LAEDC's initial March 17, 2020 analysis of COVID's impact on the LA County economy

- COVID-19 affect our LA County economy, its industries, employers and workforce
- Recommendations and analysis from LAEDC
- View this as a webpage, here: **https://laedc.org/coronavirus**

March 17, 2020

Dear members, partners and friends:

In the context of the health, economic and social upheaval catalyzed by COVID-19 (colloquially the "coronavirus"), we thought it prudent to outline the collective thinking of the LAEDC's Institute for Applied Economics (IAE) regarding the recent and potential economic impacts of the virus in relation to the public and private responses, which will result in alternative scenarios to combat, contend with and mitigate the virus's spread with varying effects on the global, national and local economies.

Across the country, large events from business conventions to sporting events to music festivals have been postponed. Though not yet cancelled or postponed, many have called for the 2020 Tokyo Olympic Games to reconsider their July 24th start date. Many school districts across the nation have also closed, and hundreds of universities have moved classes entirely online. Many who are able have made the move into telework; however, many service workers find themselves stuck at home without the guarantee of pay. Though difficult to quantify now, many longer-term economic impacts will, of course, be contingent on the steps governments and companies take to ease, if not quell, the effects of this global health crisis.

Maintaining supply chains, especially for food and medical supplies, will be critical to maintaining both the public welfare and, ultimately, public order. Hoarding of basic goods has been prevalent due to public anxiety related to the fast spreading virus and the number of "unknown" carriers despite messages from government and industry attesting to the stable supply of essential consumer goods, especially food supplies.

To address hoarding and thus short-term shortages of essential goods, affected businesses and governments should strive to more regularly and transparently inform consumers about the availability of goods to ease panic and prevent the distortionary accumulation of household goods, which inimically impacts those without the means to stockpile and/or pay a premium for the same goods. In the case of essential medical goods, such as masks and sanitizers, wholesalers should prioritize hospitals and health care providers over retailers, and price gouging health care providers should be subject to legal penalty. Given that many workers will be working from home, sheltering in place and possibly even self-quarantining , retailers should encourage and quickly scale, if possible, their home delivery services – if need be using various third-party "last mile" delivery services, such as Uber, Shipsi and Postmates.

IAE believes the following economic policy measures may also be beneficial.

The federal government and state governments should consider:

- Emergency transfers, such as a temporary / short-term universal basic income (UBI) program;
- A moratorium on rent and mortgage payments, such as moving the months of missed mortgage payments to the end of the mortgage;
- A temporary suspension of evictions and foreclosures;
- Programs and policies to encourage and promote mortgage refinancing in a historically low interest environment;
- Easy access to social insurance and disability payments;
- Subsidized paid sick leave, including for contract and informal (including “gig”) economy workers, when businesses are unable to do so;
- Freeing undocumented workers from the fear of deportation during this pandemic if we’re going to truly flatten the contagion rate;
- Insurers should be encouraged, if not mandated, to fully cover COVID-19 testing and treatment; and
- Where possible, uncollateralized or minimally collateralized low or zero interest loans should be made available to vulnerable businesses, such as recently announced and launched Small Business Administration emergency loan program, which can be further improved by bills such as H.R.6040.

Local Implications
Looking only at Los Angeles County, several different populations will be specifically vulnerable. From a health perspective, close to 1.4 million of the county’s 10.2 million residents are 65 years and older, and another 574,000 are between the ages of 60 and 64 years. In terms of workers, over 258,000 of the county’s 4.5 million workers are 65years and older, and another 330,000 are between 60 and 64 years. So far, those of more advanced age have been most affected by COVID-19, especially those with existing health conditions.

Governors and mayors across the country have advised or ordered the closure of public venues such as bars, restaurants, theaters and gyms. City of Los Angeles Mayor Eric Garcetti ordered all public venues within the city to close to the public, and all food establishments may only operate for delivery or takeout. Economically, vulnerable industries, such as accommodation and food service (450,000 jobs in 3Q:2019), retail trade (410,000 jobs), and arts and entertainment (98,000 jobs) make up a significant portion of LA County’s employment base; indeed, together these industries in LA County employ almost one million individuals.

The impact to entertainment and leisure activities will be substantial. Our many local theaters and music venues of all sizes have temporarily suspended operations. There is a large professional sports presence in the Los Angeles Basin (L.A. and Orange counties), valued at $6.2 billion annually, which will be impacted by the measures being taken. The National Basketball Association (NBA) has suspended play indefinitely, and Major League Baseball (MLB) has cancelled the remainder of spring training and postponed the start of the regular season. The National Collegiate Athletic Association (NCAA) has cancelled the 2020 Division I Men’s and Women’s championship tournaments (aka “March Madness”), and the National Hockey League (NHL) has suspended its season. With music festival season just around the corner, here in Southern California, Coachella and Stagecoach have been postponed until the fall. Airlines, hotels, cruise lines and other tourism-dependent industries are feeling the impact of the evaporation of business- and leisure-related travel. This mass social sequestering is taking place over "spring break", and questions remain as to whether travel will recover in time for the summer surge that takes place beginning in May and June after the end of the school year and graduations.

