



LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION

Collaboratively Advancing Growth and Prosperity for All

2022

KEY FINDINGS

Navigating Through Continued Disruption and Uncertainty



TRANSFORMATIVE SHIFTS Observed in 2021

The COVID-19 pandemic represents an unprecedented economic shock that has not only temporarily derailed the economy, preventing it from continuing down its previous path, but has also led to permanent shifts that will set the economic system on a new trajectory.

2021: A Year of Vaccinations and Learning to Live with the Virus In 2021, Los Angeles County experienced a significant return to normalcy and was characterized by relatively high vaccination rates.

In 2021, there was a significant return to pre-pandemic normalcy. However, the United States is still recovering from one of the most drastic economic downturns in our nation's history, and unpredictable pandemic-related developments have the potential to severely disrupt the economy once again.

Transformative Shifts Observed in 2021

2021 was characterized by a number of transformative shifts that will leave a lasting imprint on our economy. Transformative Shifts Observed in 2021 include:

National Economic Policy

National fiscal and monetary policy in the coming years will be significant determinants of economic performance and the inflation rate.

National macroeconomic policy will be a principal determinant of economic performance over the next two years. The Fed announced the strong possibility of raising interest rates in 2022, which represents a tightening of monetary policy to combat inflation. Recent and potential upcoming fiscal policy will be working against this potential change in monetary policy, as the bipartisan infrastructure initiative represents a sharp expansion in fiscal policy and will result in a significant injection of money into the economy. The potential Build Back Better Act also represents expansionary fiscal policy which could further apply increasing inflationary pressure. Inflation is redistributive; higher rates of inflation redistribute wealth in a disruptive way. While inflation impacts the entire economy, low-income individuals are often particularly negatively affected by rapidly rising prices. These households spend a higher percentage of their income on necessities, and typically spend more than they earn by dipping into savings and taking on debt.



TRANSFORMATIVE SHIFTS Observed in 2021

Supply Chain Issues

Supply chain issues hamper economic recovery and apply upward pressure on the general price level.

Supply chain issues continue to hamper economic recovery and apply upward pressure on the general price level. The ability of the U.S. as well as the global economy to effectively overcome supply chain issues in 2022 will be a significant determinant of economic performance and the inflation rate over the coming years. While there are reassuring signs of easing supply-side pressure, the state of the supply chain in 2022 is still surrounded by uncertainty.

Remote Work

The shift towards remote work has economy-wide implications that will likely result in significant changes to labor and real estate markets going forward. Remote work effects will also potentially impact household location decisions, service-providing business location choices, real estate asset values, and local government tax revenues.



Labor markets all over the country have been experiencing a reshuffling due to the nature of work during the pandemic.

Employee quits remained high throughout 2021, with workers leaving their jobs in search for more attractive opportunities. **Remote work opportunities may be something that employees in certain occupations may want permanently as a feature of their job.**

The ability of businesses to offer monetary and nonmonetary compensation that attracts workers back into the labor market will be a significant determinant of what the labor picture will look like in the near future. A recent survey finds that even after the COVID-19 pandemic is under control, workers still express a desire to maintain a hybrid working environment. Hybrid work arrangements were more popular with knowledge workers of color, with Latino (86%), Asian (81%), and Black (81%) knowledge workers preferring a hybrid work situation more than White knowledge workers (75%).

Globally, women tend to favor remote work more than men, with 52 percent wanting to work mostly or completely remotely compared to 46 percent of men.

TRANSFORMATIVE SHIFTS Observed in 2021

Increased Digitization

Increased digitization in the provision of services during the COVID-19 pandemic will likely result in permanent changes in how certain services are provided along with associated cost and labor market implications.

Freelance Workers

The share of the labor force categorized as non-temporary freelancers has increased as high-skilled workers leave conventional full-time work for flexible employment alternatives. Overall, **the share of the labor force that is categorized as non-temporary freelancers increased from 33.8 percent to 35.0 percent over the past year.** This growth in the freelance workforce and the resulting earnings has been due in large part to a rise in the number of high-skilled, remote freelancers that left conventional full-time work for flexible employment alternatives.

