



The Regional Outlook San Diego

Spring 2021

A year after the first wave of pandemic-driven shutdowns, a pattern similar to many other parts of the country has emerged in San Diego – falling employment and rising unemployment rates. Still, the outlook for 2021 is optimistic. As new COVID-19 cases continue to plummet, while the number of vaccinated adults continues to rise, San Diego will surely make a comeback. Thanks especially to the recommencement of outdoor dining in California, economic activity in the region is expected to bounce back through the first quarter of this year and will continue to reclaim lost ground as 2021 progresses. Nonetheless, many small businesses in San Diego, especially those dependent on travel and hospitality, continue to see shriveled revenues.

San Diego's Labor Market Recovery Comes To A Pause

San Diego's labor market sustained significant damage in March and April of 2020, with around 229,000 jobs lost, roughly 15% of all jobs in the region. It was initially expected that swift job losses would be followed by a quick recovery. However, as of December 2020, only 49.7% of these jobs have come back, and the region is still 115,000 jobs below pre-pandemic levels. This means that relative to pre-pandemic levels, there are now around 7.5% fewer jobs in San Diego. This is slightly better than the state as a whole, where employment is still 8% lower than it was before the pandemic. In terms of unemployment, the regional rate is 9% in San Diego, down from an April peak of 16%, but still higher than the 4% figure reported in February 2020. San Diego's unemployment rate is higher than Orange County (9.0%), and California overall (9.0%), but lower than Los Angeles (11.0%) and the Inland Empire (10.7%). Even so, December was the first month since May 2020 when San Diego metro reported a month-to-month increase in the unemployment rate.

At the industry level, the largest gains in December were in the Professional/Business sector, which added almost 3,000 new jobs. This was followed by Construction, which added 2,750 jobs. In terms of employment numbers relative to February, the best-recovered industry in San Diego was Construction, which, in December, reported job levels at 104% of February figures. Meanwhile, Arts and Entertainment remains the least-recovered industry, with jobs at 34% below February 2020 levels. The hard-hit Accommodation and Food sector follows, with payroll employment standing at 26% less than February levels. The losses in Accommodation and Food account for 39% of all job losses in San Diego since the onset of the pandemic, indicating how essential the recovery of this industry is to the recovery of the region as a whole.

Employment by Industry, San Diego

Industry	Dec-2020 (000s)	Feb-20 to Dec-20		Dec-19 to Dec-20	
		Growth (%)	Change (000s)	Growth (%)	Change (000s)
Total Nonfarm	1,409	-7.5%	-114.0	-6.9%	-104.8
Construction	88	3.7%	3.1	3.7%	3.2
Professional/Business	271	2.2%	5.7	3.6%	9.3
Transport, Warehouse, Util.	35	0.2%	0.1	0.8%	0.3
Finance and Insurance	45	-3.2%	-1.5	-3.4%	-1.6
Real Estate	30	-4.8%	-1.5	-4.2%	-1.3
Retail Trade	138	-5.5%	-8.0	-4.6%	-6.7
Education/Health	208	-6.0%	-13.3	-5.1%	-11.3
Government	234	-6.7%	-16.7	-6.6%	-16.4
Manufacturing	109	-6.9%	-8.1	-7.2%	-8.5
Wholesale Trade	39	-10.8%	-4.7	-11.7%	-5.2
Information	20	-14.3%	-3.3	-14.5%	-3.4
Other Services	45	-20.1%	-11.2	-18.4%	-10.1
Accommodation and Food	127	-25.8%	-44.1	-25.6%	-43.7
Arts and Entertainment	21	-33.6%	-10.4	-31.4%	-9.4

Source: California Employment Development Department (EDD). Analysis by Beacon Economics.

San Diego Small Businesses Fare Better Than Other California Metros

With a surge in new COVID-19 cases at the end of last year, San Diego once again imposed strict lockdown restrictions, including a daily curfew and another ban on outdoor dining. Real-time data from Opportunity Insights' Economic Tracker shows the impact this had on small business closures, as well as their revenues. (Note: 'small business' is defined as those with annual revenues and/or employees below thresholds set by the Small Business Administration. These vary across industries.)

Throughout October and November, the number of open small businesses in San Diego hovered around 31.3% fewer than January 2020. However, by the start of 2021, this had declined steeply to around 41.7% fewer open small businesses than the year before. While this was comparable to the state as a whole, it was worse than the nationally reported drop of 37%. There has been some improvement in the latest numbers, however. As of February 2021, there are 36.7% fewer open small businesses in San Diego compared to pre-COVID levels; in California, there are 35.4% fewer open small businesses, and in the nation, there are 34.2% fewer.



The new wave of shutdowns impacted different industries at different rates. In San Diego, the industry that continues to struggle the most is Leisure and Hospitality, which reports a 47.7% drop in open small businesses compared to a year ago. Relative to California (-50%) and the United States (-52.3%), San Diego's Leisure and Hospitality sector is in a slightly better position, indicating the relative strength of the region's economy a year after the onset of the pandemic. The best-recovered industry in the San Diego region is Professional/Business, which reported only a 19.4% drop in February 2021 compared to pre-pandemic levels. Meanwhile, open small businesses in Transportation report a 45% drop relative to a year ago, while those in Education and Health Services report a 30.8% drop.

As expected, the Leisure and Hospitality industry has seen by far the most substantial drop in total revenues. Revenue for Leisure and Hospitality in San Diego hovered around 47% less than pre-pandemic levels in mid-June. But as the city continued to struggle, there was another substantial drop, with revenues plummeting to 73.3% less than pre-pandemic levels in late January 2021. There has been a slight recovery since then, with the latest data indicating a 66.2% drop in revenues relative to a year ago. As of February 2021, no other industry comes close to this level of revenue drop-off. Revenues in Professional and Business Services have fallen only 7.4%, while those in Education and Health Services, and Transportation have fallen 29.2% and 33.1% respectively.