

FY20/21 Economic Outlook

| May 14, 2020
| City of San Jose

| How are we looking at the local economy?

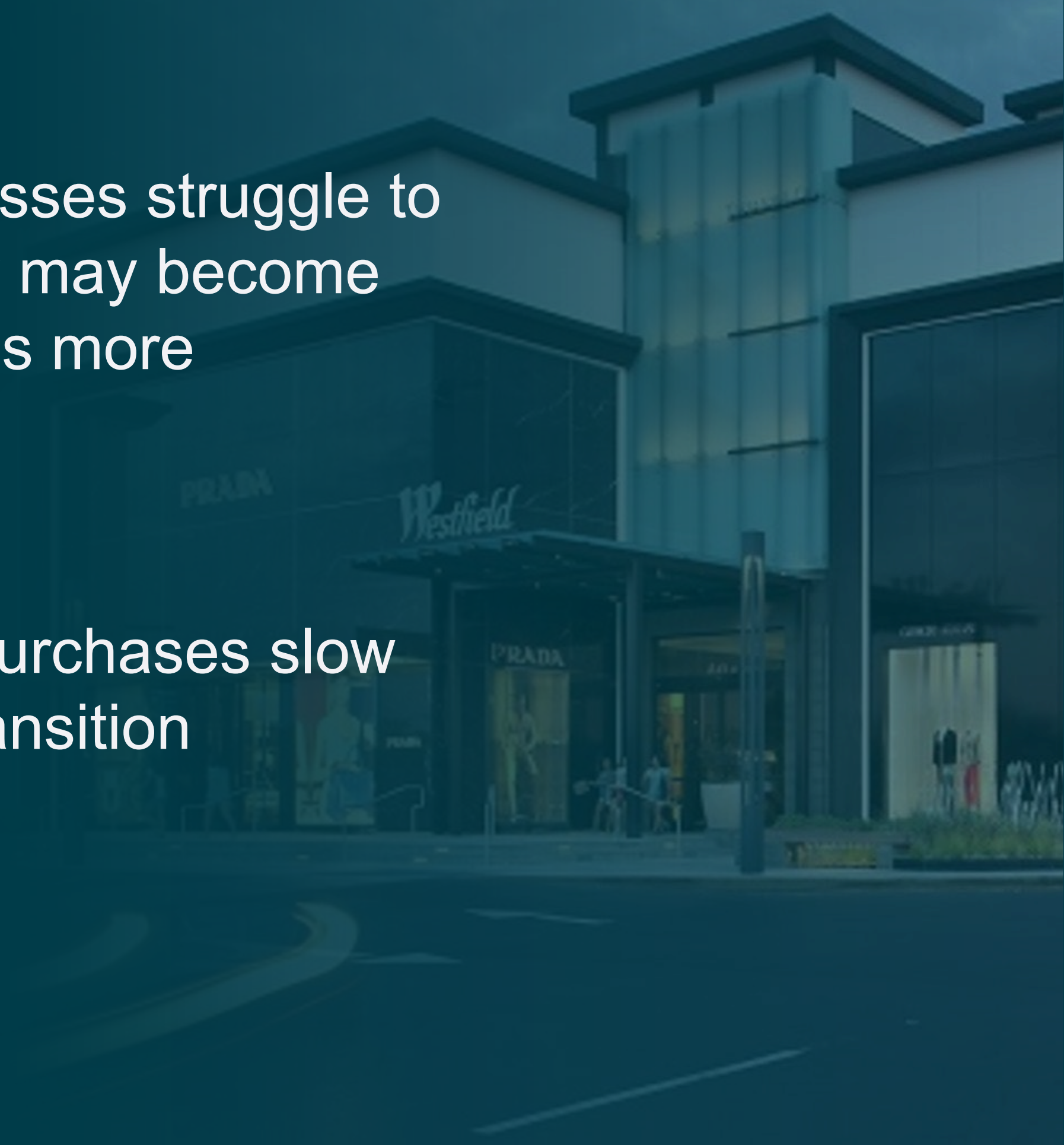
- Acute shortage of real-time data
- What are the factors within the economic crisis that impact the City's ability to deliver service?
- Understanding impacts in three contexts:
 - Now – what are we seeing/hearing?
 - Near-Term – as we begin to transition out of SIP, how will this change?
 - Long Term - based on our experience of the Great Recession, what can we expect next?