Accelerated Shift to E-Commerce

The COVID-19 pandemic has accelerated the pre-pandemic shift towards e-commerce and away from brick-and-mortar establishments.

Potentially permanent consumer behavioral shifts have taken place since the pandemic hit that have moved consumption patterns away from brick-and-mortar businesses, particularly small businesses with no online presence, and towards e-commerce. It remains to be seen how many of these lost brick-and-mortar jobs will return, as it will heavily depend on how permanent the shifts in consumer demand turn out to be.

Looking Forward

Continued vaccination and boosting against COVID-19 continues to be an important step to returning to normalcy. Uncertainty remains regarding the current vaccine's effectiveness against Omicron and other potential future variants and private and public sector behavioral responses to future COVID-19 developments.

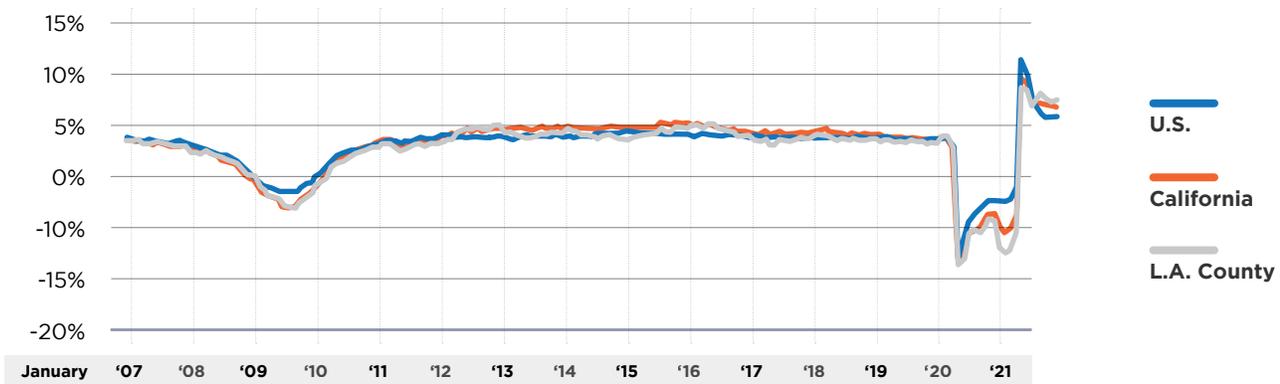


UNITED STATES

2021 was characterized by expansionary fiscal and monetary policy, increasing vaccination numbers, and the lifting of pandemic-related restrictions. As a result, the U.S. economy significantly recovered in 2021, although important economic indicators still remain below their pre-pandemic levels. However, the economy experienced the highest rate of inflation since 1982 and COVID-19 concerns remain, with the new Omicron variant injecting significant uncertainty into the recovery.

Employment in the U.S. has recovered substantially since the pandemic-induced downturn in 2020. However, although the economy has added a substantial number of jobs in 2021, employment is still below the February 2020 level, and job vacancies have increased significantly, hitting record numbers. This development is reflected in the size of the labor force, which is still significantly below the pre-pandemic level. The labor force participation rate is near the lowest it has been since 1977.

Figure 1: **Year-Over-Year Percent Change in Nonfarm Employment**



Employment in the U.S. has recovered substantially since the pandemic-induced downturn in 2020.

The unemployment rate, which began 2021 at around **6.3 percent**, declined to **3.9 percent** in December. According to the U.S. Department of Labor, after losing over 22 million jobs between March 2020 and April 2020, the economy added payrolls in every month in 2021 with over 1 million jobs added in July alone.¹ The **3.9 percent** unemployment rate reached in December 2021 will not likely fall much further.

