

COVID-19: The impact on California's economy and considerations for recovery

CALIFORNIA FORWARD LEADERSHIP COUNCIL AND CALIFORNIA STEWARDSHIP NETWORK BRIEFING

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CAFWD:



Overview of this document

- **COVID-19 is, first and foremost, a humanitarian challenge.** Health professionals are heroically battling the virus, putting their own lives at risk.
- **Solving the humanitarian challenge is the top priority.** Much remains to be done globally to respond and recover, from counting the humanitarian costs of the virus, to supporting the victims and families, to developing a vaccine
- In addition to the humanitarian challenge, **there are implications for California's economy, businesses, and workers.** This document is focused on outlining **emerging insights on the economic impact of COVID-19 in California and potential interventions to shape the plan for recovery**, in particular:
 - A** The **potential impact of COVID-19 to California's GDP** across recovery scenarios
 - B** The **Californian jobs and industries most economically vulnerable to COVID-19**
 - C** Some considerations to potentially help inform California's plan for **restarting the economy and supporting Californians through the recovery process**

A Potential impact to California GDP: Scenarios for impact of COVID-19

GDP impact of COVID-19 spread, public health response, and economic policies

■ Scenarios applied to CA for state GDP projections

Virus spread and public health response

Effectiveness of the public health response in controlling the spread and human impact of COVID-19

Rapid and effective control of virus spread
 Strong public health response succeeds in controlling spread in each country within 2-3 months

Effective response, but (regional) virus resurgence
 Public health response initially succeeds but measures are not sufficient to prevent viral resurgence so social distancing continues (regionally) for several months

Broad failure of public health interventions
 Public health response fails to control the spread of the virus for an extended period of time (e.g., until vaccines are available)

B1
 Virus contained, but sector damage; lower long-term trend growth

A3
 Virus contained, slow recovery

A4
 Virus contained; strong growth rebound

B2
 Virus resurgence; slow long-term growth

A1
 Virus resurgence; slow long-term growth
 Muted World Recovery

A2
 Virus resurgence; return to trend growth
 Strong World Rebound

B3
 Pandemic escalation; prolonged downturn without economic recovery

B4
 Pandemic escalation; slow progression towards economic recovery

B5
 Pandemic escalation; delayed but full economic recovery

Ineffective interventions
 Self-reinforcing recession dynamics kick-in; widespread bankruptcies and credit defaults; potential banking crisis

Partially effective interventions
 Policy responses partially offset economic damage; banking crisis is avoided; recovery levels muted

Highly effective interventions
 Strong policy responses prevent structural damage; recovery to pre-crisis fundamentals and momentum

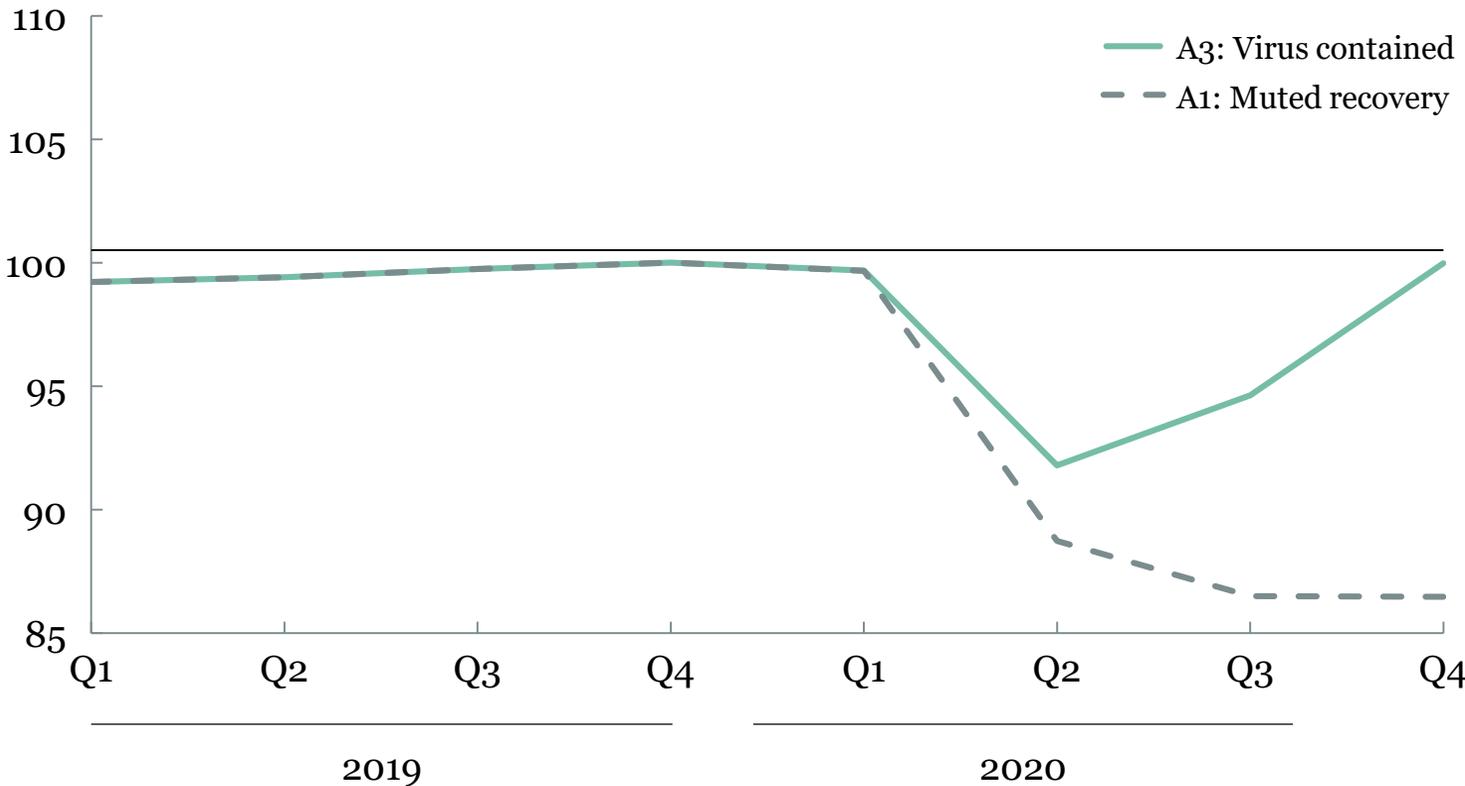
Knock-on effects and economic policy response
 Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

