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2020 GREATER PALM SPRINGS ECONOMIC REPORT

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One year ago. Have those words ever meant more?

One year ago, we all attended the annual Economic Summit at the Palm Springs Convention Center. We sat side by side, served ourselves breakfast from the same dishes and utensils, and enjoyed the attendance of many local high school students.

Our CEO, Joe Wallace, told us that, while the Coachella Valley continued to benefit from nationwide economic growth, there were issues on the horizon we needed to plan for. That we were underserving our youth in internet access and bandwidth. That our dependency on hospitality and tourism was going to be eventually impacted by (depending on your view) the rise or threat of artificial intelligence and automation. That we needed to figure out how to attract additional industry and higher-paying jobs in order to give our children every chance to learn, grow and find good-paying jobs and opportunity right here at home.

I am also taken by the final words from Joe at the end of his talk last year. "United We Stand and Divided We Fall."

One Year ago.

We have been hit hard. It is hard to see your friends, your businesses, your town - your Valley - suffer. Some of the numbers in this report illustrate just how hard we have been hit, and how the pandemic has impacted us.

It must be said, though, that this Valley and its people have stood up before. Many times. When needed, there have been visionaries. People who were willing to make bold moves and decisions when sitting still seemed the safest thing to do.

When my wife and I moved to the Valley 9 years ago, one of the things I noticed right away was that many of the same people who built the Coachella Valley were still here. Still thriving, still growing, and willing to talk about it!

One of those people is Dick Oliphant, truly one of the Valley's great visionaries. Dick told me about his early days in Indian Wells. When he became mayor, the City was on the verge of bankruptcy and losing its city charter. So, Dick made a bold suggestion to the City. He suggested that the City of Indian Wells spend a whole lot of money, buy a bunch of land, and attract some hotels. "How did that suggestion go over?" I asked Dick.

"I had a 3-2 council", Dick answered. Meaning, 40% of the council was opposed to the plan. Yet the plan moved forward. Some boldness, some vision, and yes, probably some increased stomach acids. And yet, look at the results of that vision.

There are stories like this all over the Valley. When the building boom started here in the 60's, the Valley was 75% agriculture and 20% hospitality. It changed. Certain individuals – visionaries – saw the Valley for what it could be. We came back from the great recession because we learned lessons and made changes.

Now, we have that opportunity again. Like 40% of the vote in Indian Wells, it can be hard not to just want to leave things unchanged, hoping to get back to some semblance of normal. But then, there are times for boldness. Vision. Measured, certainly. But forward looking, absolutely.

Each year at CVEP's Economic Summit, you hear from speakers with bold ideas: how we can help with today's challenges, learn from them, and get bigger and better. And as time goes on, it is important to remember and honor those that grew what we enjoy today. As Dick Oliphant said to me at the end of our conversation, "This Valley exceeded my wildest expectations."

In a difficult year, I am proud to be the Chairperson of CVEP. I follow in the footsteps of some of those visionaries, from Dick, who was one of the founding members of CVEP, to last year's chairperson, Jan Harnik. And I believe that CVEP is uniquely positioned to be a leader in helping us heal and grow.

Let's work together, as a region, as a community, as the Coachella Valley, to provide opportunity for all to grow and thrive.

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Become Essential

The theme selected for CVEP's 2020 Summit is "Becoming Essential." The COVID-19 crisis and the series of protective actions taken in its aftermath brought the word essential to the forefront of nearly every discussion on economic recovery. Businesses that were deemed to be essential by the state have been allowed to continue operations while the non-essential businesses had no writ of dispensation allowing them to practice their skills. Being deemed non-essential has literally made working for a living illegal for many of our businesses and the employees who have built careers at these places.

The economic suffering due to separating the sheep (essential) from the goats (non-essential) has exacerbated income inequality, disrupted the education process, put many of our nation's healthcare providers at risk and strained our social safety net to the limits. It has also pitted family members against each other and accelerated the changes that were already in the development pipeline like automation, work-from-home, online education and 5G communication platforms. Even local and state governments that were deemed to be essential have been forced to cut spending drastically due to the reduction in tax revenue that came to a screeching halt as non-essential activities ceased.

Prior to the COVID-19 crisis the Coachella Valley, California, and the United States were all experiencing what we all thought was an uninterruptable long-term period of economic growth. Eight short months ago, unemployment was at an all-time low, wages were rising across the entire spectrum of incomes, crime was dropping and positive expectations for a prosperous future were widely anticipated. What a difference eight months has made. Our period of bliss was turned into a daily challenge to maintain a positive outlook while standing in long lines for toilet paper and other staples that we normally take for granted.

The nightly news's deluge of doom and gloom includes shuttered businesses, death, and destruction. But on the brighter side, it seems as though every weakness and sacred cow in American society has been exposed for all to see. Exposing and drawing awareness to serious weaknesses is critical for change agents like CVEP to gain the support to advocate for positive and sustainable improvements to the lives of the people we serve.

For regions that muster the courage of commitment, this Virus of the Century has indeed created the Opportunity of the Century. We must strengthen the exposed weaknesses and embrace the prosperity that the future always holds for those who seek betterment. It is imperative upon the Coachella Valley to come out of this crisis better and more sustainable than we were last February. Ignorance may be bliss, but it is no longer an acceptable excuse.

The Coachella Valley has one of the most highly developed hospitality and tourism business clusters on the planet. Unfortunately these industries were not deemed to be essential and most economists are projecting at least a 5 year period for full recovery.

While we aim for economic diversification, the path to becoming essential desperately needs for our hospitality and tourism businesses to recover. The vibrant lifestyles that we have historically enjoyed and much of our civic pride are grounded in being a world class destination for tourists and snowbirds. We all revolve around our largest employment cluster. To take advantage of the Opportunity of the Century, job one is to rebuild these industries while doubling down on the activities that will foster the development of essential businesses.

In a way, our highest priority tasks have not really changed. We still need a four year comprehensive university that offers technology degrees. We still need to expand and enhance our communications platforms. We still need to improve the skills of our workforce. We still need good ideas that become growing businesses serving a year-round economy, and we still need to think and act in a world-class manner. We also need to survive this crisis so we can live to fight another day toward a place that offers the opportunity of prosperity for all.

Going back to the blissful days of February 2020 is not enough. It is imperative that the Coachella Valley does what is needed to Become Essential.

The Out-of-Boat Experience in a Whitewater Level 4

(but the Raft is Within Reach)

BY MANFRED KEIL, ROBERT KLEINHENZ, DAVID ROBINSON

The title of last year's annual report, delivered at the annual meeting of the Coachella Valley Economic Partnership (CVEP) to a live audience in the Palm Springs Convention Center, was

"Party Like It's 1999 vs 2019: Which Hangover Will Be Worse?"

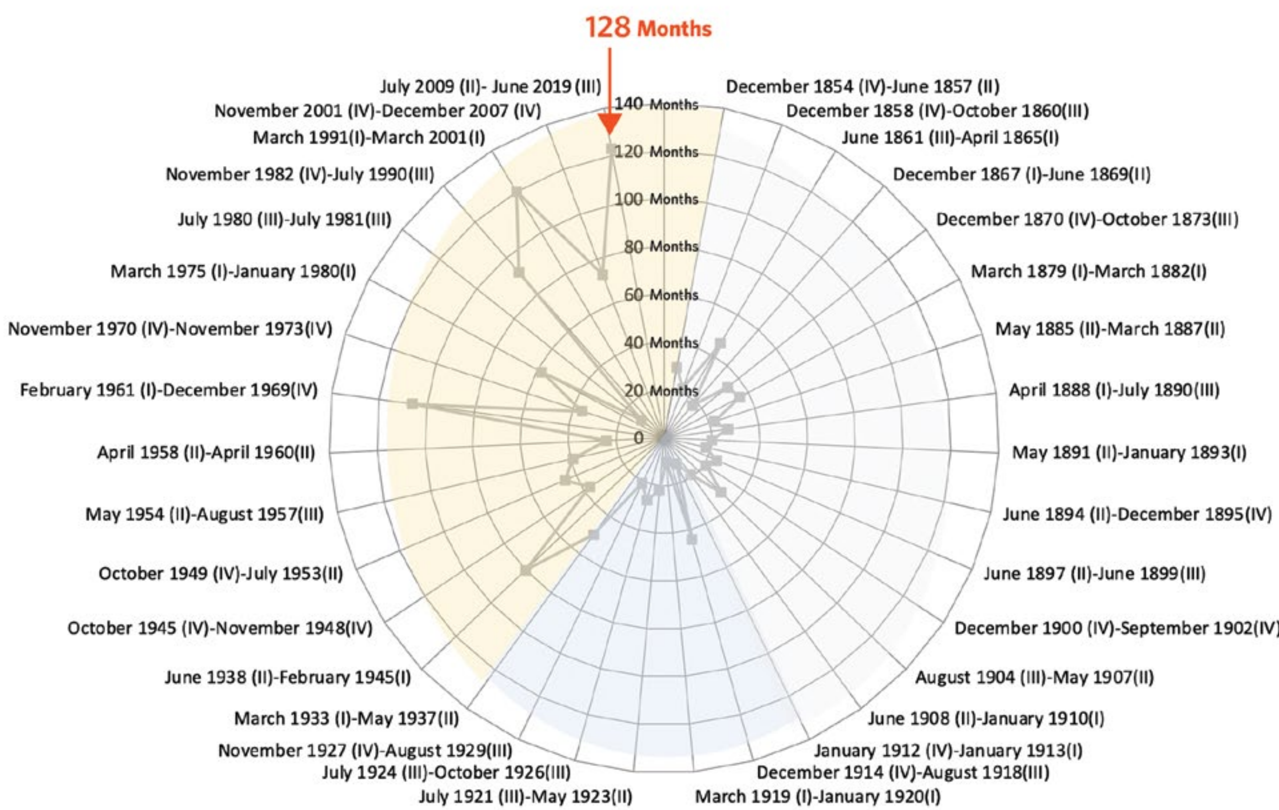
The idea was to play off the Prince Hit and to consider the idea that 1999 was followed by a recession in 2000. So, was it likely that there would be a recession in 2020?

The simple answer is "of course not." Recessions are not two quarters of negative growth, as is often assumed in the popular press. Instead they are determined by the National Bureau of Economic Research (NBER) dating committee of ten academics. The previous downturn, named the Great Recession for its severity in terms of lost output and its length, and unemployment rates reached, ended in June 2009. While the recovery from a financial crisis was anything but "great" initially, we eventually set a new record for the longest economic expansion in June 2019 (see Figure 1). There were few signs in October, the month during which we had to submit the annual report, that the expansion would end soon. We are not saying that there were no warning signals, such as an inverted yield curve since late March 2019. However, most other traditional markers of an oncoming recession did not suggest that we should worry (yet). There was room for guarded optimism: after all, expansions, differently from humans, do not die of old age. Australia had not seen a recession since 1990/1.

In the end, we forecasted a slow-down for the election year economy. Our prediction called for 1.1% growth for 2020 for the national economy, with slightly higher numbers for California and the Inland Empire. So, even without forecasting a recession, we did suggest to follow an old Chinese proverb (those were still looked upon favorably by most at the time) to "repair your house before the rain comes." In practical terms, we suggested that firms and cities undergo a stress test, similar to the ones ordered by the Federal Reserve for commercial banks, to see how they would fare during a downturn.

FIGURE 1: HISTORICAL DURATION OF ECONOMIC EXPANSIONS, IN MONTHS, 1854 - 2019

The National Bureau of Economic Research has a dating committee that determines the beginning and end of each business cycle by month. The most recent expansion set a new record of 125 months of expansion before it ended in February 2020.



The Coronavirus Recession; Phase I, March 2020 - April/May 2020

The economy expanded for another three months following the CVEP event in Palm Springs. For what it is worth, I ordered my first box of N-95 face masks from Amazon in January. Frankly not because I knew that they would be almost impossible to get three months later, but because I had several Chinese undergraduate students, who had returned to China following the end of the fall semester, urge me to do so.

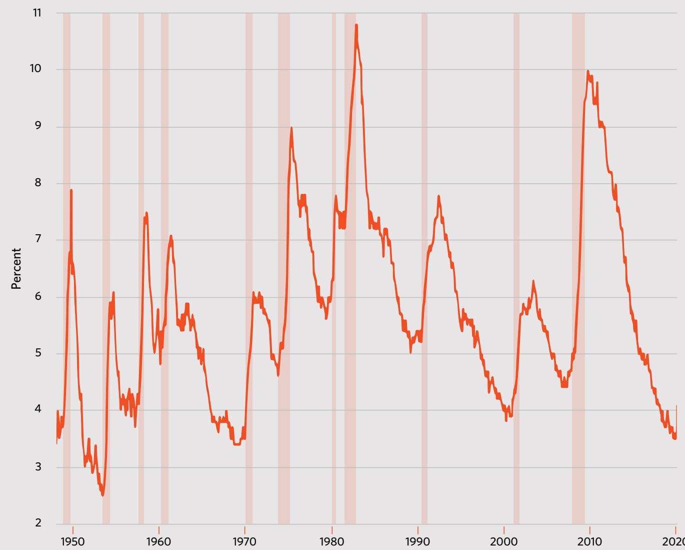
What did our world look like before March 2020? It seems such a long time ago...

Figures 2a and 2b paint a rosy picture for the immediate aftermath of the CVEP meeting: there were few worrying signs of a significant slowdown. The unemployment rate (specifically, its deviation from the previous twelve-months average) and the consumer sentiment index are considered by many to be important "Leading Economic Indicators." These are economic series that turn south before the economy as a whole heads into a recession. But as recently as February 2020, the national unemployment rate was at a 50-year low of 3.5% while consumer optimism was at its highest in 17 years, based upon the University of Michigan's consumer sentiment index.

What about that most general measure of economic activity, real Gross Domestic Product (GDP)? You can think of GDP as a proxy for total output or income in an economy if the variable name seems too abstract. Clearly we will all be happier if (our) income grows. The last observation prior to the CVEP

FIGURE 2A: UNEMPLOYMENT RATE, U.S., MONTHLY DATA, SEASONALLY ADJUSTED, JAN 1948 - FEB 2020

The U.S. unemployment rate was at 3.5% in February 2020. Such low levels were last seen in December 1969.



Source: U.S. Bureau of Labor Statistics

FIGURE 2B: CONSUMER SENTIMENT INDEX, UNIVERSITY OF MICHIGAN, NON SEASONALLY ADJUSTED, JAN 1978 - FEB 2020

Consumer Sentiment was at a high level before the current recession. The last time prior to the current end of the expansion that it had been this high, was December 2003.