¹McCormick, E. December 21, 2021. "What happened in the Economy in 2021." Yahoo Finance. <https://news.yahoo.com/what-happened-in-the-economy-in-2021-164815330.html#:~:text=But%20so%20far%2C%20economic%20growth,latest%20estimate%20for%20the%20quarter.>

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The strong performance of the stock market throughout the pandemic indicates that investor confidence in the economic future remains high. Economic indicators such as the Dow Jones Industrial Average (DJIA) and the S&P 500 have performed well throughout the pandemic, reaching record highs in both 2020 and 2021.

However, inflation poses a cause for concern. The one-year percentage change in the Consumer Price Index (CPI) from December 2020 to December 2021 was **7.0 percent**. This rise represents the sharpest increase in the CPI since the summer of 1982. Energy is the major category experiencing a significant increase in prices, rising around 33 percent over the one-year period. Within the energy category, the energy commodities category has risen in price almost **58 percent** over the past year.²

Figure 2: **United States Headline Statistics and Forecast**

	2017	2018	2019	2020	2021f	2022f	2023f
Real GDP Growth	2.7%	2.3%	2.6%	-2.3%	5.7%	3.6%	2.4%
Real Personal Income Growth	3.4%	3.3%	1.3%	3.4%	2.1%	-1.9%	2.6%
Total Employment Growth	1.6%	1.6%	1.4%	-5.7%	2.9%	3.3%	1.3%
Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.3%	3.9%	3.6%
CPI	2.1%	2.4%	1.8%	1.2%	7.0%	4.4%	2.7%



²U.S Bureau of Labor Statistics. "Consumer Price Index." <https://www.bls.gov/cpi/>

CALIFORNIA

While California significantly recovered from the pandemic-induced downturn in 2021, significant challenges remain. The pandemic is still negatively impacting the state's economy, particularly industries that rely on high degrees of in-person interaction. Additionally, the high cost of housing, relocation of businesses to other states, and relatively high degree income inequality, represent continuing challenges for California.

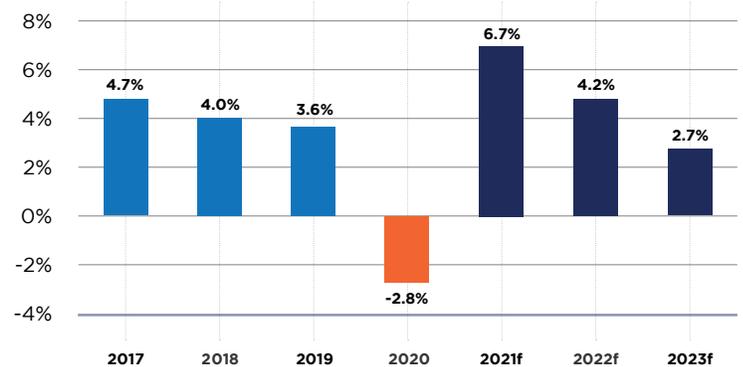


Major Economic Indicators

Real Gross State Product

The real gross state product (GSP) of California dropped **2.8 percent** year-over-year in 2020. In 2021, as the state moved through the recovery process, the GSP is expected to grow by **6.7 percent**, and is projected to continue growing, albeit at progressively lower rates, over the next two years.

Figure 3: California Real Growth GSP by Year



Unemployment

2021 was characterized by a continued fall in the state's unemployment rate and by a steep decline in initial unemployment claims.

In 2021, the employment situation significantly improved. From January to November 2021, around 3.5 million initial unemployment insurance claims were filed in California, which was only about a third of the initial UI claims filed from February to December 2020. Furthermore, the state unemployment rate fell steadily from 9 percent in December 2020 to just under 7 percent in November 2021.

