Robust Growth and Recovery—For Most

By Robert McEntire, ED.D. and posted March 11, 2021

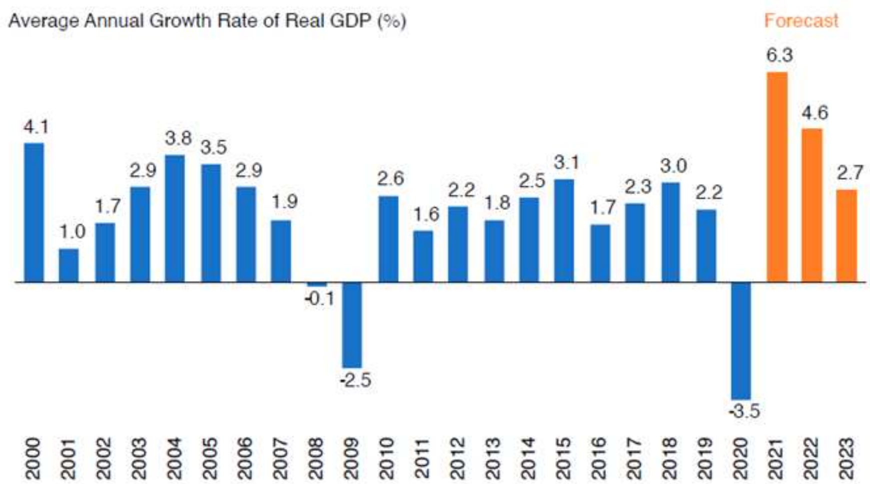
As we approach the one-year anniversary of the first wave of statewide lockdowns, we are starting to see a few rays of sunshine poke through the cloudy skies that have hung over the state, or at least our collective mental state, for too long. If the estimates shared by the UCLA Anderson Economic Forecast on March 10, 2021, prove correct, the future is so bright that we will have to wear shades. When the state went into lockdown, the state turned off the spigot to the economy, leading to the most substantial and sudden economic decline in modern history. Looking forward, the picture is one of equally record-breaking robust growth for the foreseeable future, starting with "one of the strongest years of growth in the last 60 years" and followed by higher-than-average growth rates into 2022 and 2023. Within the positive news, there are nuances worth noting that continue to impact our daily lives.

Gross Domestic Product

According to the UCLA economists, gross domestic product (GDP)—or the total value of goods and services we produce as the conventional measure of an economy's overall health—declined by 3.5% in 2020; a consequence of a complete halt due to government-mandated shutdowns of all but essential businesses and services. Despite various states of lockdown, the economy has recovered well, and key economic indicators continue to beat expectations.

Forecasted growth for 2021 is 6.3% that continues, albeit more slowly, in 2022 and 2023 at 4.6% and 2.7%, respectively. A deeper look at these figures shows that the most robust growth in the current year lies in the coming months. At this pace, the rate of growth will return real GDP to its 2019 peak by the end of the second quarter of 2021.

While personal consumption is buoyed as a result of significant accumulated savings, much of the return to pre-pandemic levels is attributable to residential fixed investment including home improvements, which remain high throughout the forecast period. Additionally, the nation's aggressive vaccination program is projected to increase healthcare services where expenditures are expected to return to pre-pandemic levels by the third quarter of 2021. Conversely, service sector industries (high-contact sectors) are not expected to return to previous levels until the second quarter of 2022.



Labor Market

The nation's unemployment picture has improved dramatically since April 2020, and the UCLA economists believe that the historic pre-pandemic lows are beyond reach until the end of 2023. Recent unemployment numbers appear positive, but do not account for workers who have permanently left the labor force since April, somewhat masking unemployment figures.

Workforce participation rates are presently as low as they were in 1976 at 61.5%. Continued improvement in the national unemployment rate is expected but will be tempered as more workers return to the labor force. The nation's unemployment rate is projected to drop to 5.2% by the end of 2021 and then to 4.1% and 3.7% by the end of 2022 and 2023, respectively.

California’s Forecast
Noting the difficulty of making projections in an economy oscillating in and out of lockdown, UCLA economists note that California’s recovery is dramatically disparate by sector. Case in point, 76% of California’s job losses during 2020 were in leisure & hospitality, public and private education, other services, and retail trade. The most heavily impacted sectors are concentrated in high-contact industries. By the end of 2020, employment in other services and healthcare began rebounding.

With job losses in California outpacing the nation, the state has further to go in order to return to pre-pandemic unemployment levels. California typically benefits from a robust tourism industry, which has been depressed since the onset of the pandemic. However, progress with vaccination rollout in the United States bodes well for domestic tourism, and tourism in California in particular, in the near-term. This, combined with recoveries in the business and trade industries, is expected to reduce the state’s unemployment rate to 6.8% in 2021, 5.1% in 2022, and 4.1% in 2023.

Early concerns that the pandemic has spawned a mass exodus from San Francisco and Silicon Valley appear to be anecdotal and is not materializing in aggregate data. However, the data does suggest that many have moved to the suburbs to find more affordable living conditions matching income and lifestyle.

The Anderson Forecast suggests that California’s recovery will beat the nation’s track, although state unemployment will continue to be higher than the national rate. The fact remains that both the U.S. and California economies face significant headwinds.

As factors evolve and are updated, we will provide a more in-depth look at our 2021 May Revision Workshop and unpack what they mean for Proposition 98. We’ll see you soon!