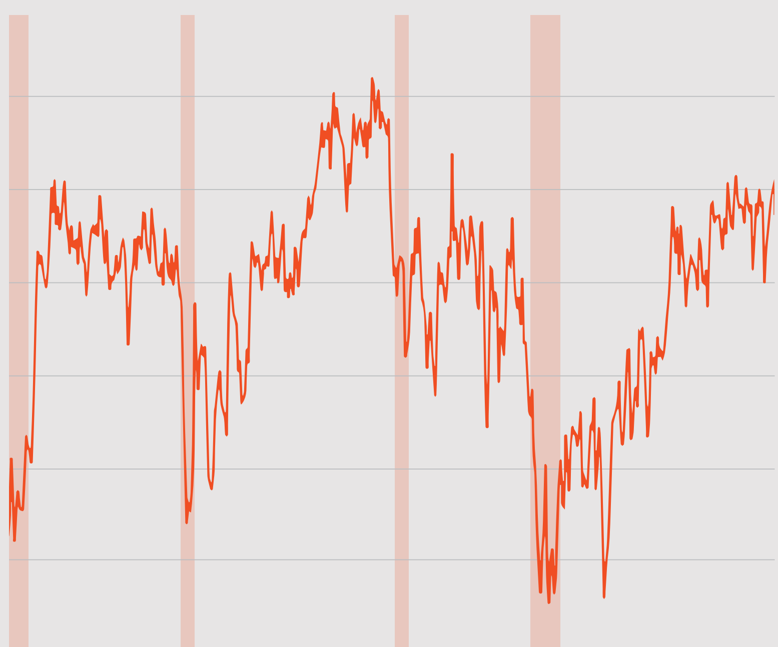


TABLE 1: GENERAL ECONOMIC CONDITIONS, 2016 - 2020

	2016 Q4	2017 Q3	2018 Q3	2019 Q3	2020 Q3
PRESIDENT	OBAMA	TRUMP	TRUMP	TRUMP	TRUMP
STOCK MARKET - DOW JONES AVE	17,930 (EARLY NOV)	22,268	26,828	26,077	27,020
$CAD/$US	1.28	1.21	1.30	1.33	1.30
CONSUMER SENTIMENT INDEX	87.2	93.4	96.2	95.5	80.4
UNEMPLOYMENT RATE (%) US	4.8 (OCTOBER)	4.3	3.7	3.7	6.9
UNEMPLOYMENT RATE (%) CA	5.3	5.1	4.2	4.1	11.0
UNEMPLOYMENT RATE (%) IE	5.8	5.3	4.0	4.2	10.4
INFLATION RATE (%)	1.6	1.7	2.7	1.8	1.2
OIL PRICES (WEST TEX INT)	$46.83	$46.46	$75.37	$54.09	$41.18
FEDERAL FUNDS RATE	0.25-0.50	1.00-1.25	2.00-2.25	1.75-2.00	0.00-0.25
HOUSING STARTS U.S.	1,328,000	1,155,000	1,282,000	1,191,000	1,388,000

meeting we had at our disposal showed 2.6% growth, which was followed by 2.4% growth during the fourth quarter. Both numbers are close to the average growth rate of 2.5% during the Trump years (over longer periods of time, real GDP has grown by 3%, but a significant slowdown occurred following the Great Recession, and President Trump was unable to reverse this despite his initial claims of delivering 4% growth).

Figure 3a shows GDP growth up to the last quarter before the 2020 collapse. By the end of 2019, there were minor concerns regarding supply chain problems resulting from China having to deal with the outbreak of some virus in Wuhan. Container shipments could possibly be affected, but beyond that, there were no real worries for the U.S. economy.

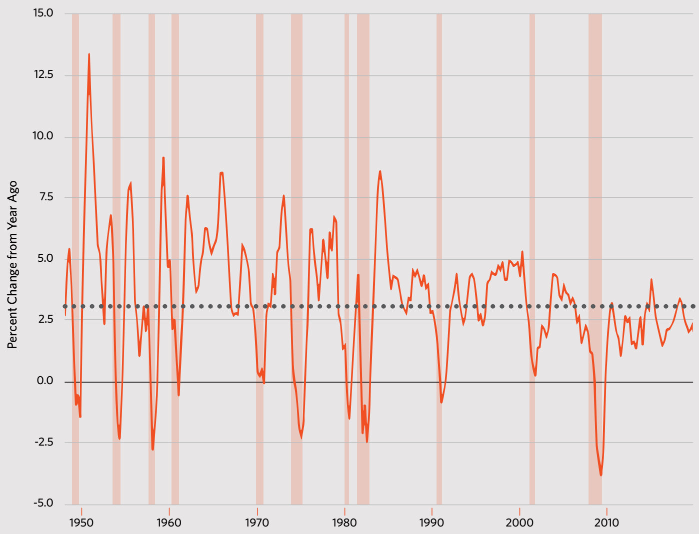
Figure 3b displays monthly housing starts in the U.S., another leading economic indicator. Some view this as the most important variable to forecast an upcoming recession. The 50-year average for monthly housing starts (annualized) for the country is 1.5 million units. Following the Great Recession, housing starts fell to levels not seen previously after an economic downturn. However, and given the fact that the Federal Reserve had lowered interest rates several times during the year, in December 2019, housing starts finally returned to that long-run average level. While it is cumulative housing stock (and other durables such as automobiles) that result in inventory problems towards the end of expansions, this was not the case in 2019, since housing starts had been at such a low level since 2009. This was another reason to believe that this expansion could well last for an extended time.

So what happened since then and what impact did the events from March 2020 have on the Coachella Valley? Interestingly enough, I dug up a PowerPoint presentation I made on March 13 to a small group of business people in Ontario. This event was seven days before the shutdown and two days before sending all undergraduate students at my academic institution (The Claremont Colleges) home on a very short notice. The University of California system cancelled all in-person classes around the same time.

On March 13, I noted that over the previous ten days, (i) the Federal Reserve had lowered the Federal Funds Rate by 50 basis point (it typically changes it by 25 basis points); (ii) other central banks around the world had done the same, for example the Reserve Bank of Australia, the Monetary Authorities of Hong Kong, the Bank of England, the European Central Bank, etc.; (iii) the Group of 7 (G7) had released a statement prior to the Fed's announcement signalling cooperation on joint actions including a fiscal policy stimulus; (iv) South Korea, a country with a population less than 1/6 the size of the U.S., announced a $8 billion stimulus package, while the U.S. Congress debated a cut in payroll taxes;

FIGURE 3A: REAL GROSS DOMESTIC PRODUCT, PERCENT CHANGE FROM A YEAR AGO, SEASONALLY ADJUSTED AT ANNUAL RATES, 1948 QUARTER 1 - 2019 QUARTER 4

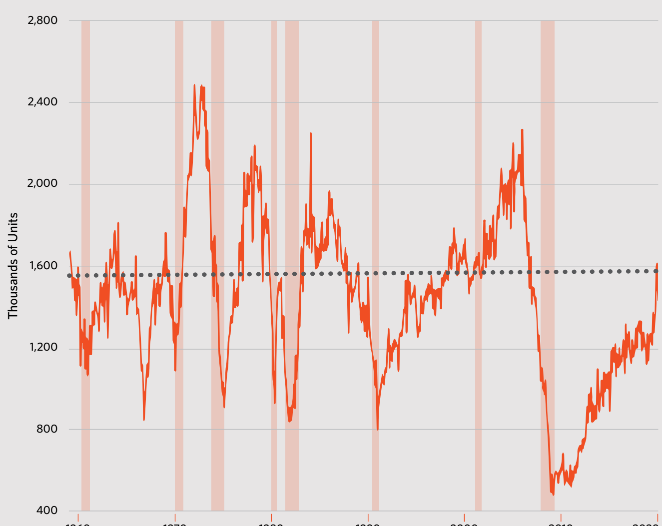
Historically, real GDP growth averages 3% a year, although that rate was reduced to 2.5% during the expansion following the Great Recession of 2008-2009.



Source: U.S. Bureau of Economic Analysis

FIGURE 3B: HOUSING STARTS, U.S. TOTAL, NEW PRIVATELY OWNED HOUSING UNITS STARTED, SEASONALLY ADJUSTED ANNUAL RATE, JAN 1959 - FEB 2020

National housing starts averaged 1.5 million units (annualized) from 1959 to 2007. Following the Great Recession of 2008-2009, housing starts have been substantially lower, never reaching the average until December 2019 during the record setting expansion.



Source: U.S. Census Bureau

(v) the Coachella Festival, including Stagecoach, was postponed to October, SXSW in Austin was cancelled, as was the Indian Wells tennis tournament, (vi) NBA, NHL games were called off and in Italy, the top of the league soccer team (Juventus Turino) had to play the second place team (Inter Milan) in front of an empty stadium (for those of you who are not soccer fans, this is huge).

All of these events were worth remembering simply for signalling the magnitude of the force we were about to face. At a more personal level, you probably remember the shortage of toilet paper and other empty shelves in grocery stores. Pasta and pasta sauce were hard to find items, meat was hardly available. We now faced a situation that we had read about or perhaps watched on TV when looking at some lesser developed country. Toilet paper rationed? #ruserious.

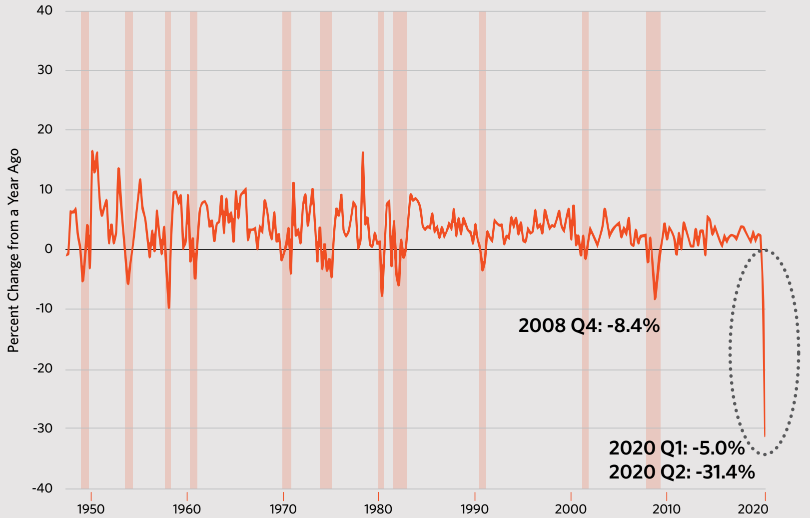
Unfortunately, relevant economic data was not immediately available to us. What you would like to see at that point is movements of trucks on interstate freeways, credit card sales, toll road traffic, tax receipts from retail sales, etc. National GDP is only published quarterly and then with a delay of at least a month; the labor market survey that would have indicated immediately the extent of the disaster is published on the first Friday of every month, but it is always taken during the week surrounding the 12th day of the previous month, in this case, a week before the shutdown. The national, state, and regional economies continued to move forward like a super tanker that had entered a fog bank without radar.

Figures 4a and 4b eventually showed us the damage we had been dealt. When the data for the first quarter real GDP was finally released towards the end of April, there was a 5% decline in output/income. While this was high, we had seen 8.4% negative growth during the fourth quarter of 2008 during the Great Recession. However, remember that the 2020 decline was centered around the last two weeks of March 2020. A quick back of the envelope calculation, assuming 10 weeks growth of 2.5% (the rate at which real GDP had grown on average since President Trump was elected) and then calculating the decline necessary to reach minus 5% for the entire quarter, results in a remarkable drop of output of almost 40% during those two weeks. This number was confirmed when the government released growth numbers for the second quarter of 2020: a stunning 31.4% loss of output at an annualized rate.

The unemployment rate reflected this movement in reduced output/production. There was an initially "mild" increase of 0.9 percentage of the national unemployment rate for March 2020 (from 3.5% to 4.4%), but this was followed by a never-even-remotely experienced increase of 10.3 percentage points, from 4.4% to 14.7%. This increase was, of course, not constant across all regions. California saw its unemployment rate reach 16.4% (and remain there for a month), while the Inland Empire fared a little better by showing 14.7% (it increased to 15.1 the following month). Los Angeles County was one of the hardest hit areas with

FIGURE 4A: REAL GROSS DOMESTIC PRODUCT, PERCENT CHANGE FROM A YEAR AGO, SEASONALLY ADJUSTED AT ANNUAL RATES, 1948 QUARTER 1 - 2020 QUARTER 2

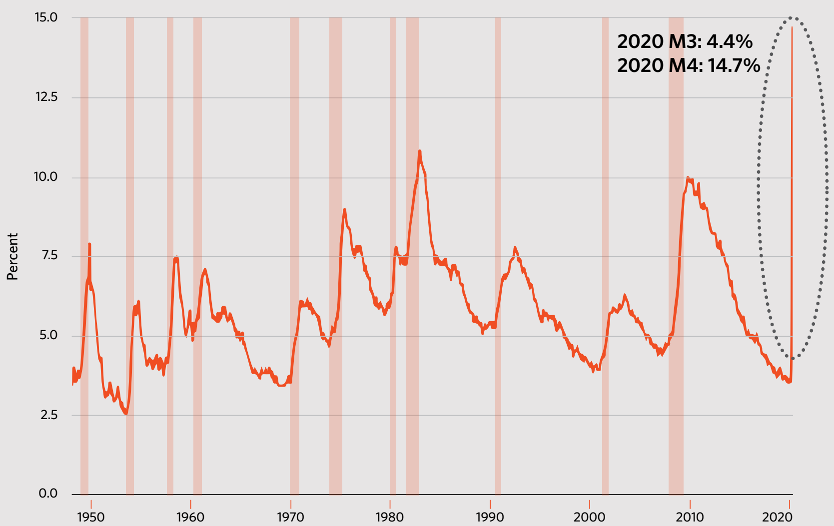
The 5% decline for the first quarter was the result of the shutdown for the last two weeks in March. Assuming 2% positive growth for the first 10 weeks of the quarter, this translates into a 40% annualized decrease in real GDP for the last two weeks. This catastrophic downturn continued for the second quarter.