SOURCE: Fitzgerald, Alan, et al. "An Instant Economic Crisis: How Deep and How Long?" McKinsey & Co. April 2020

A In the “virus contained” contained scenario, CA could see a recovery post Q2; if not, GDP could shrink through 2021 with a slow recovery in 2022

Estimated Real GDP Growth

Indexed, 2019 Q4=100



	Virus contained	Muted recovery
Real GDP drop 2019Q4-2020Q2 % Change	-8.2%	-11.3%
2020 GDP growth % Change	-3.1%	-9.3%
Time to Return to Pre-Crisis Quarter	2020 Q4	2024 Q2

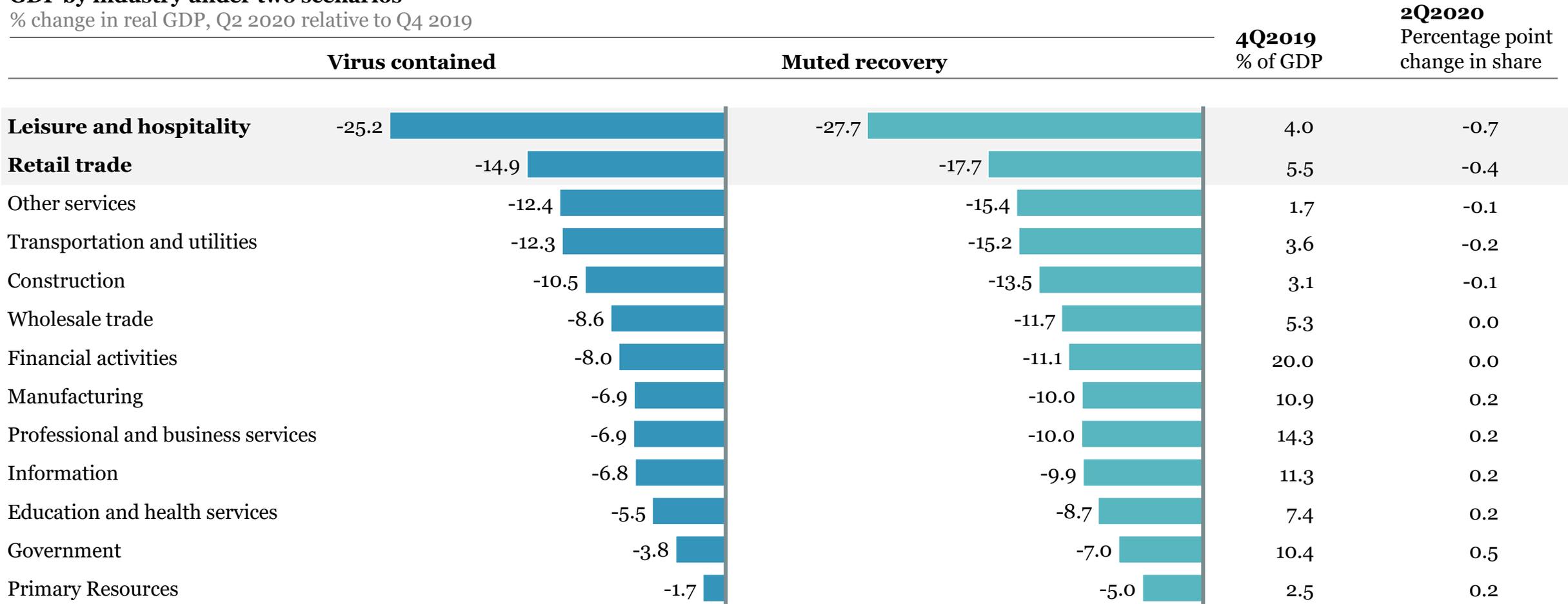
1 The Virus Contained scenario (A3) assumes a rapid and effective control of the virus globally. The Muted Recovery scenario (A1) assumes there is a virus resurgence and a muted recovery through 2022 globally 2 Average annual percent change

 Sectors most negatively affected

A Sectors most negatively affected by the virus are leisure, hospitality and retail, which comprise ~ 10% of California's GDP

GDP by industry under two scenarios

% change in real GDP, Q2 2020 relative to Q4 2019

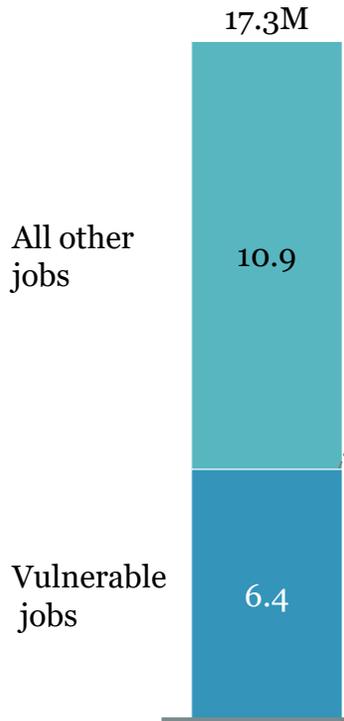


Notes: The Virus Contained scenario assumes a rapid and effective control of the virus globally. The Muted Recovery scenario assumes there is a virus resurgence and a muted recovery through 2022 globally