Throughput at the ports of Los Angeles and the Long Beach, which combined represent the 9th largest port complex in the world in terms of container traffic, has been severely impacted, as the number of ships coming in from our Trans-Pacific trading partners has dropped precipitously due to the global health crisis. Cargo volumes at the Port of Los Angeles dropped by just under 23 percent for the month of February (year-over-year) with expectations that the decline will continue, if not accelerate, in March. The Port of Long Beach saw their trade volumes decline as well, with last month's cargo volumes falling close to 10 percent below that of February 2018. Soft cargo volumes present challenges for U.S. exports, as containers destined for overseas linger with fewer ship sailings. This will have ripple effects felt across the region's trade and logistics industry, an industry valued at over $1.5 trillion annually in the Southern California five-county region (Los Angeles, Orange, Riverside, San Bernardino and Ventura counties). We anticipate a possible surge in cargo volume once the virus is contained and production levels ramp back up.

While throughput is down at the ports, affecting many trade and logistics-related businesses and workers, one employment bright spot originating from the increased activity in e-commerce and panic buying taking place at grocery stores and markets is that it has boosted demand for grocery store workers, warehouse workers and delivery drivers. Amazon just announced that they plan to hire over 100,000 new workers nationwide in their fulfillment centers and delivery network to meet the surge in demand, in addition to offering a $2-per-hour wage increase, on top of their $15-per-hour wage, that will last through the end of April. This may provide some relief for displaced workers in other service industries that have face closures.

Another of our key industries here in the Los Angeles region, the motion picture and television production industry, is taking proactive steps to mitigate the impact of this crisis related to their in-theater box office releases. Universal announced a number of their theatrical productions will be released early or straight to digital, while people are hunkering down in their homes. Several upcoming major releases have been delayed, including the next James Bond film. We expect other film and television content producers to follow suit, stepping up releases of content on streaming platforms as a means to mitigate potential losses related to the effects of social distancing and self-isolating, as well as in response to an increasing number of executive orders mandating movie theater closures.

In terms of the most immediate economic urgency, we cite two: the ability to maintain supply chains and to ensure households, especially those now without a steady income, have the necessary liquidity to stay afloat. Especially for service workers, particularly food service, hospitality and home care workers, who cannot work remotely, most tax breaks will be of little value in the immediate-term, as many of these households do not possess emergency funds let alone savings; they will require immediate assistance measures. Restaurants should consider offering temporary delivery jobs to waitstaff who cannot work due to prohibitions on in-dining on premises. Businesses also face liquidity issues and will likely scale back on certain forms of investing, such as office and commercial properties, in favor of information technology hardware to enable both business continuity and secure remote work. If a high-percentage of LA County's hundreds of thousands of business establishments cannot weather this disruption, the jobs they once provided will no longer be available at a time where individuals will need them most to recover from financial hardships the disruption has caused in their households.

It is unclear how changed behavior as a result of COVID-19, especially telework, will impact productivity. There are arguments in both directions, since the elimination of commutes will allow for more “productive” time. For some, however, competing concerns, especially for children or for household members who are or may become ill, could negatively impact productivity. It is also unclear how prepared the national cloud storage and computing infrastructure is for this mass exodus from localized information technology (IT) infrastructure to cloud-based infrastructure. One silver lining will be the reduction in fuel and thus greenhouse gas and other noxious emissions from passenger vehicles commuting back and forth to their place of work.

Over longer-term, the behavioral changes catalyzed by COVID-19 may spur economic transitions already under way. Brick-and-mortar retail, already vulnerable, will incur an additional hit by what will likely be near-universal reliance on e-commerce and home delivery as workers move into telework and leisure is forced to be home-based over this period. Telework could also become a more permanent fixture of work, and firms may well increase their embrace of telecommunications and distributed work forces as a cheaper alternative to formal workspaces and expensive real estate in central business districts. Depending on the length of the crisis, the movement to online education, including certificate, career technical, and two- and four-year coursework, might also result in structural changes within the educational system as well. Households with more disposable income, forced to save on leisure by social distancing and quarantines, may find themselves sitting on reserves of cash and pent-up demand when the global health crisis abates. Once the virus plateaus and the restrictions on movement are lifted, we expect a surge in consumer spending, which is currently three-quarters of the macro-economy, especially on travel and food away from home. Keep in mind, it is also possible that households might reevaluate risk preferences, especially as it relates to travel; though if the past is prologue, the travel industry did recover fairly quickly after 9/11.

Much remains uncertain as the saga of this disease unfolds for our local communities, our state and our country. However, robust responses from governments and businesses, and basic human solidarity, will help us weather this storm to reach the calmer shores on the other side.

Stay well,

The LAEDC Institute for Applied Economics