Source: U.S. Bureau of Economic Analysis

FIGURE 4B: UNEMPLOYMENT RATE, U.S., MONTHLY DATA, SEASONALLY ADJUSTED, JAN 1948 - APR 2020

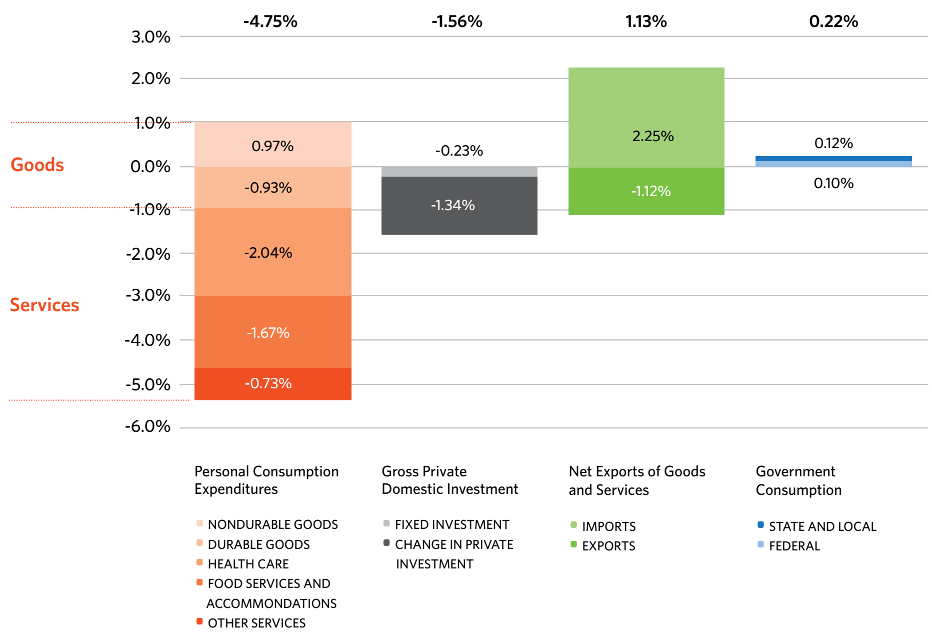
The 0.9 percentage point increase in March occurred despite the fact that the survey was conducted around the 12th of March, or before the shutdown. The true extent of the deterioration of the labor market became visible with a 10.4 percentage point increase in the national unemployment rate.



Source: U.S. Bureau of Labor Statistics

FIGURE 5: CONTRIBUTION TO REAL GDP GROWTH, U.S., 2020 QUARTER 1

The 5.0% decline was the result of consumption shrinking by 5.3%, while other sectors together actually had a positive impact. Clearly consumer services saw the largest decline, and durable goods fared worse than nondurable goods.



an unemployment rate exceeding 20%. There is no official unemployment rate for the Coachella Valley, but if we consider the employment loss that the area experienced, it is easy to assume that the unemployment rate reached 28% here. There were more people unemployed across the nation than during the Great Depression, although we never reached the 25% national unemployment rate seen then due to the larger population and labor force.

If we had real GDP growth data available earlier in April, could that have prepared us better for the incoming tsunami, which sent especially destructive waves through Los Angeles County and the Coachella Valley? Figure 5 tries to answer that question by breaking down the growth of GDP into its demand components: there are four, according to a national income accounting relationship. GDP is generated when goods and services are sold in a market to households (consumption and residential investment), firms (investment other than residential investment), the government, and foreigners (exports; imports are only subtracted to clear the other components from foreign purchases of the private and public sector).

Note that the decline in output/income would have been worse had it not been for the contribution of the foreign sector. Household purchases fell by 5.3%. Consumption of non-durable goods, such as toilet paper and meat, actually increased by almost one percentage point. Therefore, had it been just for going to the grocery store in the Coachella Valley, there was actually positive growth as all of us tried desperately to fetch that last roll of toilet paper and the frozen meats and vegetables. So where did we cut back during the lock-down? We, the households, demanded fewer services (specifically food services and accommodations; that's leisure and hospitality, including restaurants and hotel accommodations), health care (as we postponed going to the dentist and annual checkups at the doctor's office), and other services (hair salons, manicure and pedicure, and yes, tattoo parlors). Does this sound like a cutback in the demand for goods and services across the Coachella Valley other than for Von's, Trader Joe's, Ralph's, Albertson's etc.?

FIGURE 6: CONTRIBUTION TO REAL GDP GROWTH, U.S., 2020 QUARTER 2

Most of the collapse in real GDP of 31.4% can be attributed to the decline in consumption. However, investment now was also impacted quite heavily.

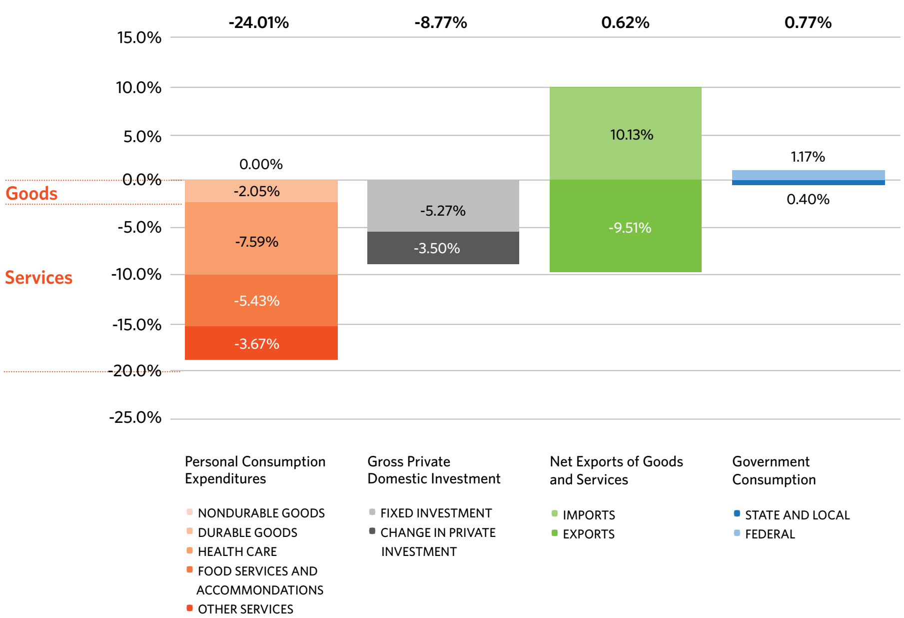


Figure 6 shows how that saga continued during the second quarter, with the Indian Wells tournament now eliminated from the tennis tournament schedule, followed by postponement and eventual cancellation of Coachella/ Stagecoach from the annual schedule (impact: roughly $700 million on the local economy).

During the second quarter, even the demand for non-durable goods was flat, while durable goods consumption and services (especially health care and other services) collapsed. Firms started to invest less, and government and foreigners only contributed marginally. By April, or even May in some parts of Southern California, we had reached the bottom of the abyss and slowly started to recover after that.

Bottom line: the economic recession, which officially is dated to have started in March 2020 with a lockdown, was nothing you could have prepared for. The amount of rain that hit your house was unprecedented - and had you suggested planning for a downturn of this magnitude, you would have been laughed out of any committee meeting.

If an outsider ever asks you to explain the Coronavirus recession, you just have to point to the five face-to-face sectors that were the most affected (as we will see below, what applies to the U.S. obviously is reflected in Coachella Valley employment). Call it a five sector recession. Figure 7 provides the answer.

The five sectors you have to describe are

- Leisure and Hospitality
- Education and Health Services
- Professional and Business Services
- Retail Trade
- Other Services

While almost all sectors shed jobs, these five accounted for 76% of total employment losses from March 2020 to April 2020. Clearly Leisure and Hospitality was the most affected here, with layoffs exceeding 8 million workers. This was followed, perhaps surprisingly, by Education and Health Services, with most of the reduction in the work force occuring in Health Services. How is that possible during a health crisis? The answer is that the health sector focused on the Coronavirus outbreak, so routine health visits, whether it was dental visits or other routine checkups, were postponed. People simply did not feel comfortable going to a doctor's office or, worse than that, to a hospital. You avoided it if you could. Close to 3 million positions were lost here. Professional and Business Services was next in magnitude. This sector involves office workers, where firms simply decided to shut down, building and facilities services, for which demand falls when the office workers began to work from home, and employment services, including temporary employment hiring that always suffers early in a downturn. Similar to Retail Trade, over 2 million jobs were lost here. Finally there was Other Services, which includes hair stylists, nail salons, gyms, and yes, tattoo parlors. Percentage wise, this sector suffered the most. While other sectors such as manufacturing and construction experienced layoffs, they were not in the top 5.

Note that Leisure and Hospitality, Other Services, and Retail Trade employ a relative large fraction of females and also minorities. Some have referred to the Coronavirus recession as a she-cession, perhaps to contrast it with the man-cession, which is an alternative

name given to the Great Recession since two sectors typically dominated by males (construction, manufacturing) were mostly affected then. Also, the unemployment rate would have been even higher had a large number of workers not become discouraged, dropping out of the labor force entirely. Having schools closed has resulted in increased responsibilities for parents, but females seem to be proportionally more affected and as a result have dropped out of the labor force in larger numbers.

How does the employment loss we experienced in March to April compare with the jobs created after the Great Recession? Figure 8 answers that question.

The nation and the state lost all jobs created since 2014. This was the year when we finally had recovered the total number of jobs lost during the Great Recession. In just two months, we went from record high employment levels to national and state employment levels that had not been seen since July 2007, before the start of the downturn then. The Inland Empire fared a little better since the job creation in San Bernardino County and Riverside County had been extraordinarily high since 2014 when compared to the state and nation. Note that the Inland Empire suffered more employment losses initially during the Great Recession since we were one of the epicenters of the mortgage related meltdown and the bursting housing bubble. As a result, the Inland Empire was only set back half a decade and still had higher employment when compared prior to the Great Recession in 2007.

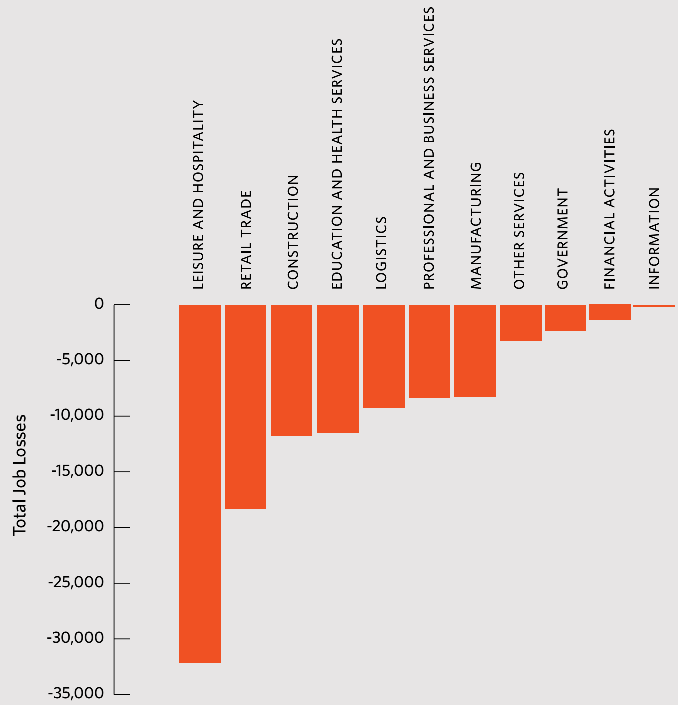


FIGURE 7: SECTORAL JOB LOSSES, U.S., FEB 2020 - APR 2020

Most of the job losses occurred from February to April 2020. Most heavily impacted was Leisure and Hospitality, followed by Education and Health Services, Professional and Business Services, Retail Trade, and Other Services.

FIGURE 8: TOTAL NON-FARM EMPLOYMENT, UNITED STATES, CALIFORNIA, INLAND EMPIRE, COACHELLA VALLEY, PERCENTAGE CHANGE RELATIVE TO JUL 2007

California and the Inland Empire were more severely affected than the U.S. by the Great Recession. All employment losses relative to pre-recession levels were recovered by the end of 2014. Subsequent employment growth in the Inland Empire was sufficiently high that the Coronavirus recession did not reduce employment levels to below pre-Great Recession marks.

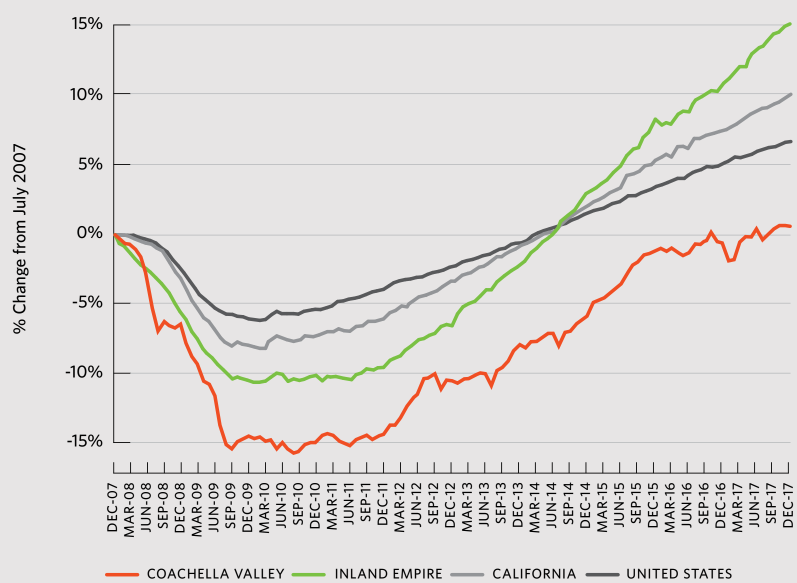


FIGURE 9: U.S. STATE UNEMPLOYMENT RATES, JUN 2020

During initial recovery months, California still had the 5th highest unemployment rate. Note the large variation from Massachusetts (almost 18%) to Kentucky (slightly over 4%).

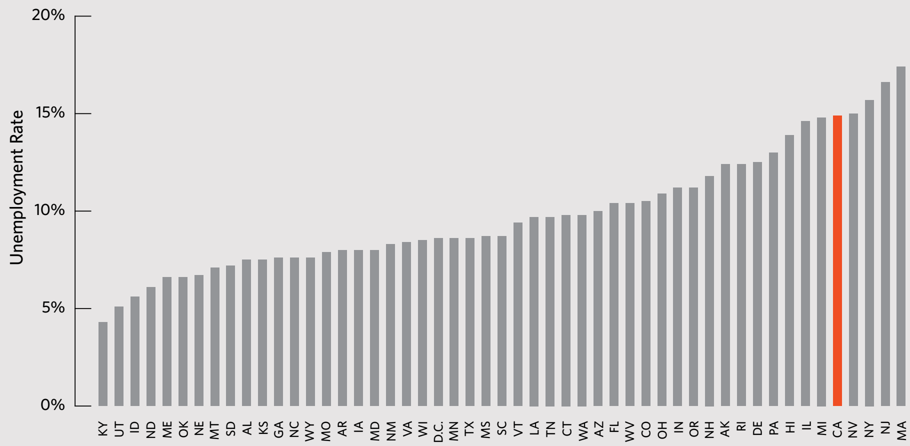


TABLE 2: GEOGRAPHICAL VARIATION IN INITIAL EMPLOYMENT LOSSES, CALIFORNIA METROPOLITAN STATISTICAL AREAS (MSAS), 2020

Initial losses in employment seem to be related to the share of the Leisure and Hospitality employment share in the respective California MSA.

