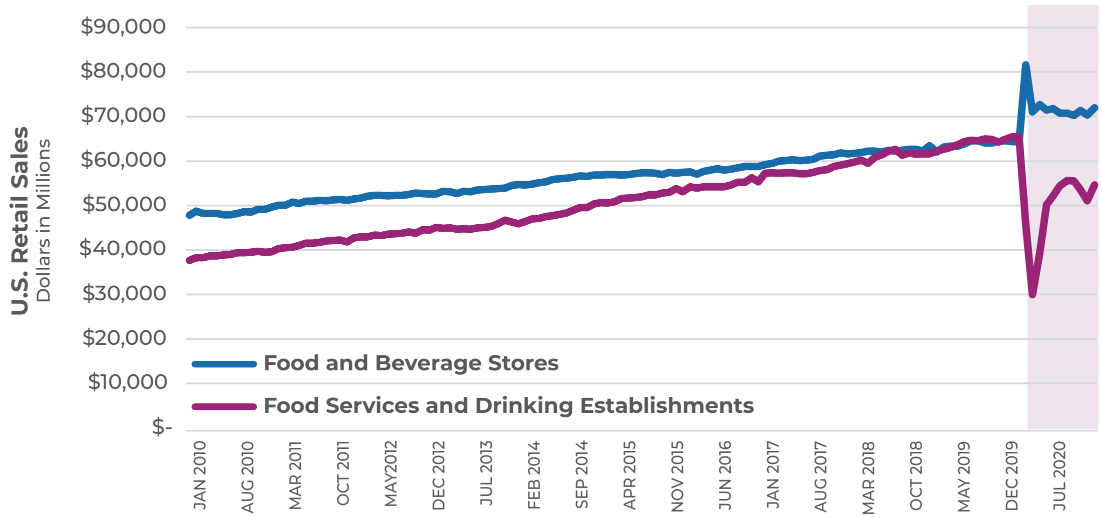


FIGURE 8:
U.S. RETAIL SALES ONLINE VERSUS BRICK-AND-MORTAR

Source: U.S. Census Bureau, Advance Monthly Retail Trade Report

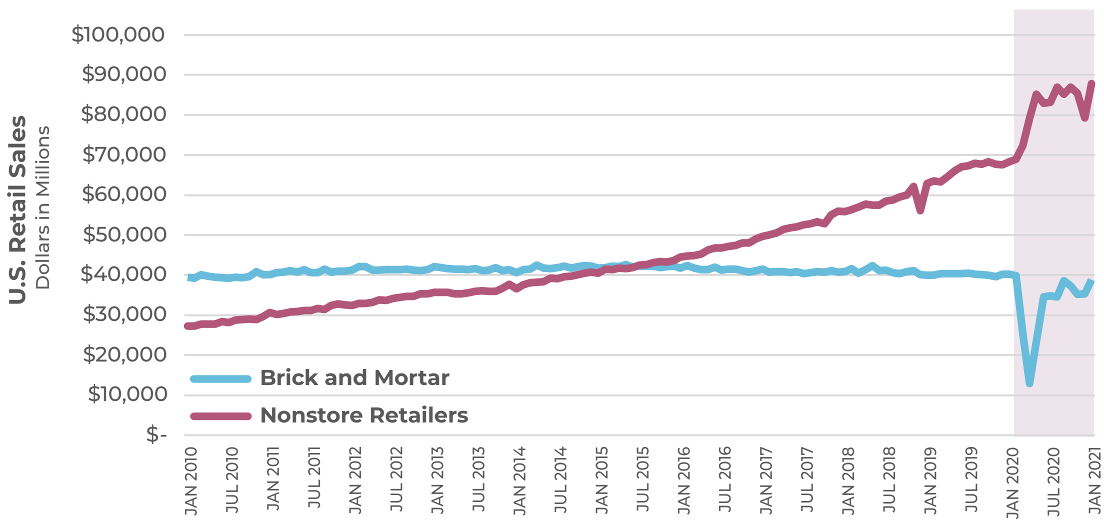
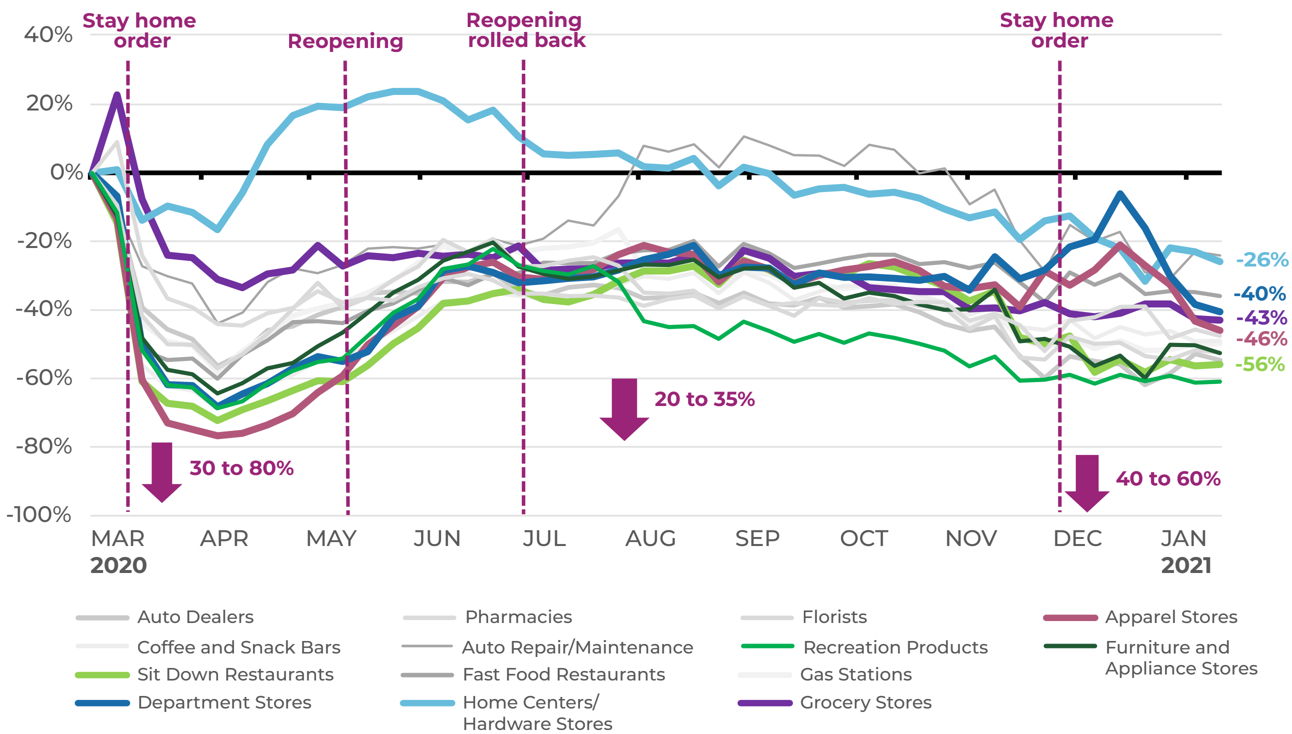


Figure 9 further demonstrates the varied impact of the pandemic on businesses in the San Diego region. Home and hardware centers saw an increase in foot traffic during summer months (up nearly 24% since the first stay home order), as many residents took on more home improvement projects. Apparel