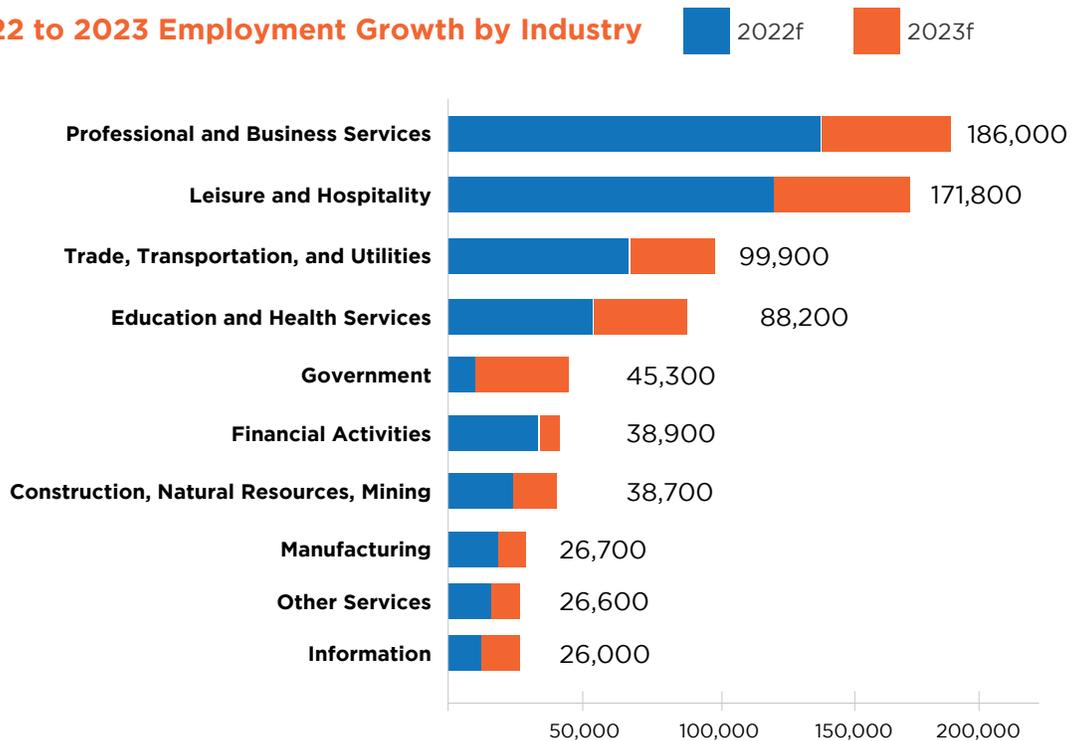
CALIFORNIA

Employment

In 2020, California mirrored the national employment experience with service sectors being hardest hit in terms of employment. In general, those hardest hit industries recovered the greatest number of jobs in 2021.

Total employment figures still remain below pre-pandemic levels. As recovery continues, the professional and business services industry is expected to add the most jobs out of any in California as it adds back workers lost to the pandemic. Meanwhile, the aforementioned leisure and hospitality industry, the trade, transportation, and utilities sector and the educational and health services sector will also add high numbers of jobs. Most industries in the state are projected to expand over the next two years.

Figure 4: 2022 to 2023 Employment Growth by Industry



CALIFORNIA

Housing and Migration

California faces distinct challenges regarding housing affordability and accessibility that have only been aggravated by the pandemic. During the pandemic, the state has lost population for the first time in over 100 years.

California's median home listing price hit an all-time high of around \$750,000 from March to June 2021.³ This was close to double the national median home price of approximately \$380,000 in the first half of 2021.⁴ **Housing affordability and availability issues, combined with the negative economic effects of COVID-19, encouraged a record-setting number of California residents to seek alternative, more affordable places to live during the pandemic.** This shift in population, due in large part to housing-related issues in California, suggests that encouraging the construction of housing should remain a state priority.

Figure 5: **California Headline Statistics and Forecast**

	2017	2018	2019	2020	2021f	2022f	2023f
Real GDP Growth	4.7%	4.0%	3.6%	-2.8%	6.7%	4.2%	2.7%
Real Personal Income Growth	1.5%	1.8%	3.9%	7.0%	2.1%	-1.9%	2.3%
Total Employment Growth	2.3%	1.8%	1.4%	-9.3%	6.0%	2.9%	1.4%
Unemployment Rate	4.8%	4.3%	4.2%	10.2%	7.7%	5.7%	4.6%

Between January 2020 and January 2021, California lost over 182,000 residents to out of state jurisdictions. Every county in California has experienced fewer people moving in from out of state since pandemic began. Compared to other California counties, from July 2020 to July 2021, **Los Angeles County experienced the greatest fall in overall population, losing 67,521 residents (-0.7%). Not far behind, the nine-county San Francisco Bay area lost around 64,000 residents (-0.8%) during that period.** The majority of these California exits are from adults without a bachelor's degree, while the state has been gaining college-educated adults over the past ten years.