MSA	% CHANGE IN UNEMPLOYMENT RATE FEB-APR 2020	EMPLOYMENT SHARE OF LEISURE & HOSPITALITY IN %	MAX UNEMPLOYMENT RATE, %
MONTEREY	19.2	18.6	20.5
SAN LUIS OBISPO	17.8	16.4	14.0
ORANGE COUNTY	15.9	13.6	14.7
SAN FRANCISCO/OAKLAND	15.8	12.4	12.0
LOS ANGELES/LONG BEACH	15.5	11.7	20.8
SANTA MARIA/SANTA BARBARA	14.9	14.9	12.0
SAN DIEGO	14.7	13.0	15.2
RIVERSIDE/SB/ONTARIO	13.2	11.3	15.1
OXNARD/VENTURA	13.2	12.1	13.9
SAN JOSE/SANTA CLARA	12.6	8.8	12.0
IMPERIAL COUNTY	11.5	8.1	28.1

The Coronavirus Recovery; Phase II, May/June 2020 - November 2020

What goes down must come up, right? The recovery from the spring shutdown started in May, although it is not clear when the NBER dating committee will set the date for the end of the recession (there is a delay since the NBER does not want to change the dates once they have been determined; we believe that the NBER will set the end date for the current recession sometime in the late spring of 2020). Nevertheless, matters improved. By June, the national unemployment rate had decreased by 3.6 percentage points from 14.7% to 11.1%. This is a fairly rapid decline as businesses reopened despite earlier warning signs following the Easter Holiday and Mother's Day that this could result in a rise of new cases and the positivity rate (the fraction of people who test positive out of new tests taken). Figure 9 shows that California's unemployment rate also improved to 14.9% by then. However, it was still the fifth highest state unemployment rate in the nation. Note that some states, such as Kentucky, were hardly affected at an unemployment rate of little more than 4%. The Inland Empire saw smaller declines from its peak of 15.1% - by June we had returned to 14.3%, which was still marginally below the state average.

Similar to the variations in the unemployment rate across the country, there are large differences in terms of the initial increase in the unemployment rate from February to April. Given that the unemployment rate was not the same across the Metropolitan Statistical Areas (MSAs), these differences in unemployment rate increases then resulted in different levels at the peak in April. Table 2 shows the results.

While Imperial County saw one of the smallest increases at 11.5 percentage points, it ended up at an unemployment rate of 28.1%. Silicon Valley saw a slightly greater increase, but had a much lower unemployment rate to begin with and therefore ended up with a relatively low unemployment rate of 12%. Monterey and Los Angeles reached over 20% unemployment in April but had a relatively smaller increase. Closer to home, the Inland Empire ended up at 15.1% after observing a 11.1 percentage point increase (the Inland Empire started at 4% in February..

What can explain these vast differences? We have examined the relationship between unemployment rates and employment sectors by generating a cross-plot and a trend line fit (not shown here) which strongly suggests that the higher the share of the Leisure and Hospitality sector in the area, the higher the unemployment rate increase. Over half of the variation in the unemployment rate increases across the California MSAs is explained by this simple model.

Applying the same methodology to the Coachella Valley, we predict that the unemployment rate ended up at slightly over 28% for the 9-city area. This is the result of an extraordinary high share of employment in the Leisure and Hospitality sector (over 23%).

How have the various sectors fared during the recovery, which started in April-May 2020? Figure 10 gives the answer. Note that it only looks slightly complex at the beginning since we packed a lot of information into it.

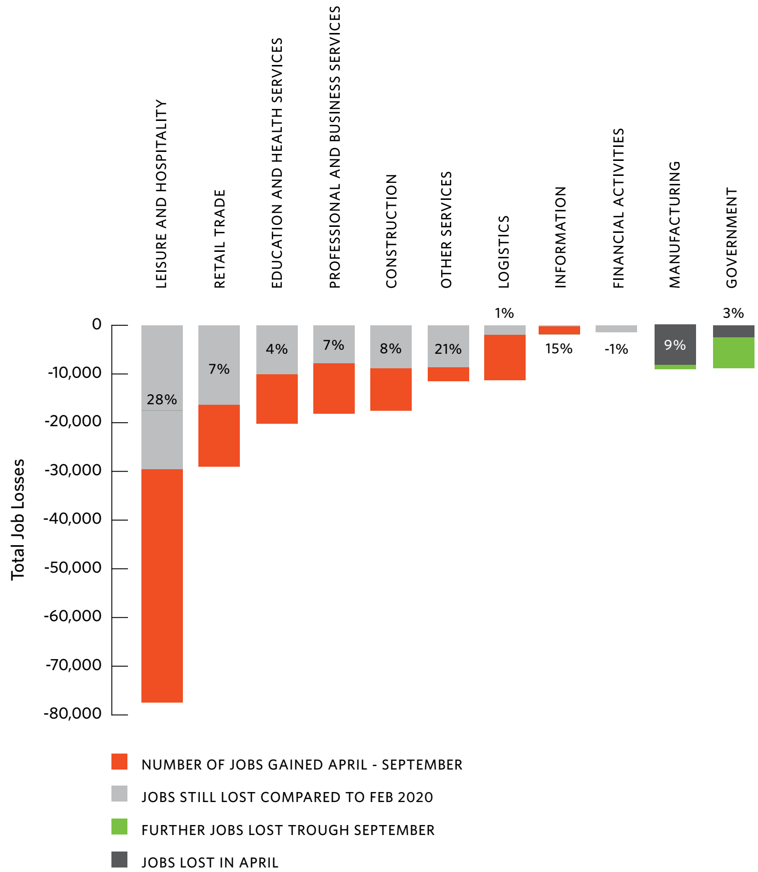


FIGURE 10: SECTORAL EMPLOYMENT DIFFERENCES, U.S., 2020

Leisure and Hospitality not only had the largest initial job losses from February 2020 to April 2020, but also lagged behind in the subsequent job recovery. By September 2020, less than half of the initial loss had been recovered.

The bottom of each bar indicates the initial job loss in the sector. If it is orange and light gray further up in the bar, then that sector initially lost employment but has recovered some of it by now. The two sectors that are green and dark gray, Manufacturing and Government, are sectors that have continued to lose positions. Finally the percentage number within the bar indicates the percent of jobs lost from February 2020 when looking at the current employment numbers.

An example may clarify this (since we will use a similar graph for California, the Inland Empire, and the Coachella Valley further below). Take Leisure and Hospitality which lost roughly 8 million jobs from February to April. Of the 8 million jobs lost, approximately 3 million have been recovered by September, but the industry is still 5 million positions short of the employment levels experienced prior to the downturn. That is equivalent to over a quarter (28%) of the jobs that the sector had in February.

Note that for some sectors (e.g. Other Services) the percentage of jobs still lost is quite high (21%) but the actual numbers are not as significant since that sector is not that large in total. Figure 10 makes it clear that the biggest problem for the national (state, MSA, regional) employment level is still the Leisure and Hospitality Sector. This will continue to require our attention for some time to come.

While the previous figure indicated the employment loss, it does not really tell us much about unemployment changes since the change in the unemployment rate is also determined by people entering and exiting the labor force ("discouraged workers"). What can we tell about changes in the unemployment rate for the 29 MSAs in California? Figure 11 answers this.

The figure shows the percentage change in the Labor Force on the vertical (Y) axis, and the percentage change in employment on the horizontal (X) axis. The unemployment rate will fall if employment growth outweighs the growth in the labor force. But the unemployment rate will also increase if employment does not change while the labor force grows. All MSAs experienced a larger decline in employment than the decrease in the labor force, and hence unemployment rates increased everywhere. We also used larger dots to indicate the size of the population living in that MSA. Hence Los Angeles County appears as a larger dot than San Luis Obispo.

Figure 11 shows that the Inland Empire is in the middle of the pack. Silicon Valley (SJ) basically had no discouraged workers and the unemployment rate there only went up due to the loss in employment. Los Angeles County, on the other hand, would have fared even worse had 8% of their labor force not decided to drop out altogether and stop looking for work. The further you are to the "northeast," the better your area is doing.

Time to deliver some better news now. What has the recovery brought us in terms of output growth and lowering of the unemployment rate?

Figures 12a and 12b answer the question regarding real GDP growth. As we have seen above, real GDP fell for two quarters, and did so quite dramatically during the second quarter. The -31% is annualized with the quarterly decline being much smaller, of course. During the third quarter, we have seen a strong recovery, much stronger than many of us had forecasted (+33% annualized). It is tempting to say therefore that we have basically recovered all output lost. Unfortunately that would be wrong. Think of a stock that was traded at $100 today and its price falling by $50 for a 50% loss. If subsequently the stock price increases by 50% again, we only get back to $75. The same reasoning applies here.

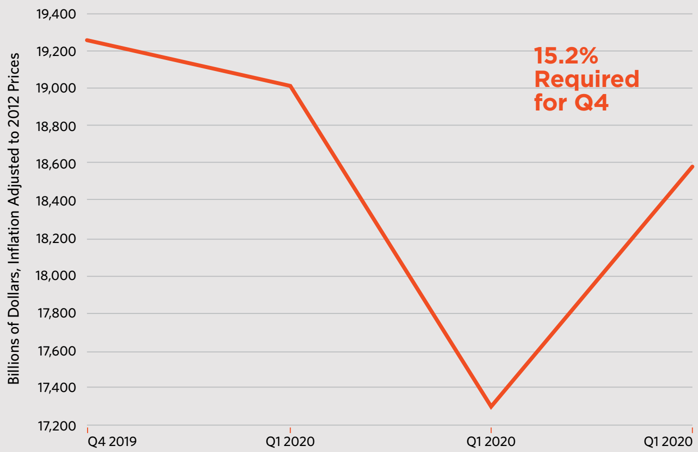
Figure 12a shows by how much we are still off from the GDP level from a year ago. We would have to observe a 15.2% annualized growth in real GDP during the fourth quarter to return to pre-recession real GDP levels. That is not

FIGURE 11: CHANGE IN UNEMPLOYMENT RATE, EMPLOYMENT GROWTH, LABOR FORCE GROWTH, CALIFORNIA MSAS, FEB 2020 - APR 2020

Los Angeles County not only had the highest employment loss, but also had the largest percent of discouraged workers. The Inland Empire is in the middle of the pack.

FIGURE 12A: REAL GDP LEVEL, U.S., 2019 QUARTER 4 - 2020 QUARTER 3

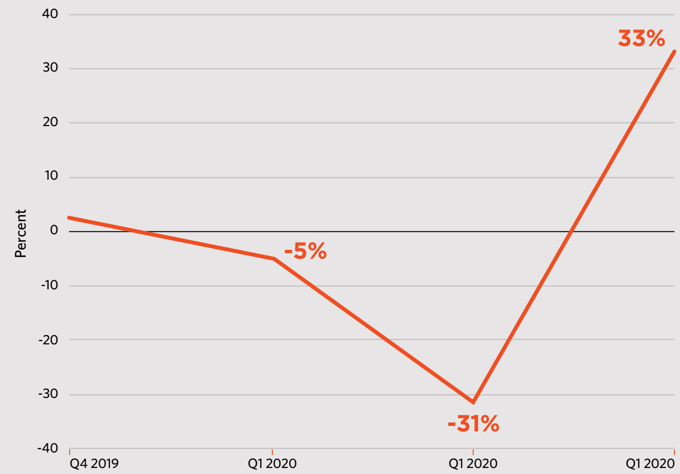
The mild decline in the first quarter of 2020 was followed by a steep, record setting decline in the second quarter. The third quarter saw a record setting recovery but real GDP is still substantially below the 2019 level.



Source: U.S. Bureau of Economic Analysis

FIGURE 12B: REAL GDP GROWTH, U.S., 2020 QUARTER I - 2020 QUARTER 3

Despite the 33% growth rate in the third quarter, real GDP levels remain below the pre-Coronavirus recession level. Higher growth rates from a lower level may not neutralize the lower percentage decline from a higher level.



Source: U.S. Bureau of Economic Analysis

going to happen. Given the renewed shutdown across most U.S. states, we expect the real GDP growth rate to be less than double digit. Add to this the fact that the economy would have grown by an additional 2.5% for the year as a whole, and we will not have completed a V-shaped recession/ recovery by year's end.

Figure 13 shows that the increase in the unemployment rate was rapid and steep while the decline was much slower; although the rate came down faster than many of us anticipated. The latest number is 6.7% but we doubt that with the current shutdown, it will fall below 6% before the end of 2020.

FIGURE 13: UNEMPLOYMENT RATE, U.S., SEASONALLY ADJUSTED, 2020

National unemployment rates reached a maximum of 14.7% before declining fairly quickly until October 2020, when the improvement visibly slowed down.

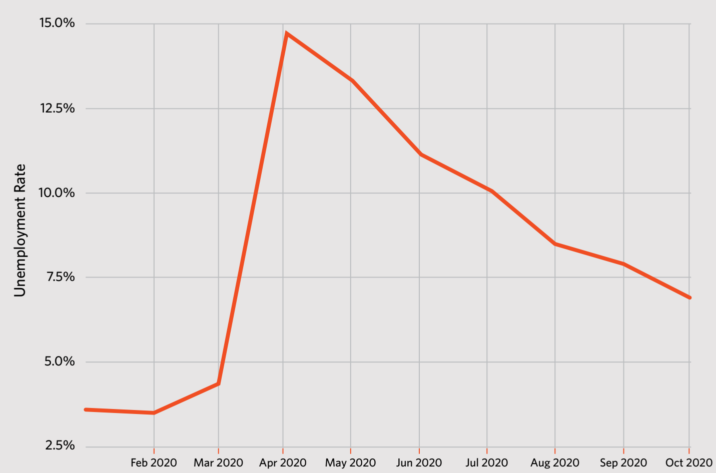


FIGURE 14: CHANGE IN UNEMPLOYMENT RATE, EMPLOYMENT GROWTH, LABOR FORCE GROWTH, CALIFORNIA MSAS, APR 2020 - SEP 2020

Unemployment Rates fell in all 29 California MSAs after the initial increase (all points below the orange line). The Inland Empire employment growth was approximately in the middle of the pack, but it experienced above average growth in the labor force.

