



The Regional Outlook South Bay

Spring 2021

A year after the initial onset of restrictions, employment numbers continue to fall short of pre-pandemic levels for many metros across the United States, including the South Bay. Moreover, the fourth quarter of 2020 saw yet another economic slowdown as surging coronavirus cases led to new restrictions on travel, social gatherings, and outdoor dining. Nonetheless, the outlook for 2021 remains positive. 'The curve' has been flattened again and, as a result, California has lifted many of the strictest restrictions imposed in the final months of 2020. As the federal government finalizes a new stimulus package, and yet another vaccine is approved by the Federal Drug Administration, economic activity in all industries will pick up speed throughout 2021, despite gloomy figures from the end of last year.

South Bay Unemployment An Outlier For California

The South Bay region sustained significant damage in March and April of 2020 when, due to the outbreak of the coronavirus and the public response to it, employers shed 151,000 jobs in the region. This equates to 13% of jobs lost in the South Bay. There was initial optimism that most of these jobs would return quickly, but as of December 2020, only 44% of them have been recovered. This puts total payroll employment at 84,000 jobs below pre-pandemic levels. It also means that there are 7.3% fewer jobs in the region now than there were in February 2020, marginally better than the 8% drop statewide. In addition, the South Bay's unemployment rate has fallen from an April peak of 12% to only 7% in December, much lower than the statewide rate of 9%. Nonetheless, December marked the first time since April when the unemployment rate went up in the South Bay.

At the industry level, the largest gains in December took place in the Professional/Business sector, which added around 1,300 jobs. This was followed by Information, which added 680 jobs. In terms of employment numbers relative to February, the best-recovered industry in the East Bay was Transport, Warehousing, and Utilities, which reported job levels at 104% of February levels. The Accommodation and Food sector is the least recovered industry, with jobs at 33% below February 2020 levels. The hard-hit Arts and Entertainment sector is the second worst, with payroll employment numbers at 16% less than February levels. Job losses in Accommodation and Food account for 35% of all sustained job losses in the South Bay 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, South Bay

Industry	Dec-2020 (000s)	Feb-20 to Dec-20		Dec-19 to Dec-20	
		Growth (%)	Change (000s)	Growth (%)	Change (000s)
Total Nonfarm	1,074	-7.3%	-84.0	-6.9%	-79.4
Transport, Warehouse, Util.	17	3.7%	0.6	6.1%	1.0
Professional/Business	247	0.8%	2.0	1.0%	2.4
Construction	51	-2.9%	-1.5	-1.6%	-0.9
Education/Health	171	-3.3%	-5.9	-2.8%	-5.0
Finance and Insurance	21	-4.1%	-0.9	-4.9%	-1.1
Government	92	-5.9%	-5.8	-5.4%	-5.3
Retail Trade	79	-6.5%	-5.4	-5.7%	-4.8
Manufacturing	164	-6.7%	-11.8	-6.3%	-10.9
Real Estate	15	-6.9%	-1.1	-5.5%	-0.9
Wholesale Trade	28	-8.9%	-2.8	-9.8%	-3.1
Information	93	-11.1%	-11.7	-9.9%	-10.3
Arts and Entertainment	13	-15.7%	-2.4	-21.3%	-3.4
Other Services	22	-26.5%	-8.0	-24.6%	-7.2
Accommodation and Food	59	-33.0%	-29.2	-33.5%	-29.9

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

Leisure and Hospitality, Transportation Companies Struggle To Stay Open

Due to surging COVID-19 cases at the end of 2020, and restrictions imposed to combat the spread of the virus, small business closures remain a reality in the South Bay. As of February 2021, data from Opportunity Insights suggests a 40.3% drop in open small businesses relative to pre-pandemic levels – slightly better than San Francisco (-50.5%), but worse than the East Bay (-37.2%). (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.) This drop is also worse than California (-35.4%) and the United States overall (-34.2%), indicating a sluggish recovery in the South Bay.

Data also suggests that the new restrictions had some impact on small business openings. While there was only a 36% drop in small business openings relative to pre-pandemic levels in October and November, by January this average had dipped another 10 percentage points, bottoming out at a 46.7% drop in open small businesses compared to one year earlier



While most other metros have reported the steepest small business drops in Leisure and Hospitality, as of February 2021, the South Bay region's Transportation sector has fared the worst. The latest data suggests a 47.7% drop in open Transportation sector small businesses, relative to pre-pandemic levels. This compares to a 45.8% drop in open small businesses in Leisure and Hospitality in San Jose. Moreover, the decline in the region is much worse than declines in open Transportation businesses in both California (-33.2%) and the United States (-29%), suggesting a disproportionate impact on Transportation companies in the South Bay compared to other metros across the country. On the other hand, companies that specialize in Professional and Business Services have reported the best comeback in terms of openings (-27%), while Education and Health Services report only a 32.7% drop in openings compared to a year ago.

In terms of total revenues, the picture is slightly different. As of February 2021, the South Bay region reports a 72.7% drop in revenues for Leisure and Hospitality small businesses, a marginal improvement from both the 78.6% figure for December 17 and the 81.8% drop of March 24, 2020. The latest figure is much worse than any other industry. Small businesses in Education and Health reported only a 50.6% drop in revenues relative to a year ago, while those in Transportation reported a drop of 24.3%.