³ Realtor.com, Housing Inventory: Median Listing Price in California [MEDLISPRICA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MEDLISPRICA>

⁴ FRED, Federal Reserve Bank of St. Louis. Housing Inventory: Median Listing Price in the United States (MEDLISPRIUS). retrieved from <https://fred.stlouisfed.org/series/MEDLISPRIUS>

CALIFORNIA

Looking Forward

The pandemic has served to accelerate trends that may result in significant negative consequences for California. State policymakers will need to take timely and effective steps to address these challenges and reverse existing trends before these issues become prohibitively difficult to fix. There are several new developments on the horizon, including:

Housing

Changes are set to take place in 2022 that are meant to address high housing costs in the state. However, it remains to be seen how effective these policy changes will be.

Minimum Wage Increases

In 2022, California will become the first U.S. state to mandate a \$15 minimum wage for businesses with over 25 employees. Minimum wage increases typically have mixed outcomes as employers, employees, and non-working job seekers across the state respond to the increase. Parts of the state with higher concentrations of low-skilled employees will likely experience the more pronounced effects.

Business Exits

The golden state has been plagued by a significant number of business exits for over a decade. The pandemic has served to accelerate the number of business headquarters leaving California for other states. More business headquarter relocations took place in the first half of 2021 (from January to June) than in all of 2018 or 2020, and only four fewer took place during that period than in all of 2019. (insert footnote) Surveyed business executives cited high cost of housing and real estate and the high cost of doing business as primary reasons for not locating, not expanding, or for leaving California.⁵

The 2022-2023 California Blueprint ^{6,7}

The California Blueprint was designed to address many of the golden state's biggest challenges and to encourage strong economic growth. The California Blueprint plans to spend billions addressing the COVID-19 pandemic, the climate crisis, economic inequality, homelessness, and crime.

⁵ Bursztynsky, J. December 22, 2020. "Oracle is moving its headquarters from Silicon Valley to Austin, Texas." CNBC. <https://www.cnn.com/2020/12/11/oracle-is-moving-its-headquarters-from-silicon-valley-to-austin-texas.html> And: Pacific Research Institute. 2018. Pacific Research Institute Survey Why California's Most Coveted Industries Aren't Coming to the Golden State. https://www.pacificresearch.org/wp-content/uploads/2018/02/SurveyDoc_F_NewWebLow.pdf

⁶ Beam, A. January 10, 2022. "California Governor Proposes Tax Cuts, Expanded Health Care." AP News. <https://apnews.com/article/coronavirus-pandemic-health-business-gavin-newsom-personal-taxes-dc3aec11f0a693e508c2c0864d722af7>

⁷ Office of Governor Gavin Newsom. January 10, 2022. "Governor Newsom Releases California Blueprint to Take on the State's Greatest Existential Threats and Build on Historic Progress." <https://www.gov.ca.gov/2022/01/10/governor-newsom-releases-california-blueprint-to-take-on-the-states-greatest-existential-threats-and-build-on-historic-progress/>

LOS ANGELES COUNTY

While the immediate effect of the pandemic on employment in Los Angeles County was swift and severe, recovery across many industries has also been taking place at a particularly high rate. The future path of the County's economic recovery will continue to be closely linked to the COVID-19 pandemic.