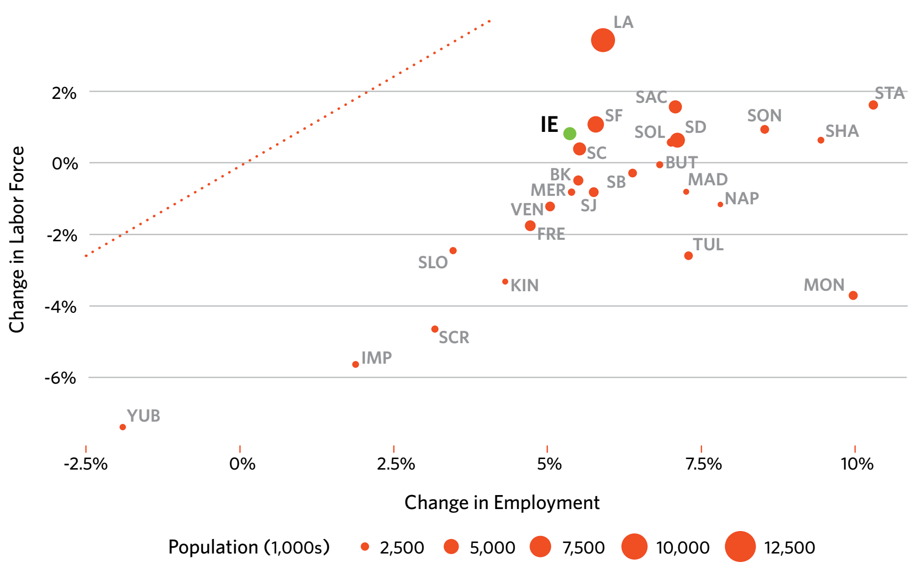


Figure 14 repeats the employment growth and labor force growth analysis of Figure 11 above, but now shows what the same picture looks like for the early phase of the recovery (April 2020 to September 2020). The dotted line indicates all points where the labor force grows at the same rate as employment, and hence the location where the unemployment rate does not change. Since all 29 California MSAs are below the line, the unemployment rate has fallen throughout the state. The Inland Empire, just like San Francisco, Los Angeles County, and Sacramento have seen people returning to the labor force as employment in the region increased. The Inland Empire is again in the middle of the pack.

There has been some talk among forecasters what the recession/recovery will look like. Most of us predicted a Nike-swoosh like shape (better, the old Verizon V); few thought this would be a lights off-lights on V-shape affair. The pessimists foresaw a __/ episode, which definitely did not happen: the decline was sharp but clear improvements were visible as early as April. Some thought we might experience a "double-dip" W-shape recession similar to what the U.S. experienced at the end of the '70s and beginning of the '80s. This is still a possibility depending on what the first quarter of 2021 will look like.

We believe that the best way to characterize the situation is by using the letter K. There are those who were higher paid. For those employees, the recession was a sharp downward movement, but they have recovered completely by now. It is the lower paid workers who have not seen much of an improvement and who continue to be threatened by the recent shutdown.

The reason we have spent all this time talking about the Inland Empire, California, and the U.S. is that you cannot understand the economic situation in the Coachella Valley without looking at the general picture of what we have faced. We now turn to a more detailed analysis of the Coachella Valley economy.

Coachella Valley Economic Outlook

As mentioned above, by March 2020 it became increasingly clear that we were facing an unprecedented recession, both nationally and regionally. Maybe "downturn" would have been a better choice of word since we had not faced a situation where the government stopped economic activity in such a direct way. What was less clear then was the future path that the pandemic would take us on. Would this be a short-run affair, lasting, say, through the summer, or would we be faced with another wave in the fall? How long would it take until a vaccine could be developed, and, in the absence of it, what would economic activity look like until we reached herd immunity (about 70% of the population having antibodies)?

During presentations in March, I developed a simple "Canary in the Coalmine" test to gauge the severity of the downturn. I chose the Coachella Festival not because of its impact on the national economy - while it is a serious money maker for the Coachella Valley, it is a drop in the bucket for the U.S. economy - but because of the implications from a cancellation/postponement. If Coachella was not taking place in April, then this meant that other events with a large audience, such as sports events and amusement parks, would have to be either cancelled or played in front of no audience. There was also the implication for retail stores, restaurants, and hotels. If Coachella would take place, then the virus was clearly under control since you would not otherwise let 125,000 people come together in such proximity to each other.

The next marker was whether or not Coachella would take place in October of 2020. While this meant a postponement by half a year, it would suggest that we were recovering and people would be allowed (and comfortable) to be together elsewhere such as in stores and restaurants. International flights would most likely have resumed, at least from most countries and international tourism would revive. (Back of the envelope calculation of the economic impact: Think about the fact that there were 150 direct flights from Chinese cities to LAX and SFO per week. Making some simple assumption about passengers on each flight (350), the length of time the foreigners would stay (14 days) and the average amount of money they would spend per day ($100), easily gets you to a loss of $1 billion in four months - just from this source.) If, on the other hand, the Coachella Festival was cancelled completely then this would signal that we were looking at a longer lasting recession. For the Coachella Valley itself, losing much of the tourism from May to September was not going to be too serious since many activities die down during those months anyway as temperatures reach 120 degrees. The March to April loss could hopefully be made up by pent-up demand taking over by the fall.

As we know by now, this semi-optimistic outlook was a dream and unrealistic. Coachella was cancelled in October and will not even take place in April 2021. The implication is that even in the spring, there will be few events with people crowded in small spaces - whether it is Disneyland, the World Champion Dodgers home games, Snowbirds coming from Canada in large numbers, etc. We will see a gradual increase in sports attendances, restaurants will continue to serve you only outdoors and with reduced capacity, Chinese tourists will not flock to Cabazon, and so on. The tourist season for the Coachella Valley is basically shot and it would be more disastrous for businesses had it not been for the influx of local tourists who decided that they needed to escape and go for a drive no further away than one full tank of gasoline. Is there hope for Coachella in October 2021? There is always hope....

> What was less clear then was the future path that the pandemic would take us on.

What relevant numbers do we have for the Coachella Valley in terms of economic impact? Figure 15 shows passengers arriving in Palm Springs Airport until August. We focus here on incoming passenger traffic - to get to the total including outgoing flights you basically multiply the number in the figure by two. A time-series statistician would be stunned seeing the strong seasonal fluctuations in passenger traffic. The peak is reached every year in March, with a small decline in April. What was encouraging until 2020 was the fact that the passenger traffic reached a higher peak with each passing year: the Coachella Valley was getting increasingly attractive to outsiders. The March 2019 peak was at over 200,000 passengers, a new record. That number was almost 18% up from 2018 - a relatively large year-to-year gain.

Starting in 2015 there was even a small increase in passenger traffic in the low month (August), but you would have to use a magnifying glass to see that - tourists that fly in still stay away. The bottom line is that not many tourists want to come to the Coachella Valley when temperatures are excessively high - even if hotel rates are amazingly cheap.

Come February 2020, and passenger traffic was actually slightly up relative to February 2019. March 2020 then saw the beginning of the collapse with a 44% decline down to 113,000, before the fall into the abyss: in April, there were a little less than 6,000 passengers landing in PSP - a decline of, in words, ninety-six point 4 percent. Thanks for the zero lower bound, but we were not far above that. Most recently available numbers show a decline of roughly 55% from a year ago but we would be surprised if that percentage level will not increase for December to February.

Turning to employment (Figure 16), one of the problems with regional analysis is that data by industry and zip code, which is what we use here, is not published until it is of historical value, perhaps useful to analyze long term trends. During previous years, we used sectoral data for the nine cities of the Coachella Valley that was preliminary data for the first quarter of the year. This meant that we would look at developments that were almost a year old. This does not matter much during normal times when the economy grows year over year. However, for 2020, this would have been a disaster, since the January to March 2020 data did not reveal much about the impact of the Coronavirus recession. Recall from the

FIGURE 15: PASSENGERS TO PALM SPRINGS AIRPORT, OCT 2002 - AUG 2020

Passenger traffic to Palm Springs always shows strong seasonal patterns, but there had been a strong trend increase following the Great Recession of 2008/2009. Spring 2020 were down significantly already, but the number was close to its lower bound of zero following the initial decline.

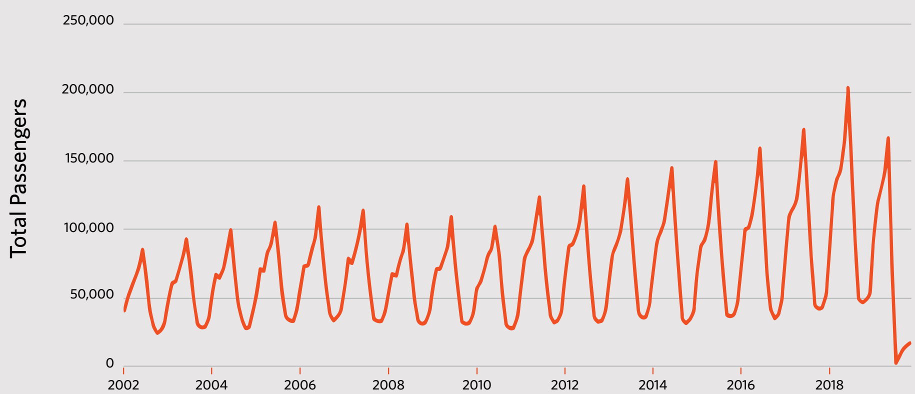
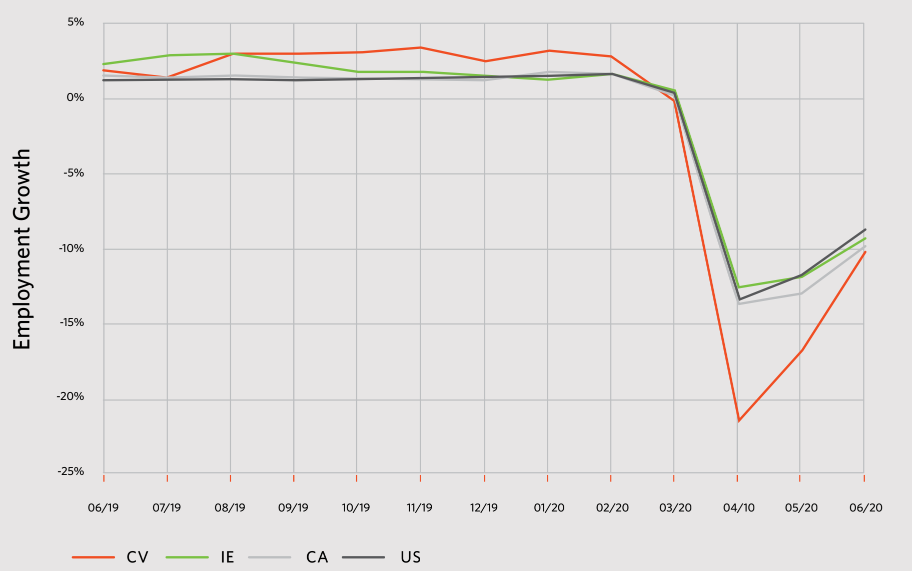


FIGURE 16: EMPLOYMENT GROWTH, U.S., CALIFORNIA, INLAND EMPIRE, COACHELLA VALLEY, JUN 2019 - JUN 2020

Due to its higher share of Leisure and Hospitality, Coachella Valley employment decreased substantially more compared to a year ago. Recently there has been a relatively stronger recovery, returning the Coachella Valley to the rest of the other areas.



previous analysis that the major decline in employment came at the end of March to April/May. Fortunately for us, the EDD released the data for April to June 2020 a week before we had to submit the report and the slides.

What do we see? First of all, we are fully aware of the large seasonal fluctuations in the data for the Coachella Valley. To avoid making false inferences from declines in employment based on seasonal fluctuations, we look at year-to-year percentage changes. If you see employment decline in July by 8%, for example, then this is not due to workers quitting their jobs for the summer months as restaurants, bars, and hotels operate at reduced capacity or are shut down. Instead it is the result of cyclical events on top of the usual seasonal fluctuations.

Having clarified this point regarding seasonal versus cyclical fluctuations, note that across California MSAs we saw the largest increase in unemployment/drop in employment for the period from February to April in those areas that had a larger share of total employment working in the Leisure and Hospitality sector. Given that this fraction is relatively high for the Coachella Valley (28%), it should not be surprising to see a decline of over 20% in employment for the nine cities. Figure 16 shows that the impact was not only "sligthly" more severe than in the Inland Empire, it was significantly so by an order of magnitude. The good news, if there is any, is that by June, the Coachella Valley had climbed back to employment losses comparable to California as a whole. No reason to celebrate, but the area is only down 10 percentage points in employment compared to a year ago. Official employment data for the last quarter of 2020 will not be available until late 2021, but we can make some projections based on the past relationship between the Inland Empire and Coachella Valley employment (see below).

Labor force data is not available monthly for the Coachella Valley, but under the reasonable assumption that in February the seasonally adjusted unemployment rate here was around 4-5%, we could easily predict a 23 percentage point increase in the unemployment rate, which means it reached a level in excess of 25%, a "depression" like level. Perhaps the level was lower due to discouraged workers simply stopping to look for work and therefore not being counted as part of the labor force that is unemployed. However, even with those calculations it is doubtful that the Coachella Valley would very likely have still seen its unemployment rate exceed 20%.

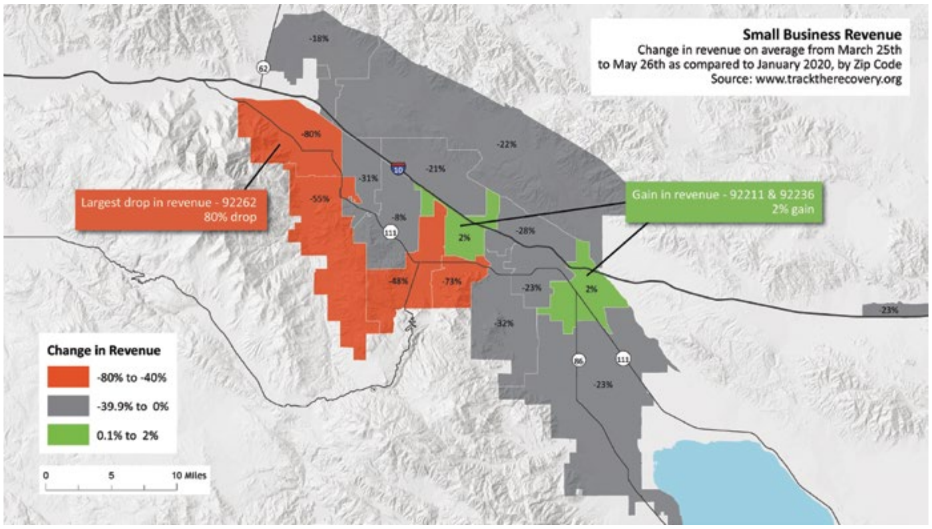


FIGURE 17: SMALL BUSINESS REVENUE, COACHELLA VALLEY, MAR 2020 - MAY 2020

Small business revenue decline most in more affluent areas in the Coachella Valley. Palm Springs showed the greatest decline, while there were some less affluent areas that actually showed a small gain.

There are some other statistics we can use to look at a more localized impact of the Coronavirus recession (see Figure 17). We invite the reader to go to a website maintained by Harvard University and Brown University called "tracktherecovery.org". On the opening page, you are greeted with a picture of the K-shape recession/recovery by comparing employment rates for low-wage and high-wage earners. Go to the box "EXPLORE THE DATA" and click on "Small Business Revenue" under the category "BUSINESSES." Next click on "Visit Zip Code Map" and then enter "92262" for Palm Springs. David Robinson from CVEP has enhanced the map you see there (Figure 17). It shows the change in revenue from March 25th to May 26th as compared to January 2020 using credit card data collected by Womply.