stores, sit-down restaurants, and department stores were among the hardest hit early in the pandemic during the first week in April 2020, with foot traffic down between 60% and 77%. As of January 2021, with the San Diego region in the purple tier, activity at various businesses remained down, between 26% to 61% percent below pre-COVID-19 level.

FIGURE 9:

ACTIVITY LEVELS AT BUSINESSES IN THE SAN DIEGO REGION



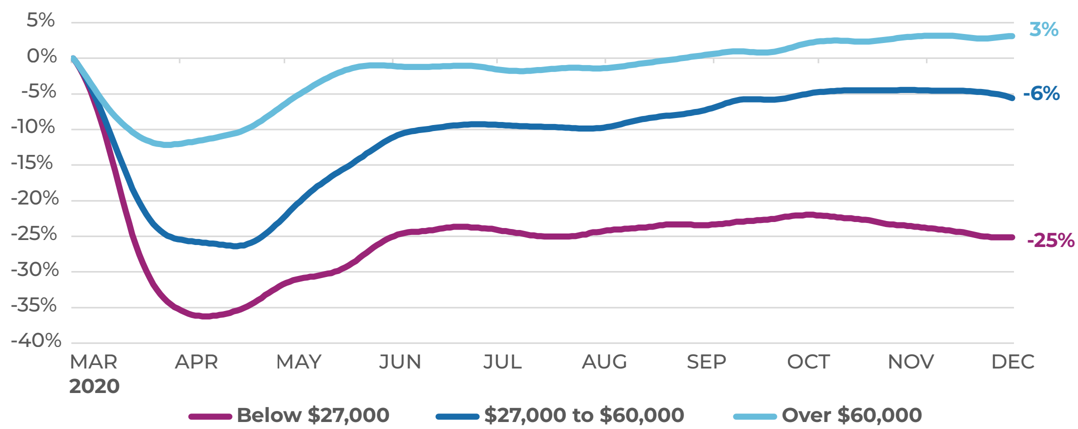
Source: SafeGraph COVID-19 Response Dataset - Weekly Patterns

Was everyone equally affected?