SOURCE: Source MGI Economics analysis based on scenarios generated by McKinsey in partnership with Oxford Economics, input from Moody's Analytics data

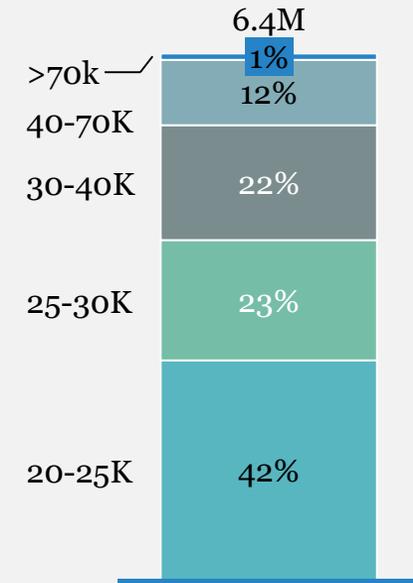
B California's vulnerable jobs: 37%, representing 6.4 million jobs

CA jobs by level of risk
Million



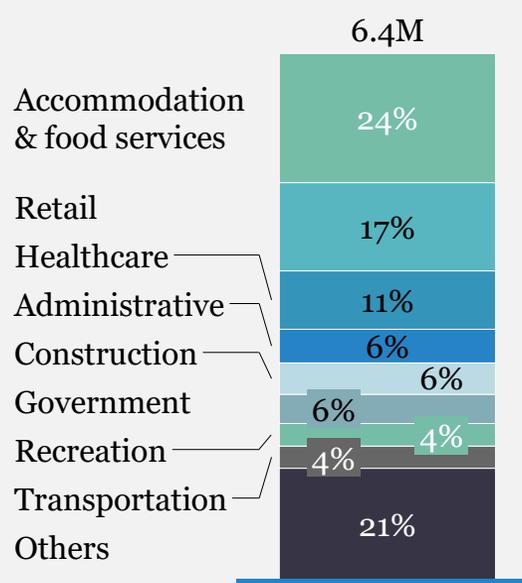
CA vulnerable jobs by employee annual income, sector and company size
Million

By employee annual income



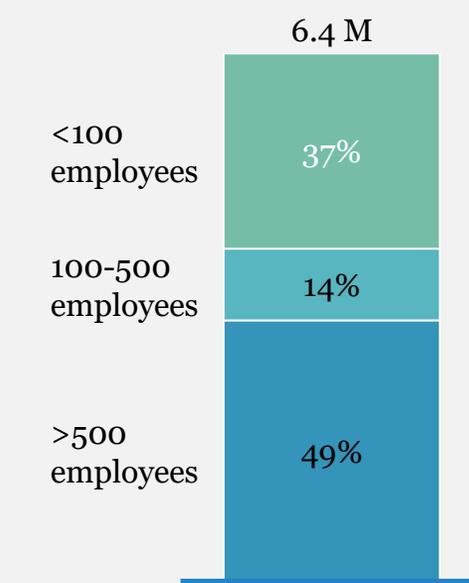
86% of vulnerable jobs will affect workers earning below \$40k/yr

By sector



Over 50% of vulnerable jobs are concentrated in 3 sectors

By company size



Over a third of vulnerable jobs are in small companies with <100 employees

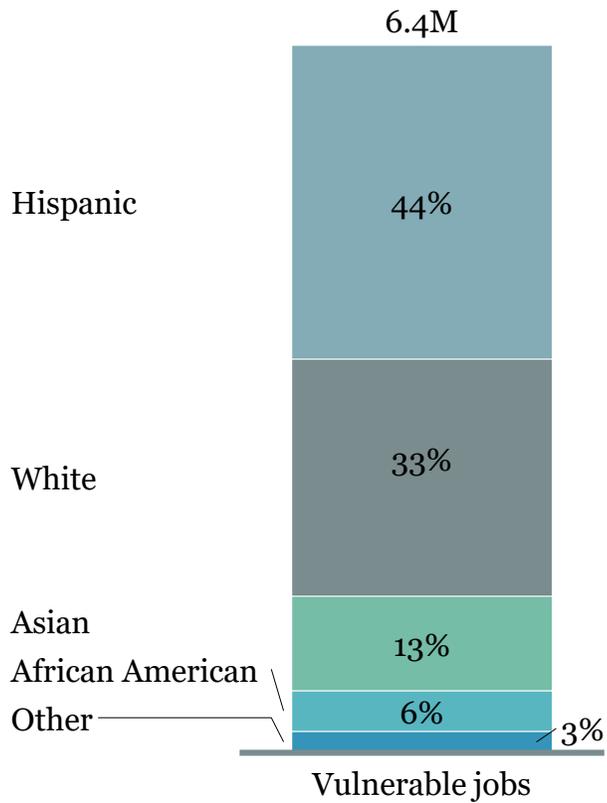
Note: Analysis determines vulnerable jobs as related to social distancing policies and their immediate knock-on economic consequences – assumes maximum social distancing (defined by shelter-in-place policy)