Exploring any zip code, you will find that more affluent areas saw the largest decline in revenue for small businesses. This may have happened for a variety of reasons. Either rich people living in those zip codes cut back their spending significantly, or people from outside the area spent less visiting these zip codes (think of Malibu). Let me give you an example unrelated to the Coachella Valley to keep the discussion more neutral. Claremont is the last community in Los Angeles County and is home to The Claremont Colleges, a cluster of highly selective liberal arts colleges. Claremont has a population of just under 37,000 with a median household income of $97,000. Its net revenue lost was 71% (talking to my dry cleaners, this was easily confirmed). Compare that to Upland, the city just east of it, with a population of 54,000 and a median household income of slightly more than half of Claremont's, at $58,500. Upland is in San Bernardino County, and the small business revenue loss is just 12%. Similarly Pomona, just south of Claremont, which has a similar population size and income to Upland, has seen an increase of 9% in small business revenue.

Back to the Coachella Valley. Palm Springs (zip code 92262) with a median household income of just below $50,000, lost 80% of its net revenue, and these numbers are seasonally adjusted to take into account the difference in spending from January to March/May. This is the largest drop in a zip code in the Coachella Valley. Compare that to the City of Coachella (zip code 92236) with a median household income of just over $34,000, and you get a 2% increase in small business revenue. The pattern goes on: Indian Wells, with a median household income of almost 100,000, lost 73% of small business revenues, while Desert Hot Springs (zip code 92240) with a median household income of $36,000, lost only 18%. We invite you to explore your zip code to get more detailed information, but it is safe to say that the pattern observed elsewhere in the U.S. applies to the Coachella Valley as well.

Figures 18a and 18b reproduce the figures we analyzed at the national level in terms of employment decline and subsequent recovery following the onset of the Coronavirus recession. Here we plot the changes from February 2020 through June 2020, the latest date for which we have official data available (even if it is only preliminary, as is the case for the second quarter data for the nine cities of the Coachella Valley - meaning these will be revised in subsequent releases).


Desert Hot Springs
Palm Desert
Indio
Coachella
Indian Wells
La Quinta
Palm Springs

Figure 18a shows the initial decline in each bar in orange with the subsequent recovery in dark gray, using employment numbers. Figure 18b repeats the exercise, but displays the changes in percent to employment relative to February.

As we would expect, Leisure and Hospitality lost the most jobs with over 16,000 or 50% of its employment. By June, the sector had recovered only 4,000 of these positions but still had employment levels of less than 35% of what they were at the beginning of the year. We want to attach a warning to the recovery numbers: June and July are the low employment months for the Coachella Valley and the recovery numbers are not seasonally adjusted. The extent to which jobs in the various sectors that experience large seasonal fluctuations have been recovered, will only be visible when we have data for October and beyond.

Following national patterns, Retail Trade was another sector that suffered significantly, as were Education and Health Services, Other Services, and Professional and Business Services. Nothing new here: the Coachella Valley just followed the pattern we observed elsewhere. Note that Other Services is the second most affected sector when looking at the percentage of jobs lost during the spring shutdown. The Government sector was the only one that experienced a gain, although we expect that to be reversed in the near future as reduced tax revenue will play a larger role.

FIGURE 18A: SECTORAL EMPLOYMENT CHANGES, COACHELLA VALLEY, FEB 2020 - JUN 2020

Similar to developments elsewhere, the face-to-face sectors showed the largest number of job losses. While Leisure and Hospitality showed the highest number of jobs subsequently recovered, the sector remains significantly below its peak employment.

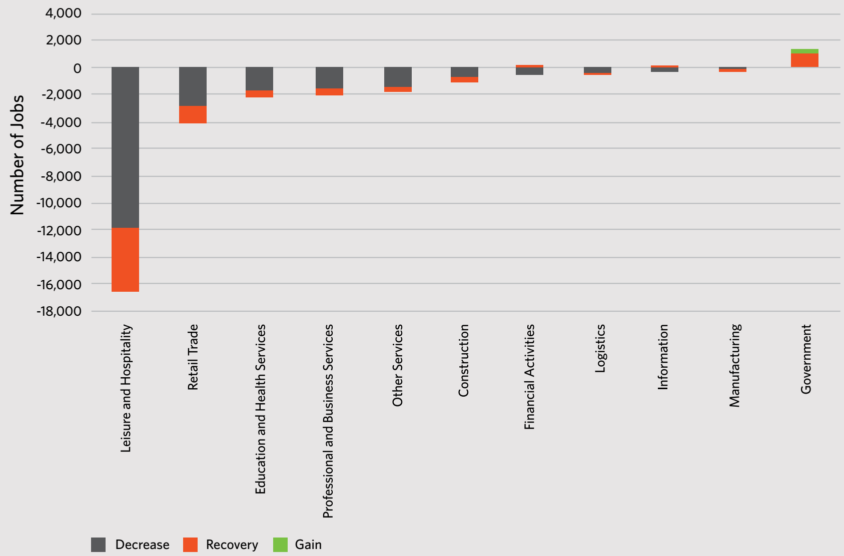


FIGURE 18B: SECTORAL EMPLOYMENT CHANGES, IN PERCENT, COACHELLA VALLEY, FEB 2020 - JUN 2020

Percentage declines and recoveries look somewhat different when analyzed by percentage of employment in the sector. Leisure and Hospitality still shows the largest decline, but Other Services and Information have also lost a significant percent of employment decline.

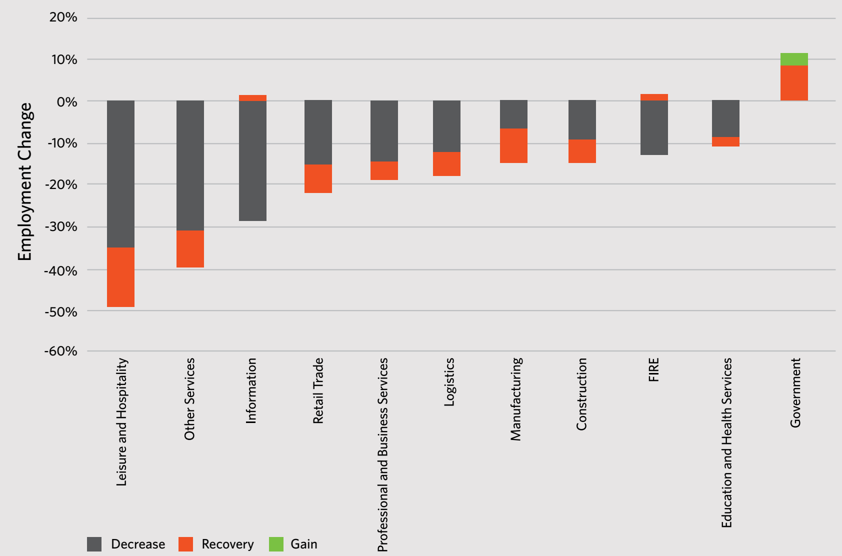


FIGURE 19A: CITY EMPLOYMENT CHANGES, COACHELLA VALLEY, FEB 2020 - JUN 2020

Palm Desert and Palm Springs saw the biggest decline of employment. Note that the numbers are generated not by household residency, but by establishment survey.

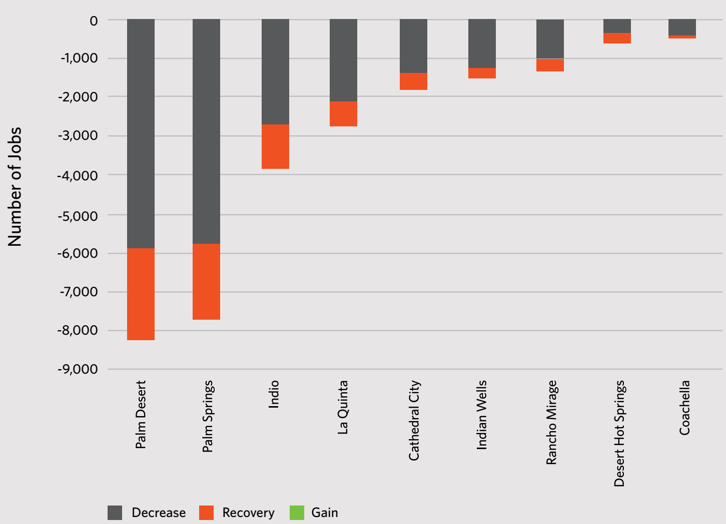
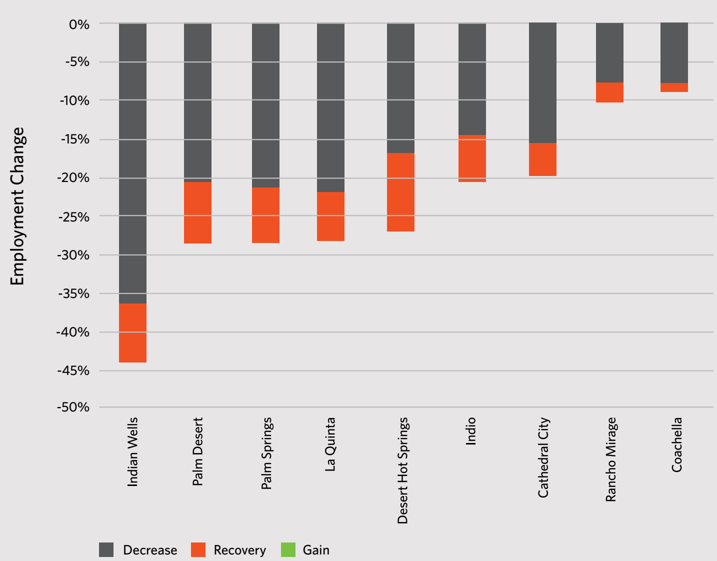


FIGURE 19B: CITY EMPLOYMENT CHANGES, IN PERCENT, COACHELLA VALLEY, FEB 2020 - JUN 2020

Cities with smaller employment numbers, such as Indian Wells and La Quinta, now join Palm Desert and Palm Springs in terms of the percentage decline in employment. Another smaller labor market, Desert Hot Springs, follows.



We also made forecasts for the third quarter, or for the July 2020 to September 2020 period for which will not have official data available for another three months from now. According to our projections, we will see a full recovery in the Education and Health sector, and in Other Services. However, by the end of September, we will still only be at a 73% level of what employment was in the Leisure and Hospitality sector. Retail Sales also will not have recovered fully, being at 88% of the February 2020 levels.

Figures 19a and 19b show the employment losses by city in the Coachella Valley. Figure 19a displays these in numbers of jobs lost in each city, while Figure 19b displays the same information in terms of percentage decline.

As can be expected from the number of jobs available in the Leisure and Hospitality and Retail Trade sectors, Palm Desert and Palm Springs lost the most jobs initially. Both saw declines of roughly 8,000 positions. Note that these are jobs lost by establishments in the Coachella Valley, not necessarily by residency. However, in previous editions we showed that Palm Springs had the highest percentage of all nine cities of people working and residing there. It therefore stands to reason that the unemployment rate shot up significantly in Palm Springs. The other cities saw less of a decline, which is to be expected given the amount of revenue lost. Perhaps that comes as a surprise, given that Indian Wells, for example, had a large decline in small business revenue. However, there are not that many people working in Indian Wells and hence the decline was just close to 1,500. However, note that in terms of percentage decline in employment, Indian Wells fared the worst, with a job loss of almost 45%. As would be expected from our previous discussion of small business revenue declines, the City of Coachella was one of the least affected.

Before we get to the housing part of the report, we wanted to chime in on the discussion regarding shutdowns, which will become particularly relevant in the coming months until the vaccine takes full effect. Some have argued that the government should differentiate its response by geographic location. For example, why should Southwest Riverside County (Corona to Temecula on the I-15) be treated in the same way as the Coachella Valley? Should Victor Valley in the High Desert up the I-15 be treated the same as areas closer to Los Angeles County and Orange County? This is perhaps especially relevant for the Inland Empire, which contains one county that is the largest in the U.S. when measured by square miles.

Figures 20 and 21 try to add to this discussion by plotting the 7-day average of daily COVID 19 cases per 100,000 for our local area. Figure 20 shows current levels and Figure 21 displays the changes from recent levels. We use the same color coded scheme as Governor Newsom's Blueprint for a Safer Economy (purple being the worst while yellow will allow for larger events; even moving to red has the advantage of some indoor dining and schools reopening - Riverside County, Orange County, San Diego County, Ventura County spent some time in red before reverting to purple; San Francisco was yellow for a while). We thank David Robinson of CVEP for producing these figures for the report.

First of all, note that there is not much variation in our area (or the adjacent

FIGURE 20: COVID19 CASES, ADJUSTED NUMBERS PER 100,000, RIVERSIDE COUNTY AND COACHELLA VALLEY

There is little variation across Riverside County, including the Coachella Valley, when it comes to the color-categories released by Governor Newsom.

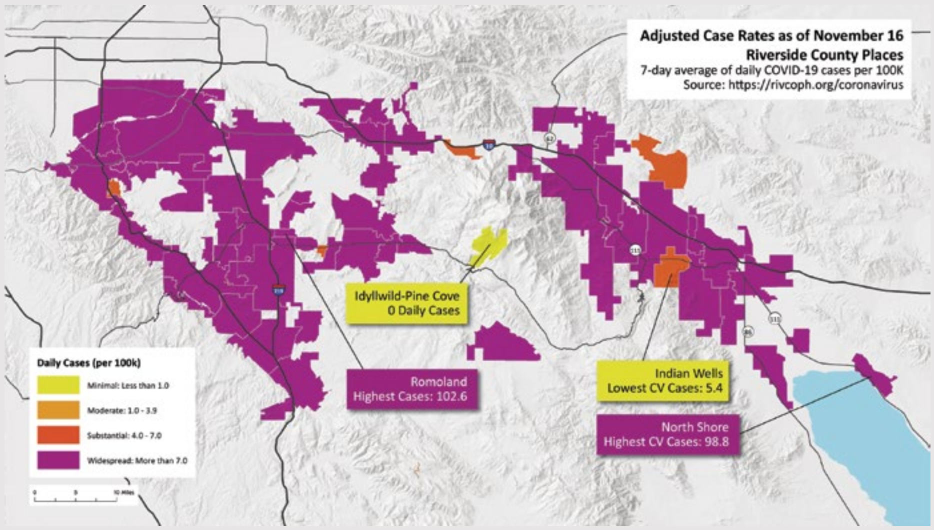
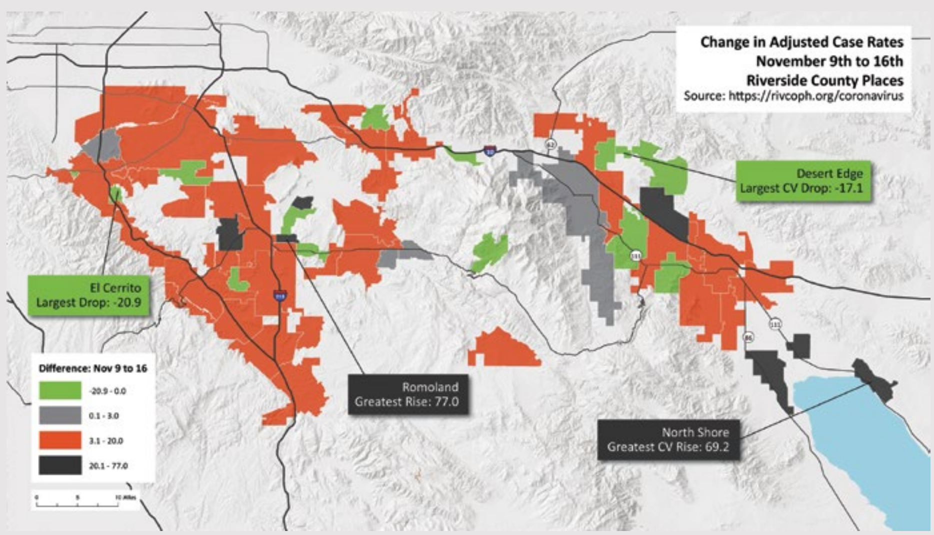


FIGURE 21: COVID19 CASES, CHANGES, ADJUSTED NUMBERS PER 100,000, RIVERSIDE COUNTY AND COACHELLA VALLEY

There is more visible variation in the adjusted numbers when analyzed in terms of changes between November 9th to 16th.



areas of Riverside County) when it comes to color codes. Yellow and Orange coded areas are very small geographic enclaves. This does not mean that there is not much variation upwards. Remember that you must be at 7 cases or less to move out of the most restrictive purple zone. There are some spots, such as the North Shore at the Salton Sea where you have almost 100 cases per day per 100,000 people.