Just as the effect of COVID-19 on the sectors varied, so it has varied among different types of employees. One of the groups most significantly hit since the pandemic began was individuals in the lowest paying jobs in the region (Figure 10). Nearly one in four people who have jobs that do not require a college education are still unemployed.[9] Although in the beginning of the pandemic, there was a dip in all earning categories, those jobs that require a college education and are considered white collar and could be telecommuted or worked from home showed a rather quick recovery. In contrast, nearly 40% of the jobs that pay below $27,000 (or approximately $15 per hour) were lost at the onset of the pandemic and 25% of those jobs still have not come back as of December 2020, the most recent data available at the time of this report.

FIGURE 10:
PERCENT CHANGE IN EMPLOYMENT BY INCOME CATEGORY IN THE SAN DIEGO REGION, MARCH TO DECEMBER 2020

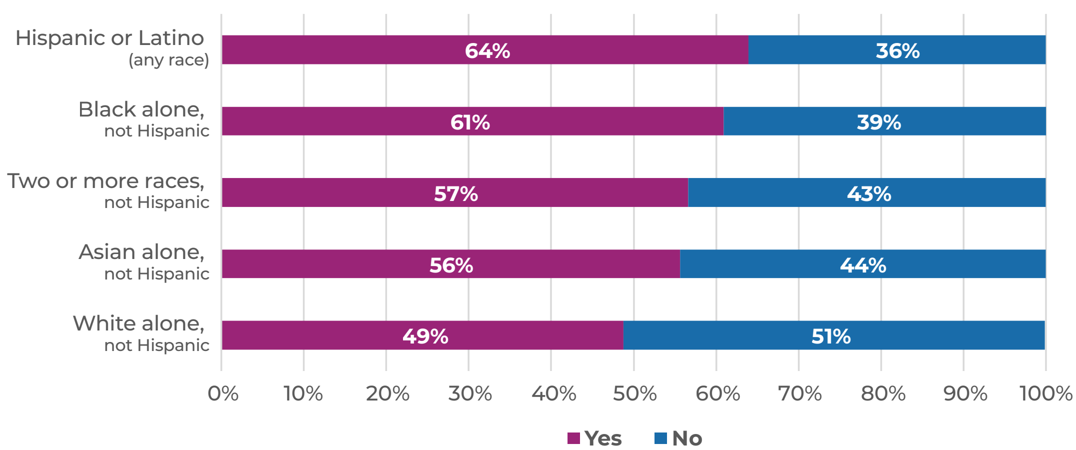
Source: Estimates based on data from Opportunity Insights Economic Tracker based on research from Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team tracktherecovery.org



Additional analyses of data from the Census Household Pulse Survey from California residents further demonstrates the disproportionate effect of the pandemic economically on individuals of different races/ethnicities and households, as has been noted in previous SANDAG reports. As Figure 11 shows, 64% of Hispanic/Latino individuals and 60% of those who identified as Black (alone, not Hispanic) reported that they or someone in their household had been negatively impacted economically as a result of the pandemic, followed closely by those who identified with two or more races (not Hispanic) (57%). In comparison, 49% of those who identified as White (not Hispanic) reported a negative economic impact.

FIGURE 11:
LOSS OF EMPLOYMENT INCOME BY RACE/ETHNICITY SINCE MARCH 13, 2020

Source: Census Household Pulse Survey, Week 23 *California respondents



[9] Estimates based on data from Opportunity Insights Economic Tracker based on research from Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team tracktherecovery.org

What might recovery look like?

As we reach 12 months since the stay home order was issued, COVID-19 continues to dominate the news. If our region continues to see government subsidies and improved vaccine distribution, it appears feasible that things will become more normal in summer or fall 2021. Business sectors that fared well during the pandemic should continue to grow at a steady pace. These include innovation, manufacturing, construction, finance, insurance, and military. Other sectors that were hardest hit, such as tourism, retail, and education, should quickly return to normal as the economy reopens. As of the date of this publication, President Biden is expected to sign HR 1319 – The American Rescue Plan Act of 2021. This $1.9 trillion bill, along with other Federal support, will continue to bolster the economy in 2021.