Source: LaborCUBE; BLS OES, Moody's

B Hispanic workers are the most vulnerable in California

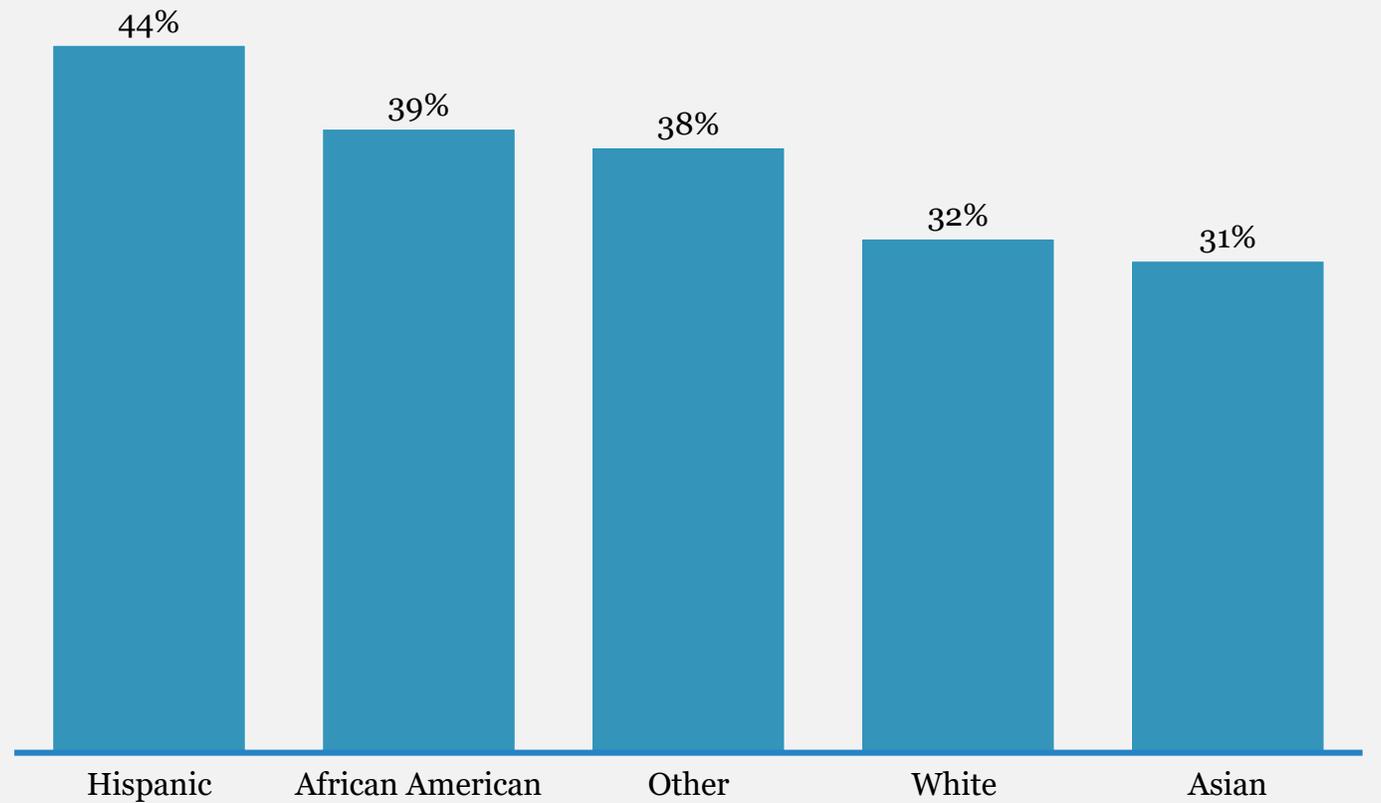
44% of all California's vulnerable jobs are held by Hispanic employees

Distribution of vulnerable jobs by race, %



~44% of Hispanic Californian workers' jobs are at risk compared to only 32% of white Californian workers

Share of vulnerable jobs across racial groups, %



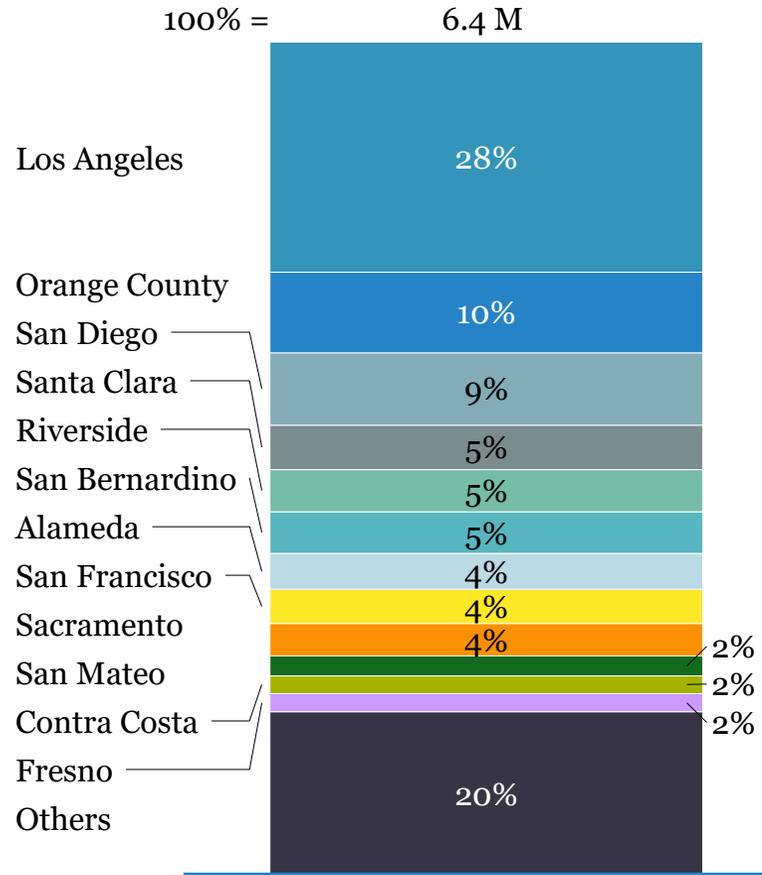
Note: Analysis determines jobs at risk as related to social distancing policies and their immediate knock-on economic consequences – assumes maximum social distancing (defined by shelter-in-place policy)