Figure 21 tells us that there have been some changes between November 9th to the 16th, but for the most, they signal a worsening not improvement of the situation. It seems to us that there is little value trying to differentiate Coronavirus outbreak areas in the current situation. Until we have the virus more under control, there is simply not much variation at the lower end to make significant distinctions.

Coachella Valley Housing Outlook

Despite the upheaval created by the pandemic shutdown in the first part of the year, the housing market in the Coachella Valley held up fairly well overall, as home sales improved through the year and the region's existing home price reached a new record. With low interest rates expected through 2021 and beyond, the outlook for the housing market in the Valley is promising despite the damage done to the regional economy by the pandemic.

The Coachella Valley housing market began 2020 on a positive note with existing home sales in the first quarter outpacing the first quarter of 2019 by nearly eight percent (7.6%) and the median price of an existing home rising 1.8% over the same period (Figures 22 and 23). But with the pandemic shutdown,

FIGURE 22: EXISTING HOME SALES IN COACHELLA VALLEY AND RIVERSIDE COUNTY, 2015 - 2020

Coachella Valley sales in recent years followed the county trend, with a weaker than usual second quarter followed by a strong third quarter in 2020.

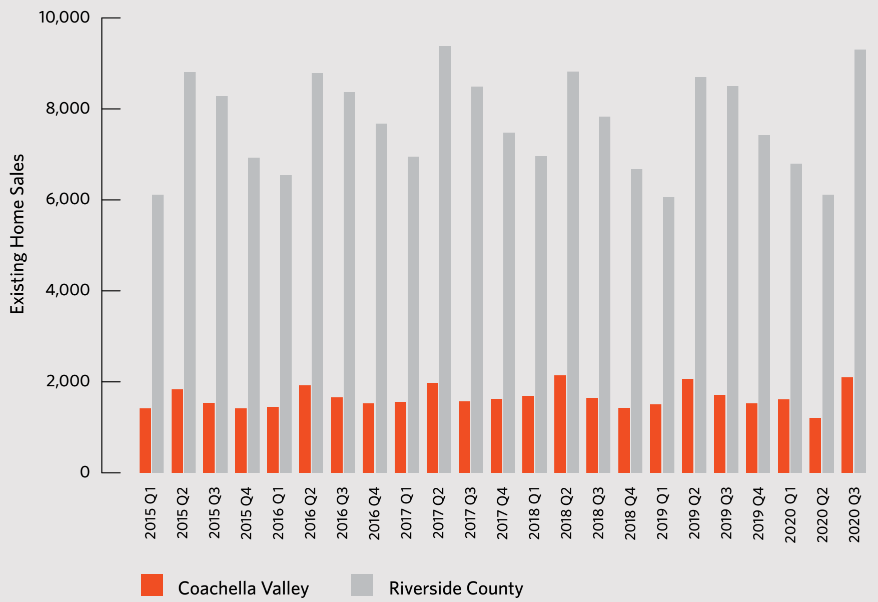


FIGURE 23: MEDIAN SALES PRICE OF EXISTING HOMES IN COACHELLA VALLEY AND RIVERSIDE COUNTY, 2015 - 2020

Coachella Valley median price surged past the $500,000 mark in the third quarter, fueled strong demand and very lean supplies of homes for sale.

sales during the second quarter — typically the peak quarter for sales in the region – fell sharply by 41.7%, considerably more than the 29.7% decline for Riverside County overall. Sales rebounded significantly (22.3%) in the third quarter, yet sales through the first three quarters still fell short of 2019 by 7.0%.

Existing home prices across Southern California were less affected than sales by the pandemic shutdown, and the Coachella Valley was no exception. The median price of an existing home in the region rose throughout 2020, following the upward trajectory that began during the last half of 2019. With a 22.8% year-over-year surge, the median price pushed past the $500,000 threshold to $522,400 in the third quarter of 2020. Double-digit price gains occurred across the cities in the Valley during the third quarter as well, led by La Quinta, where the median price rose by 24.2% year-to-year (see Table 3). Indian Wells recorded the highest median price at $854,000. While the city's median price rose by 10.6% year-to-year, this was the slowest rate of increase among the region's nine cities.

Historically, jobs and income have a direct bearing on housing market activity, but those linkages have weakened considerably in the last few economic cycles, including this one. With the Federal Reserve Bank acting quickly to cut rates in the early stages of the pandemic, mortgage rates fell to record lows, unleashing pent-up demand for home buying that had been building over the last few years (see Figure 24). The large Millennial generation has become the primary source of first-time buyers and will be for many years to come. For prospective homebuyers

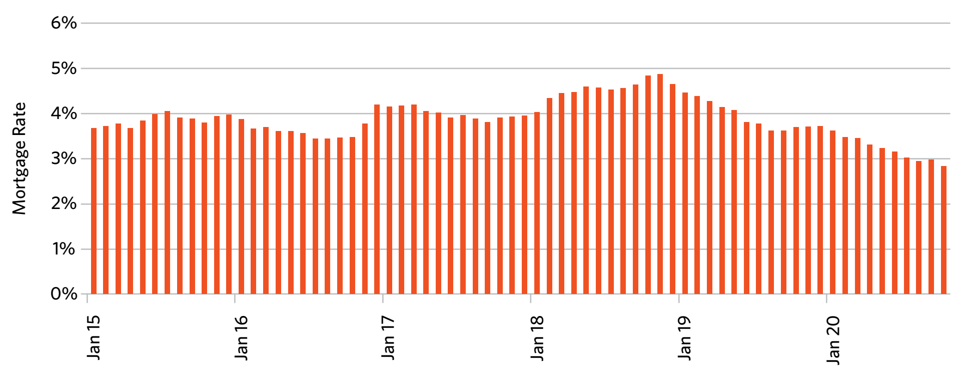
TABLE 3: QUARTERLY MEDIAN SALES PRICE OF EXISTING HOMES IN COACHELLA VALLEY CITIES

Coachella Valley cities saw home prices rise by double digits year-over-year in the third quarter, led by a 24% increase in La Quinta.

	Q3-19	Q2-20	Q3-20	QTQ %	YTY %
CATHEDRAL CITY	$331,000	$355,000	$383,250	8.0%	15.8%
COACHELLA	$261,000	$277,500	$296,500	6.8%	13.6%
DESERT HOT SPGS	$231,000	$245,000	$257,500	5.1%	1.5%
INDIAN WELLS	$772,500	$990,000	$854,000	13.7%	10.6%
INDIO	$325,000	$333,000	$360,000	8.1%	10.8%
LA QUINTA	$455,000	$567,500	$565,000	-0.4%	24.2%
PALM DESERT	$411,000	$467,500	$472,500	1.1%	15.0%
PALM SPRINGS	$614,500	$679,500	$707,500	4.1%	15.1%
RANCHO MIRAGE	$654,000	$629,000	$732,500	16.5%	12.0%

FIGURE 24: AVERAGE RATE ON 30 YEAR FIXED-RATE MORTGAGE, 2015 - 2020

Mortgage rates fell to historic lows, fueling demand for homes despite pandemic-related economic disruption.



Source: Freddie Mac, KE

who have saved up for a down payment in recent years and could rely on job security to make mortgage payments in the future, the decision to pull the trigger in the current low rate environment was an easy one.

But the market put constraints on their buying choices. Supply in the housing market was already very lean, but the inventory of homes for sale shrank even more in 2020 as would-be sellers grew wary of listing their homes for sale during the pandemic. Table 4 shows that in Riverside County, the unsold inventory index of homes for sale fell from an already low 3.8 months in September 2019 to 2.1 months of homes for sale in September 2020. The combination of strong demand and lean supply across Riverside County, including the Coachella Valley, drove home prices up by double digit percentages.

New home sales, which were already on the rise in reaction to decreases in interest rates throughout the second half of 2019, continued to advance in 2020 as rates moved to record lows (see Figure 25). New home sales in the Coachella Valley jumped by 41% year-to-year in the first quarter of 2020, then 57% in the second quarter, and 31% in the third quarter. At 202 sales in the third quarter, the new home market achieved its highest quarterly sales in over five years.

By contrast, the median price of a new home stumbled in the first half of 2020 before turning around in the third quarter. New home prices had been on the rise earlier in the decade, hitting a high of $609,000 in the first quarter of 2018. But the gradual tightening of credit by the Federal Reserve Bank through

TABLE 4: SUPPLY OF HOMES IN SOUTHERN CALIFORNIA (MONTHS OF UNSOLD INVENTORY)

While low rates fueled demand, extremely limited supplies of homes for sales in Riverside County and elsewhere pushed prices higher.

UNSOLD INVENTORY INDEX (MONTHS OF UNSOLD INVENTORY)			
REGION	SEP 2019	AUG 2020	SEP 2020
LOS ANGELES	3.5	2.3	2.3
ORANGE	3.6	2.4	2.2
RIVERSIDE	3.8	2.2	2.1
SAN BERNARDINO	4.1	2.0	2.0
SAN DIEGO	3.1	1.9	1.7
VENTURA	4.7	2.2	2.0

SOURCE: C.A.R., KE

FIGURE 25: SALES AND MEDIAN SALES PRICE OF NEW HOMES IN COACHELLA VALLEY

New home sales and prices in the region increased sharply in 2020, driven in part by heightened demand for new homes in response to the pandemic.

Source: DQNews, KE

much of 2018 and the first part of 2019 caused demand to soften. As rates eased later in 2019, new construction increased sharply. The new home price continued to decline, dropping by nearly $100,000 to $509,600 in the fourth quarter. Early 2020 saw more of the same as the price fell to $464,300 in the second quarter, before a 6.6% yearly gain in the third quarter pushed the median above the $500,000 threshold to $514,600.

The rental market held up remarkably well in 2020 despite the pandemic. Based on available metro-level data for the Inland Empire from Zillow, average rents rose by 5.2% yearly in 2020 with the most recent (November) average rent at $2,200. This compares with a 2.8% increase in the Los Angeles-Orange County MSA and a 7.0% gain in San Diego County. At the same time, the average vacancy rate in the Inland Empire fell from 5.5% in the third quarter of 2019 to 4.9% in the same quarter of 2020, although it was higher than the first half of the year, when the rate fell below four percent.

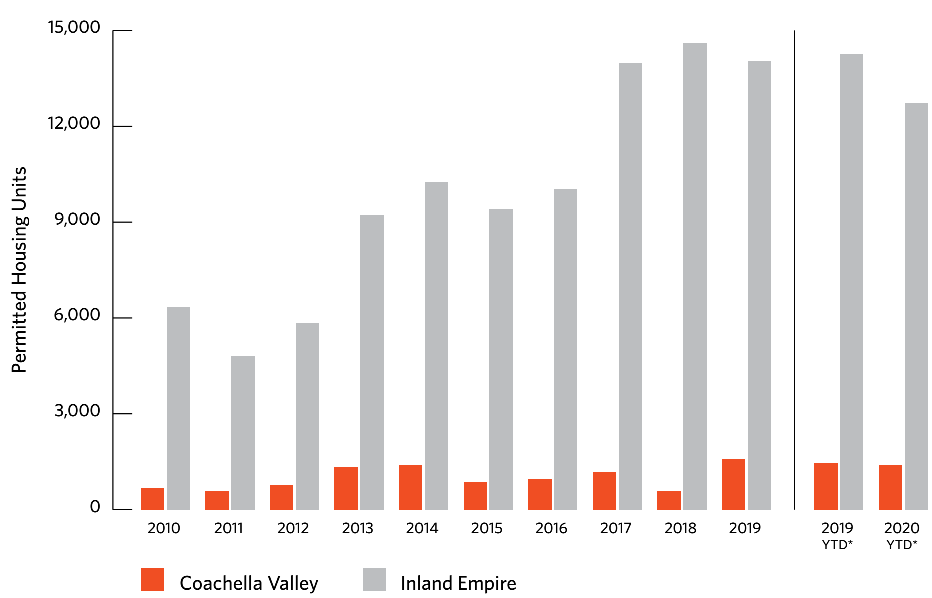
Similarly to other areas within Riverside County, the Coachella Valley has seen population growth averaging just over one percent over the past 10 years, creating ongoing demand for more housing units in the region. Figure 26 shows that the region has responded to that demand as building permits have generally risen over that time period, except for 2018 when rising interest rates put a damper on construction. A total of close to 1,600 permitted housing units were authorized in the Coachella Valley communities in 2019, nearly one thousand more than in 2010.

The uncertainty caused by the pandemic had a chilling effect on new home construction during the first part of 2020, leaving the number of permits in the Valley three percent lower than a year earlier through the month of August. Recent evidence for the overall Inland Empire region suggests that construction has gained momentum in the waning months of the year, with the number of permits expected to approach last year's levels.