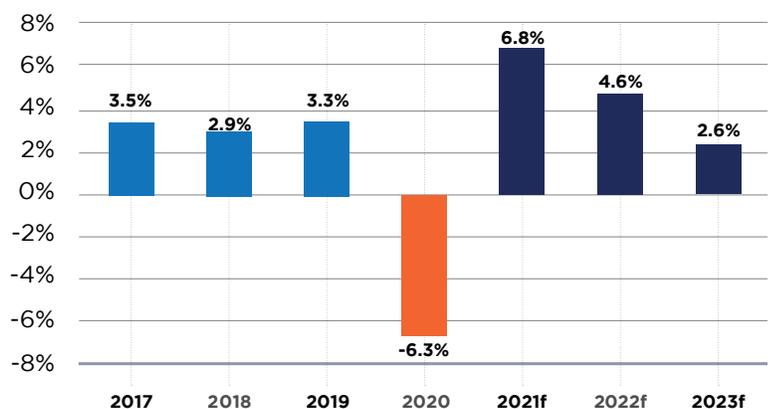
Major Economic Indicators

Real Gross State Product

The Los Angeles County economy experienced a strong recovery in 2021 which offset losses from the previous year, with further growth expected for the future.

Gross county product is expected to grow by **6.8 percent** in 2021 and is projected to grow by another **4.6 percent** in 2022. Growth is expected to slow over the next two years after the major rebound of 2021.

Figure 6: Los Angeles County Real Growth GCP



Unemployment

During 2021, the unemployment rate in Los Angeles County continued to fall.

In 2021, the seasonally adjusted unemployment rate continued to fall from its May 2020 peak of 21.1 percent; it was below 10 percent for the first time since the pandemic struck by August, and by November, the unemployment rate had fallen to around 7 percent.



LOS ANGELES COUNTY

Employment

While employment in L.A. County has recovered significantly across all industries since 2020 employment lows, total employment in L.A. County is still below January 2020 levels.

Compared to the Great Recession, the immediate effect of the pandemic on employment was swifter and more significant. However, the rate of employment recovery has so far been more rapid than during the Great Recession. Los Angeles County experienced the greatest job loss associated with the COVID-19 pandemic between March and April, when more than 772,000 jobs fell off county nonfarm payrolls. Since then, the county has added around **67.5 percent** of those jobs back. Over the next two years, professional and business services, leisure and hospitality, and education and health services are expected to add the most payroll jobs. The progress of the recovery in the years to come will depend on a variety of factors including the future trajectory of the COVID pandemic.