Source: LaborCUBE; BLS OES, Moody's

B ~80% of vulnerable jobs are concentrated in 12 counties

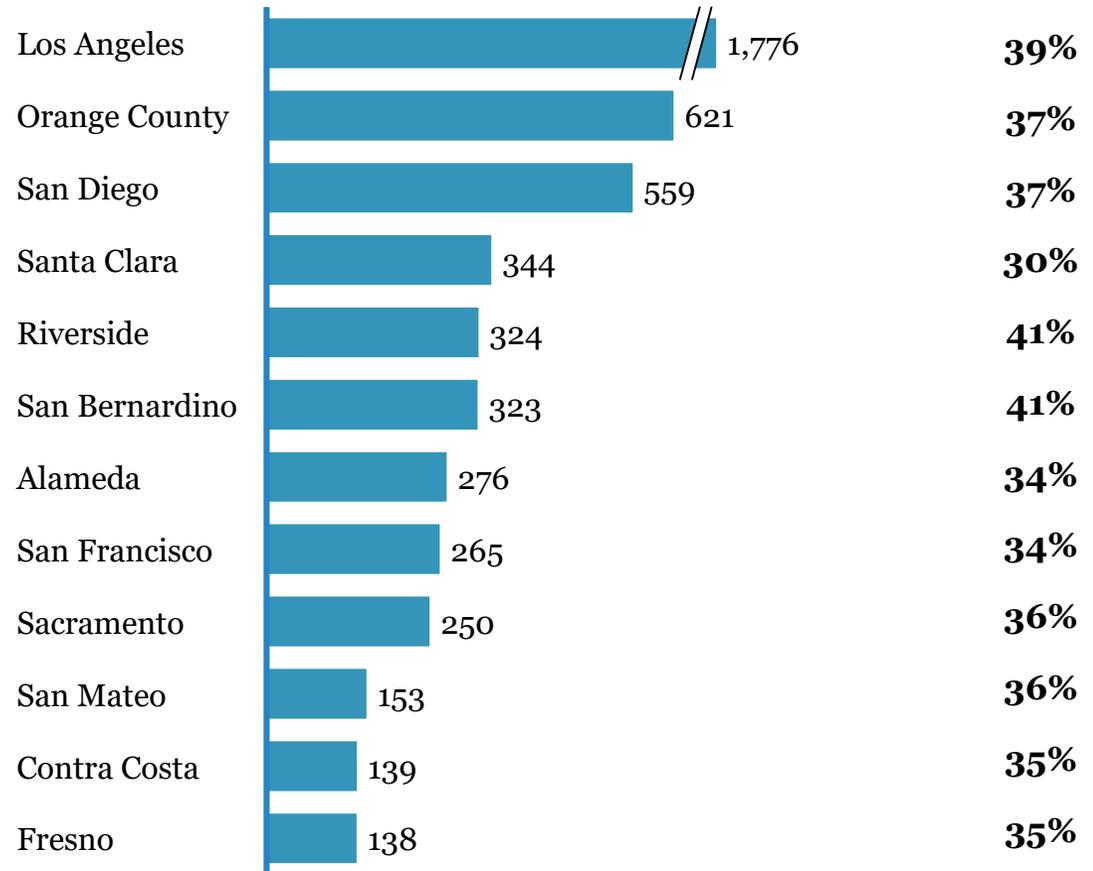
Distribution of vulnerable jobs across counties

Percentage



12 counties with the largest number of vulnerable jobs, thousands

Share of vulnerable jobs in each county, percentage



Note: Analysis determines vulnerable jobs as related to social distancing policies and their immediate knock-on economic consequences – assumes maximum social distancing (defined by shelter-in-place policy)

SOURCE: LaborCUBE; BLS OES, Moody's

C Considerations for California when restarting the economy

- **Economic “restart” could potentially occur over longer timeframe** (e.g., 12 – 18 months)
- **Learnings from other geographies imply that re-opening is anticipated to happen in stages; not a “flip the switch”**
- **At each stage, the State will need to consider re-opening across a set of categories** (e.g., by activity, by sector)
- **Actions in each stage could be guided by indicators across six domains**
- **Command center infrastructure and operations will be essential to ensuring agility to respond** to public health needs and accountability to the plan
- **There are a set of specific interventions the state could consider putting in place to support Californians throughout this process**

C California can respond to the economic impacts of COVID-19 by pursuing four types of efforts

1 Relieve **Goal:** Stabilize immediate effects of COVID-19 crisis, and provide immediate relief to people and businesses



Potential action: Minimize job separation, deploy financial and other supports immediately to households and businesses

2 Restart **Goal:** Restore confidence in economic activity when public health conditions are in place and lasting interventions provide for continued safety



Potential action: Establish and clearly communicate “open when ready” guidelines and policies by sector and geography (for businesses)