Looking ahead to 2021, the Coachella Valley housing market must contend with challenges brought on by the pandemic, but it would be a mistake to stop there. With the vaccine pointing to the light at the end of the tunnel, builders and city administrators must also plan for the coming years which will bring continued population growth and with it, an increased demand for new housing. In the immediate term, the households in the region whose workers are out of work or on a reduced work schedule will face difficulty in making ends meet. This is particularly a challenge in the Coachella Valley which has been hit hard by job losses in restaurants, hotels, and other parts of the hospitality industry. As we pointed out throughout this report, the industry is the hardest hit sector during the pandemic. Forbearance programs have bought time for troubled homeowners while eviction moratoriums have done the same for renters. Payments to households through federal CARES Act funding have also helped to prop up household budgets, but there will be additional damage to household finances and well-being until we can look back and

FIGURE 26: NUMBER OF PERMITTED HOUSING UNITS IN COACHELLA VALLEY AND RIVERSIDE COUNTY

As 2020 progressed, construction permits for housing overcame weakness early in the year and gained momentum.



say that we have returned to (a new?) normal. We hope that this will be the case by the end of the second quarter in 2021.

Looking past the pandemic, the Coachella Valley will likely see the demand for housing accelerate in the coming years. First, population in Riverside County, and the Inland Empire in general, will continue to grow over the foreseeable future, with the Coachella Valley participating in that growth. Second, the economic engine of the Inland Empire will resume growth with spillover effects that can potentially benefit the Valley economy. Finally, the region will continue to be a destination for short-term as well as long-term visitors. Based on data from the American Community Survey, homes for seasonal, occasional, and recreational use account for roughly one-fifth of the region's housing stock. Visitors who rent these units along with those who have second homes in the region are an important source of economic activity and tax revenue for the Coachella Valley communities. These forces ensure that the demand for housing in the region will grow in the years ahead.

General Outlook: What is October 2020 - October 2021 going to look like?

We have gone through Phase I and Phase II of the Coronavirus recession. During the first phase, employment plummeted particularly in the five most affected face-to-face sectors. That period ended in April 2020 for most locations, in May for some. During the second phase we saw a partial recovery in all sectors, with Leisure and Hospitality still lagging behind the others. The summer wave of new infections was more like an echo of the first wave and could have been prevented had the warning signs following Mother's Day and Easter been incorporated. Still, it only just slowed down the otherwise surprisingly strong recovery. Phase III will coincide with the (real) second wave hitting California and other states, likely from December 2020 until at least March 2021. We will not see much further progress towards pre-recession recovery levels, since Leisure and Hospitality will continue to only recover slowly and will be affected by renewed shutdowns. Social distancing and wearing of masks will continue to be the norm. Phase IV, the full recovery in terms of GDP and accelerated economic growth will coincide with wide-spread vaccination of the general population, which will result in herd immunity. At the national level, we will recover real GDP, but not employment, by the end of 2021 quarter II when strong growth above 5% will start to appear as a result of pent-up demand. Quarter III will be equally strong before we start to settle down towards 3%.

Our real GDP forecast for the U.S. therefore is:

- 2020: -1.1%
- 2021: 4.3%
- 2022: 3.9%

California and the Inland Empire will also experience higher growth starting slightly later (Quarter III) but being stronger than U.S. growth rates after that.

Our real GDP forecast for CA and the Inland Empire is:

- 2020: -1.5% CA and -1.4% IE
- 2021: 4.5% CA and 4.7% IE
- 2022: 4.2% CA and 4.3% IE

Employment and unemployment, not GDP, is the economic news that makes it to the front page, even though it is not the most general measure of economic activity in a geographic area. As a matter of fact, employment/unemployment is what statisticians call a "lagging indicator." This is a description of economic variables that turn after general economic activity has changed from one phase of the business cycle to another. This is certainly true for employment coming out of a recession, but not necessarily going into a recession. Note that the unemployment rate jumped up right away in March, and more so in April; but it took until 2014 to recover the job losses from the Great Recession of 2008-2009. Similarly we do not expect employment to return to pre-COVID 19 levels until 2022 the earliest: there is clearly no V-shape recovery in employment.

In our forecast the unemployment rate is expected to fall to 5.5% by the end of June 2021 for the nation and only become marginally lower following that. One of the reasons is that some effects of COVID 19 will be long lasting as it has accelerated trends in technology that were already under way. The 4th industrial revolution (AI and robotics) will arrive five years earlier than otherwise thought. Some innovations have already shown up: health care and education online, e-commerce has quickened in taking over from physical retail, the extent to which (partially) working from home becomes increasingly acceptable, teleconferencing instead of in-person meetings, additional rooms in residential housing demanded due to work at home, companies adapting to remote work. But here also lies the chance for the Coachella Valley: with tech work less concentrated in San Francisco, San Diego, Los Angeles, and the Silicon Valley, will the "work from home" trend allow techies to settle here? The pandemic certainly has removed some of the stigma of working from home. Remote collaboration may become increasingly the norm. With these technological advances, we feel that it will be some time before we will encounter unemployment rates below 4% again.

Our unemployment rate forecasts are therefore as follows:

- end of 2020: 7.0% (U.S.), 8.5% (CA), 8.1% (IE)
- end of 2021: 5.1% (U.S.), 5.5% (CA), 5.4% (IE)
- end of 2022: 4.8% (U.S.), 5.0% (CA), 5.1% (IE)

Much of this will be different for the Coachella Valley since there will not be much of an uptake during the second quarter of 2021. By the time the vaccine will be widely available, the main tourism season here will be over. We will therefore not get the full benefit of the recovery until September and October 2021 the earliest. This has implications for government finances since cities will have to survive without the tax income usually generated by the tourism industry: Leisure and Hospitality together with Retail Sales will not pick up significantly until October.

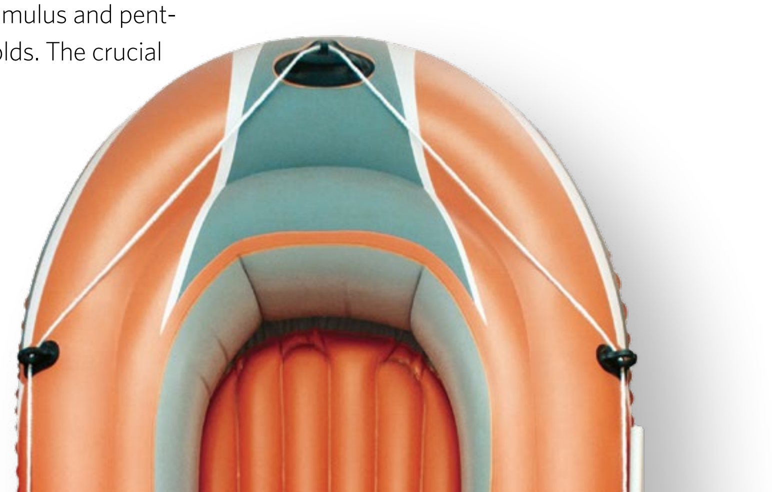
However snowbirds from Canada travelling here will return in significant numbers starting in October and we would not be surprised to see a new record of passengers arriving in PSP during the spring of 2022. Many of the large audience events will not take place in their normal form until late in the second quarter of 2021. The best we can hope for is that the Coachella Music and Arts Festival/Stagecoach will happen after the low season in the summer.

Inflation will not be a concern for the foreseeable future. The Federal Reserve is committed to a low interest rate policy for years to come. However, it has other instruments at hand to tame inflation if, against expectations, it will exceed the inflation target of 2% significantly. As with prior forecasts, we do not forecast capital markets or exchange rates.

It is now time to look forward (definitely don't look back). What does 2021 bring us, other than the vaccine – even if it will arrive late? The last qualifier is actually central to any economic forecast, be it regional, for the state, or national. Congress is about to pass a $1.9 trillion stimulus package. While it is hard for most to understand what $1 billion means, $1,900,000,000,000 is truly mind boggling. This sum represents over 10% of all goods and services produced in the U.S. annually, and there is only one other country (New Zealand) that pumped more money into its economy (measured as a percent of real GDP). What is this going to do for the economy?

There will be substantial growth in the economy, due to the stimulus and pent-up demand by households. The crucial question is when this will arrive. Our forecast initially had been weak growth for Quarter 1 of 2021 (less than 2%), which is bad news especially for the Coachella Valley since this coincides with its major tourist season. However, most of you have written off the Spring in terms of snowbirds from Canada, visitors from northern U.S. states, and other foreign visitors. Some of the shortfall will be made up by increased local tourist traffic but it is hard to see that this will be sufficient for the overall shortfall. Opening outdoor dining will be a start.

It is Quarter 2 of 2021 that would have seen accelerated growth had the vaccine be delivered as planned. It now looks like much of the inoculations will not be done by the end of June, and the process will drag into the third quarter and even until the end of 2021. That will shave off percentage increases in output and income for Quarter 2, for which we now see growth not exceeding 3.5%. It is not until the start of the tourist season for the Coachella Valley when we expect growth rates to be in excess of 6% - as I said before, let the Coachella Valley Music and Arts festival be the canary in the coalmine. If Coachella takes place, even with attendance limited to 60,000 – 90,000, then we are on the road to a serious recovery and a boom of a tourist season later in 2021/early 2022. If not, then expect growth to be positive but subdued until later in the year.

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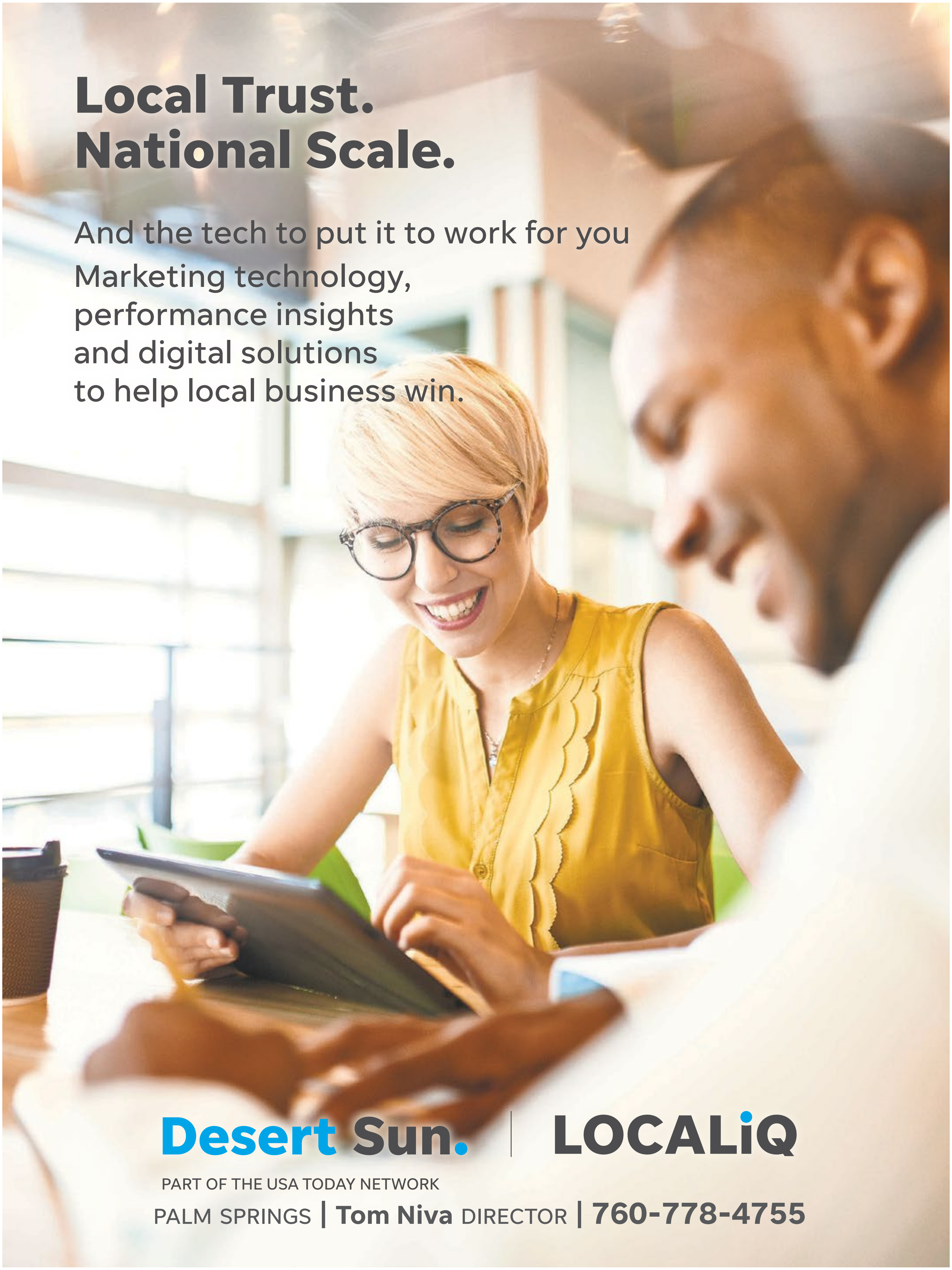
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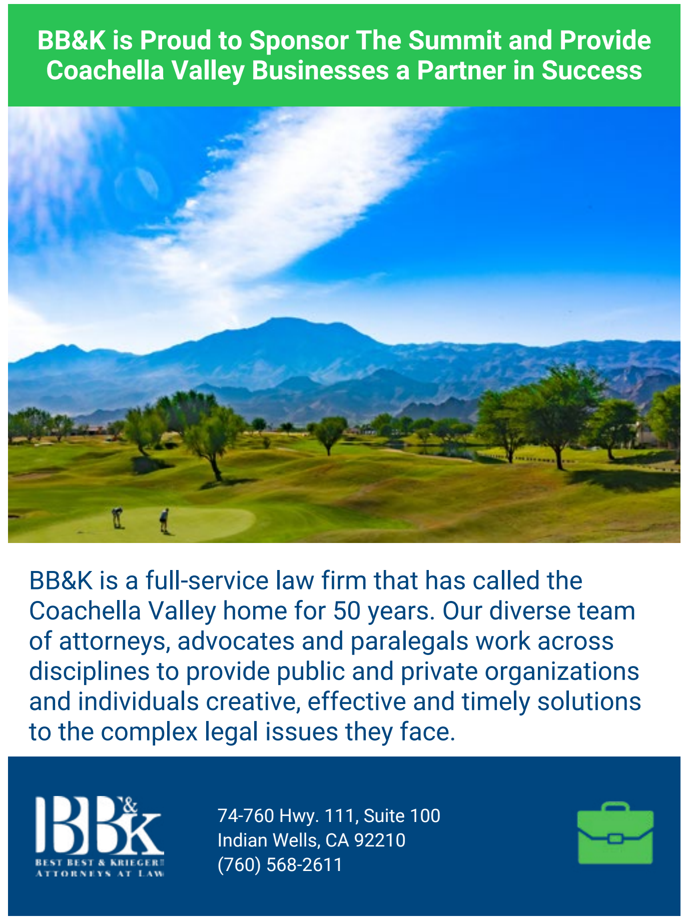
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