Figure 7: **2022 to 2023 Employment Growth by Industry**

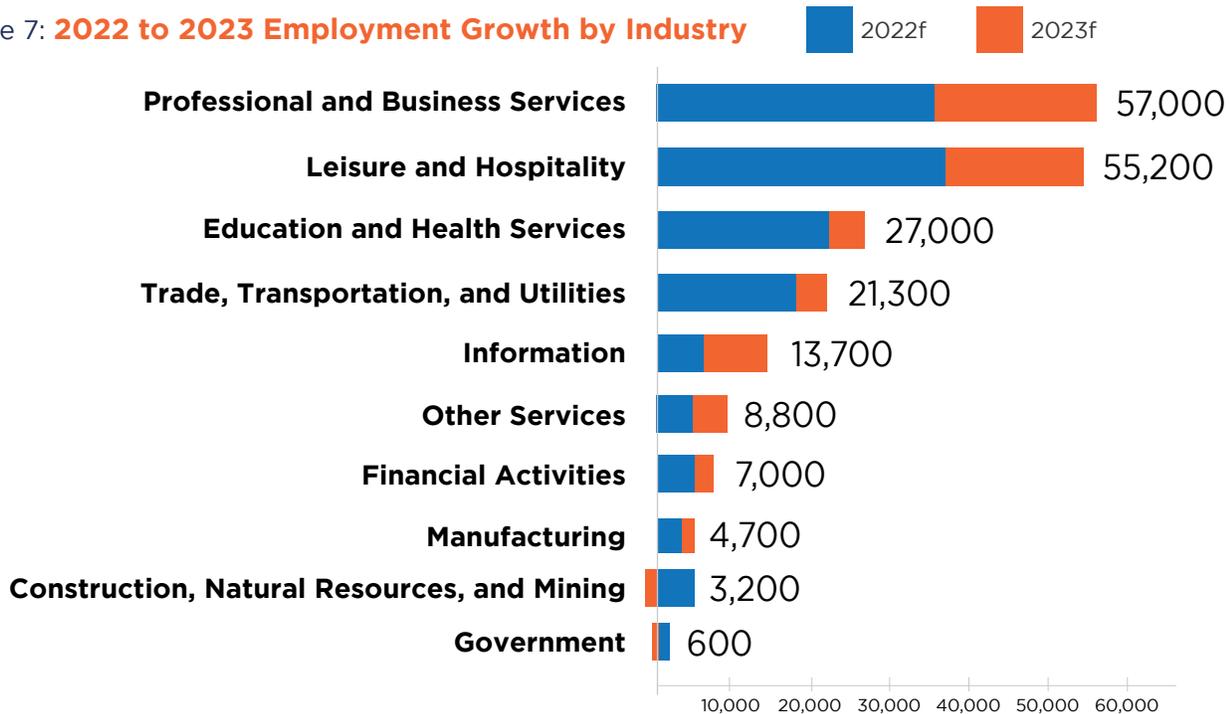


Figure 8: **Los Angeles Headline Statistics and Forecast**

	2017	2018	2019	2020	2021f	2022f	2023f
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Real Personal Income Growth	1.2%	1.4%	3.1%	6.2%	1.3%	-2.1%	2.6%
Total Employment Growth	1.6%	1.5%	0.8%	-11.8%	7.0%	3.0%	1.3%
Unemployment Rate	4.8%	4.7%	4.6%	12.8%	9.6%	6.4%	5.1%

LOS ANGELES COUNTY

Looking Forward

Los Angeles County is quickly recovering from the negative economic and social effects of the COVID-19 pandemic. The pandemic-induced job losses, business failures, industry shifts, and overall social and economic changes, will have ramifications that will extend beyond the end of the pandemic.

Housing

Housing in the Los Angeles region has significantly increased in value throughout the pandemic and closed 2021 at **2.5 times higher than the value of the typical home** in the United States. While the increase in Los Angeles home values is expected to slow in 2023, high housing costs will continue to remain an important characteristic of the region.

The change in consumer housing demand during the pandemic, against a backdrop of extraordinarily low inventories in the Los Angeles region, has led to a significant increase in home values, with the median seasonally adjusted typical home value (which includes single family, condominium, and cooperative home types) in the county topping \$800,000 for the first time in September 2021.⁸

Potential Upcoming Labor Issues

Across all negotiations for new labor agreements, resolving any potential disputes quickly and effectively will be key to keeping these industries and the larger economy on the path to full recovery.

Several potential labor issues in 2022 have the potential to interrupt economic recovery for a few key industries in the Los Angeles region, including:

- Global Trade: ILWU Labor Negotiations.
- Film & Television Production: Labor Negotiations.
- Petroleum Refineries: USW Labor Negotiations.



⁸ Zillow. Los Angeles County Home Values.
<https://www.zillow.com/ca-91841/home-values/>

LOS ANGELES COUNTY

The Digital Divide

The COVID-19 pandemic laid bare how differences in access to internet, affordability of internet, device ownership, and digital literacy, a group of concepts known as the digital divide, put up barriers to schooling, working from home, attending telehealth appointments, and many other facets of life. In response to the digital divide, Los Angeles County has funded forward-looking projects to pioneer solutions and gather community input.

Conclusion

At all levels, there has been a general economic recovery over the past year. However, challenges related to the COVID-19 health crisis portend to linger. After a full recovery takes place, we expect the national, state, and the Los Angeles region's economies will likely differ in significant way from the pre-pandemic period.

Looking for More Data?

Forecast tables and quick facts for the United States, California, the 5-county Southern California region and for each of its individual counties can be found in the appendix: <https://laedc.org/economic-forecast-2022-report/>