3 Recover



Goal: Return aggregate demand to pre-crisis levels and set a trajectory of inclusive growth for the economy, restoring commerce and confidence

Potential action: Stimulate demand and long-term growth (e.g., large-scale infrastructure programs) & ensure competitive talent pool (e.g., reskilling programs)

4 Reimagine **Goal:** Reshape and transform sector strategies, operating models, and new ways of learning and working to ensure resilience and growth in a post-pandemic economy



Potential action: Incentivize the growth of emerging post-pandemic businesses and support the most disrupted sectors, geographies in reinventing themselves



C Actions in each stage could be guided by indicators across six domains

Domain	Objective	Indicators that could be measured
I Foundational Public Health	<ul style="list-style-type: none"> • Mitigate contagion by protecting healthcare workers, scaling testing capabilities, establishing contact tracing, setting effective quarantines, and adopting public use of PPE, and other “low regret” approaches 	<ul style="list-style-type: none"> • Mortality rate, hospitalization rate, number of new cases
II Societal Compliance	<ul style="list-style-type: none"> • Achieving compliance with public health strategies among people and institutions, using communication, influencers, segmentation, penalties, enforcement, and support 	<ul style="list-style-type: none"> • Compliance by segment (old, young, low-income) and by intervention (social distancing, remote work)
III Health System Capacity	<ul style="list-style-type: none"> • Expand health system capacity including staff, supplies, and physical infrastructure likely through coordination, direct support (National Guard), funding, and directives 	<ul style="list-style-type: none"> • Medical capacity, ability to perform a diagnostic test for COVID-19 with a fast turnaround time, adequacy of medical resources, strength of systems for effectively identifying and isolating cases and contacts, quality of public education informed by the best scientific evidence available
IV Workplace Safeguarding	<ul style="list-style-type: none"> • Protecting the public at work, in stores, and at school by erecting safeguards to human interaction, helping businesses secure their operations, and creating safe environments for people to work 	<ul style="list-style-type: none"> • Portion of each industry confirmed to safeguarded
V Vulnerable Populations	<ul style="list-style-type: none"> • Ensuring public safety nets and support for individuals who are recently unemployed or homeless, or have chronic physical or mental health conditions that can be exacerbated by the epidemic 	<ul style="list-style-type: none"> • Trends in events (e.g. eviction rates, suicide rates, depression/anxiety RXs, hate crimes)
VI Economic Health	<ul style="list-style-type: none"> • Minimize the economic impact and accelerate recovery by distributing federal stimulus, crafting local programs to supporting business, and incentivizing consumer spending 	<ul style="list-style-type: none"> • Unemployment rate, bankruptcies, sales tax, new business formation, state solvency

SOURCE: Latkovic, Tom, et al. “Winning the Coronavirus War.” *McKinsey & Co.* April 2020.

C Elements of comprehensive “reopen” plan

(to be used once necessary conditions for reopen are met*)

1. **Actions to take now to increase flexibility** (based on assessment of response-to-date), e.g.,
 - a. Double down on foundational public health (e.g., testing, contact tracing, quarantines)
 - b. Define, accelerate low-regret public health strategies (e.g., masks, serological testing)
 - c. Work with business and health professionals to define “safeguarding playbook” for each type of economic activity or industry
 - d. Drive economic health including application of federal stimulus, expediting delivery of benefits, new state programs
 - e. Further strengthen “command center” operations, resources, intel to drive battle

2. **Sequence/orchestration** of incremental actions by “interval” in a “success case”
 - a. Specific restrictions to relax by activity/industry, population, and/or geography
 - b. New interventions, measures, tactics to throttle up in parallel
 - c. Clear boundary conditions, constraints, and/or milestones

3. **Approach to encourage / achieve adoption**
 - a. Define/quantify dependencies and resource needs (e.g., PPE, child care)
 - b. Support/resources affected people (e.g., hotels for quarantined)
 - c. Support/ resources (e.g., masks with retailers, targeted grants to small business for adaptations)
 - d. Approach to monitor and enforcement (if any)

4. **Measures, triggers, and counter measures** to identify a potential surge and address

5. **Stakeholder engagement platform and strategy**
 - a. Core messaging (e.g., expectations, asks, commitments, etc.)
 - b. Segment-specific approach to reach and influence residents and business
 - c. Approach to gather feedback

© Reopen/Restart will require orchestration, risk, and tradeoffs

Requires tradeoffs and risks

Elements of a 60-90 day reopen / restart plan

- Define / assessment of key tradeoffs and risk (e.g., how much contagion is acceptable)
- Key measures to use to reinstate/close activity, thresholds, and “throttles” or “circuit breakers”
- Most immediate priorities across domains to turbo charge (e.g., safeguarding)
- Sequence to relax restrictions by activity, sector, population, county and to what degree, when
- Approach to execute and ensure compliance including required resources/authority
- Identify key interdependencies (e.g., adjacent markets, supply chain) and coordinate plan

More is better

Question of degree and execution

Constrained by funding, social norms, time, and leadership capacity

Foundational Public Health	Societal Compliance	Health System Capacity	Industry Safeguarding	Vulnerable Populations	Economic Health
PPE/worker safety	Communication	Supplies (vents)	Essential services	Social sector	Federal programs
Testing	Enforcement	Physical space	Nonessential sectors	Private sector State programs	State programs
Contact tracing	Support	Clinical workforce	Education	Federal programs	State benefits
Quarantines		Direct intervention	Standards	Monitoring	
Masks			Monitoring/compliance		
Low-regret tactics					
Activity restrictions					

C Command center operations could be essential to ensuring agility in responding to public health needs as re-starting occurs

ILLUSTRATIVE

Imperatives

Example actions to operationalize command center

Enhanced governance

- **Identify core objectives of command center** and determine which teams/domains will be required
- **Establish a clear organizational structure with role clarity** for all members of core and domain teams
- **Ensure that each team/domain has sufficient authority to act**
- **Determine clear milestones and performance indicators** for each core team
- **Define a consistent operating rhythm**, e.g., daily / weekly meetings that enable cross-team coordination
- **Institute agile decision-making processes** and train team members on new way of working

Talent and resources to act across the 6 domains

- **Dedicate enough resources to ensure that sufficient talent is brought on**
- **Focus on gathering a large group of outcome-oriented leaders with a mix of skills**– operators, logisticians, strategists, analysts, clinicians, etc.
- **Select personnel and hold onboarding sessions** for all roles, across all teams

Frequent collection of accurate information

- **Define which KPIs**, e.g., number of hospital beds available, **should be gathered** across each team/domain
- **Determine sources of key data** and define the steps necessary to aggregate
- **Establish key data governance practices to ensure data quality, such as defined procedure** for refreshing datasets **and clear owner(s)** for updating core data sets
- **Build data dashboards for all domain teams**, as well as regular calls to align on implications of data

Ability to effectively engage with all relevant stakeholders

- **Create list of all organizations** to interface with (both public and private)
- **Define key point of contact** for each
- **Outline a two-way communication plan** for all contacts, including goals and cadence
- **Determine if there are any particular initiatives** that will require **extensive interaction with external stakeholders** to prioritize co-creation early in process

APPENDIX

B Measuring “Vulnerable jobs” provides a more comprehensive view than traditional unemployment indicators

Full-time jobs lost

+

Part-time jobs lost

+

Jobs in which worker has been placed on unpaid leave

+

Jobs in which wages are cut or hours reduced

+

Jobs associated with workers who have exited the labor force



37% of total jobs
6.4M vulnerable jobs
over the next 3
months

What is the difference between vulnerable jobs and traditional unemployment measures?

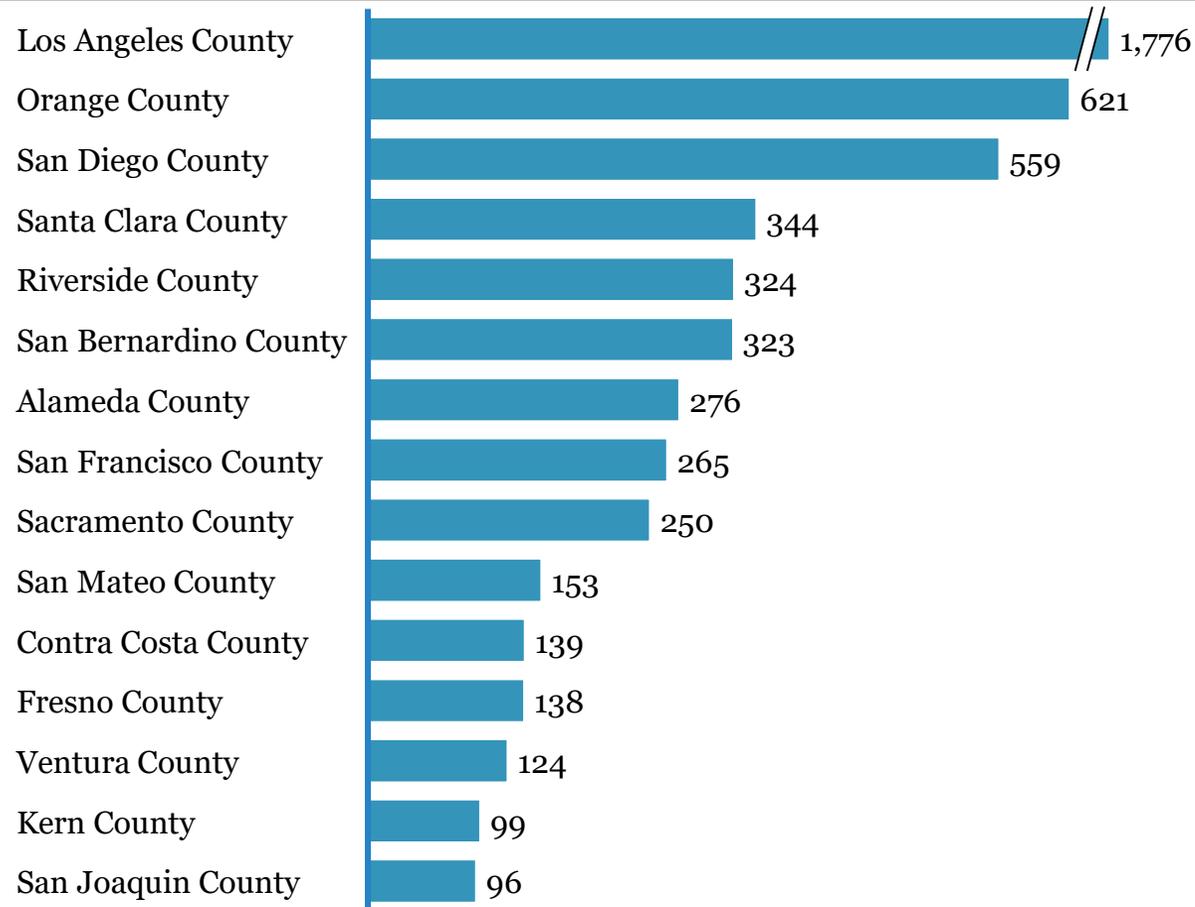
- “Vulnerable jobs”, unlike U3 or U6, **measures number of jobs instead of number of people**
- **“Vulnerable jobs” is more comprehensive than traditional unemployment measures (U3 / U6)** as it accounts for:
 - Reduced wages/hours
 - Workers who have exited the labor force
 - Workers placed on unpaid leave
 - Multiple job holders who have lost one or more of their jobs
- **“Vulnerable jobs” in California were calculated with two underlying assumptions:**
 - Shelter in place
 - Absence of economic interventions (i.e., does not include any federal or state stimulus)

Note: Analysis determines vulnerable jobs as related to social distancing policies and their immediate knock-on economic consequences – assumes maximum social distancing (defined by shelter-in-place policy)

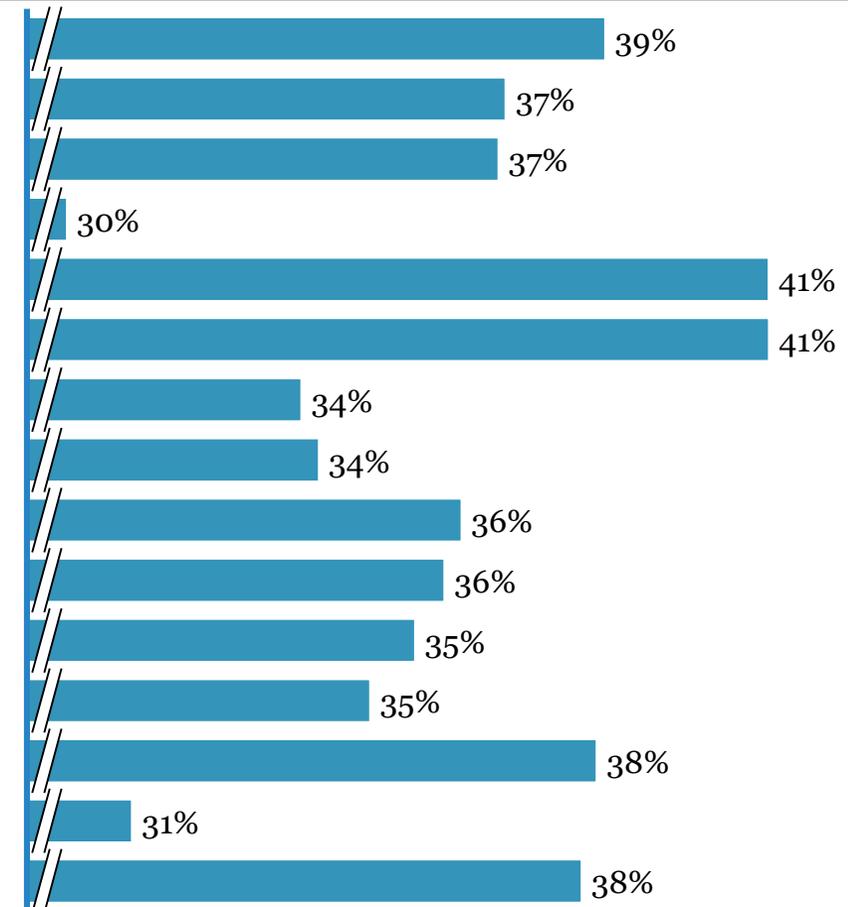
Source: LaborCUBE; BLS OES, Moody’s

B Most counties in California may have 30-40% of employment that is vulnerable

Total vulnerable jobs in 15 largest counties, thousands



Share of county employment that is vulnerable %



Note: Analysis determines vulnerable jobs as related to social distancing policies and their immediate knock-on economic consequences – assumes maximum social distancing (defined by shelter-in-place policy)

SOURCE: LaborCUBE; BLS OES, Moody's

C At each stage, the State may need to consider re-opening across a set of categories

Category	Description	Requirements / what you have to believe
Target zero contagion	Allow most activity in some form; take very strong action as individual cases emerge This is approach in Hong Kong, South Korea, Singapore	Contagion almost zero; Extremely strong public health capabilities; Industry safeguarding in place
Gradual across the board	Partially relax of all physical distancing requirements (parties, gatherings) and restrictions on economic activity (e.g., retail, restaurants, manufacturing) in unison	Ability to define such standards; achieving compliance with more nuanced guidance
By market/county	Relax more aggressively in by city/county/MSA Discourage intra-geography travel	Ability to minimize spread across markets Lack of economic interconnectedness
Bifurcate by activity risk	Relax restrictions on activities least risky (small groups, outside activity, outdoor construction) Maintain strong restrictions on more risky (e.g., large groups, bars/entertainment)	Clear understanding of risk level by activity Ability to monitor and enforce
By personal risk factor	Relax restrictions on lower risk and those with proven immunity Mandate keeping higher-risk people quarantined, including preventing from going to work	Ability to protect higher risk in their households Meeting basic needs of those isolated
By current individual status	Relax restrictions on individuals (especially for work related activity) with confirmed immunity or recently tested negative	Widespread, on-demand serological testing Verification system to prevent “gaming”
By sector, as safeguarded	Relax restrictions on each sector (e.g., retail, manufacturing, agriculture, etc.) when confident that sector has adequately safeguarded what they do	Ability to define clear standards Ability to monitor adoption/compliance
By activity, as safeguarded	Relax restrictions on type of economic activity (e.g., gathering, shopping, manufacturing, constructing, computer work, in-home, etc.) when confident that activity is adequately safeguarded	Ability to define clear standards Ability to monitor adoption/compliance