Economic Context of Covid-19

- Unprecedented economic shock to the global economy
- Current economic conditions are defined by the response to the global pandemic – Shelter in Place
- Number of different scenarios for stabilization and recovery – V (or U) shaped, L-shaped, W-shaped
- Duration of SiP will impact the pathway to recovery; expect to see transition as the local orders are modified and State and Federal assistance becomes more limited
- Direct economic effects of the pandemic anticipated to be felt for 2-3 years

| City Budget Drivers: Sales Tax

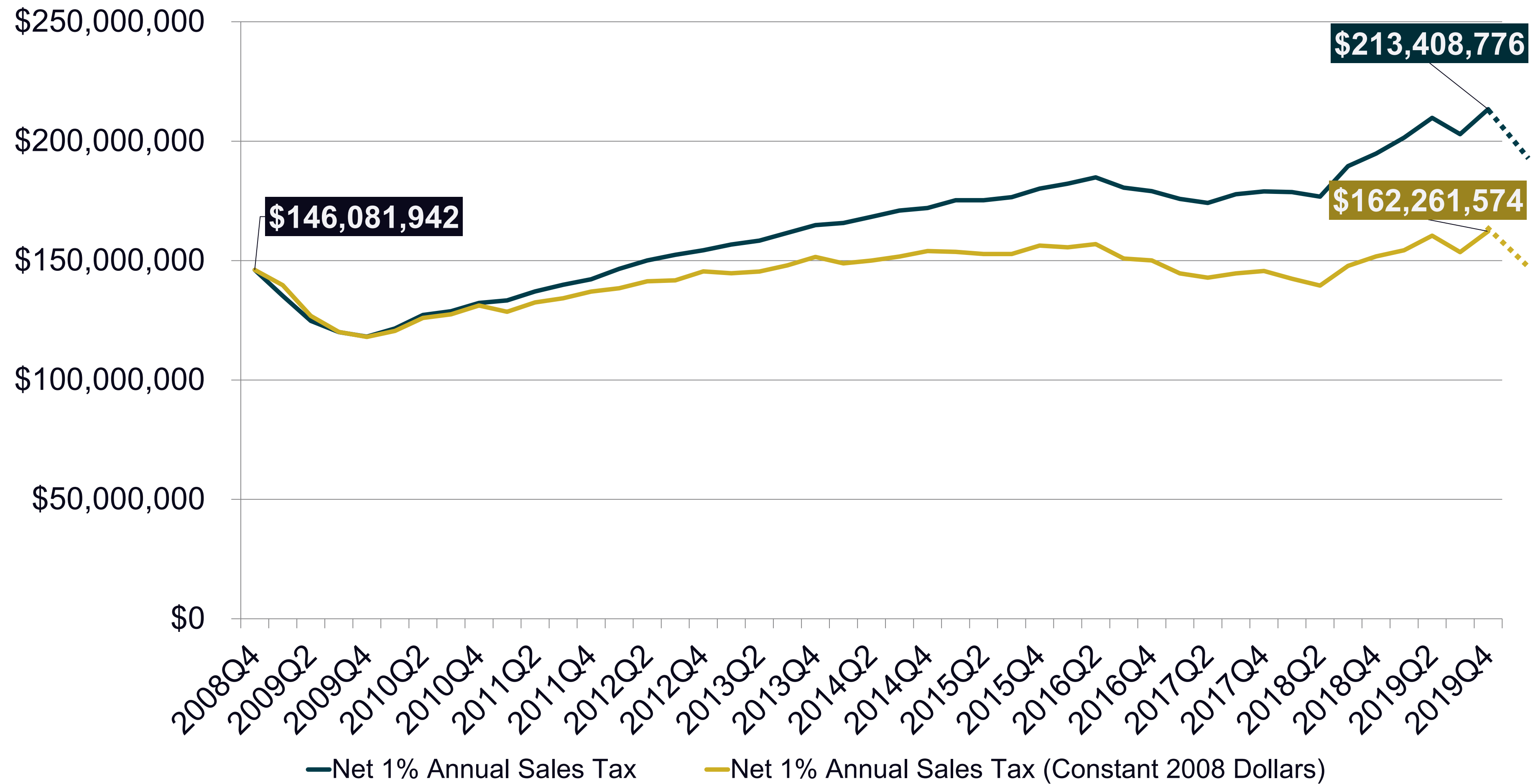
- Now – some businesses working to transition to online service delivery – majority closed
- Near-Term – Churn in retail market as small businesses struggle to maintain through return-to-work. Worker availability may become an issue, and public perception of the health crisis is more important than the provisions in the order
- Long-Term – Some retail sales stay online. Major purchases slow through recession. Acceleration of retail industry transition



10 years of growth lost in initial projected sales tax drop

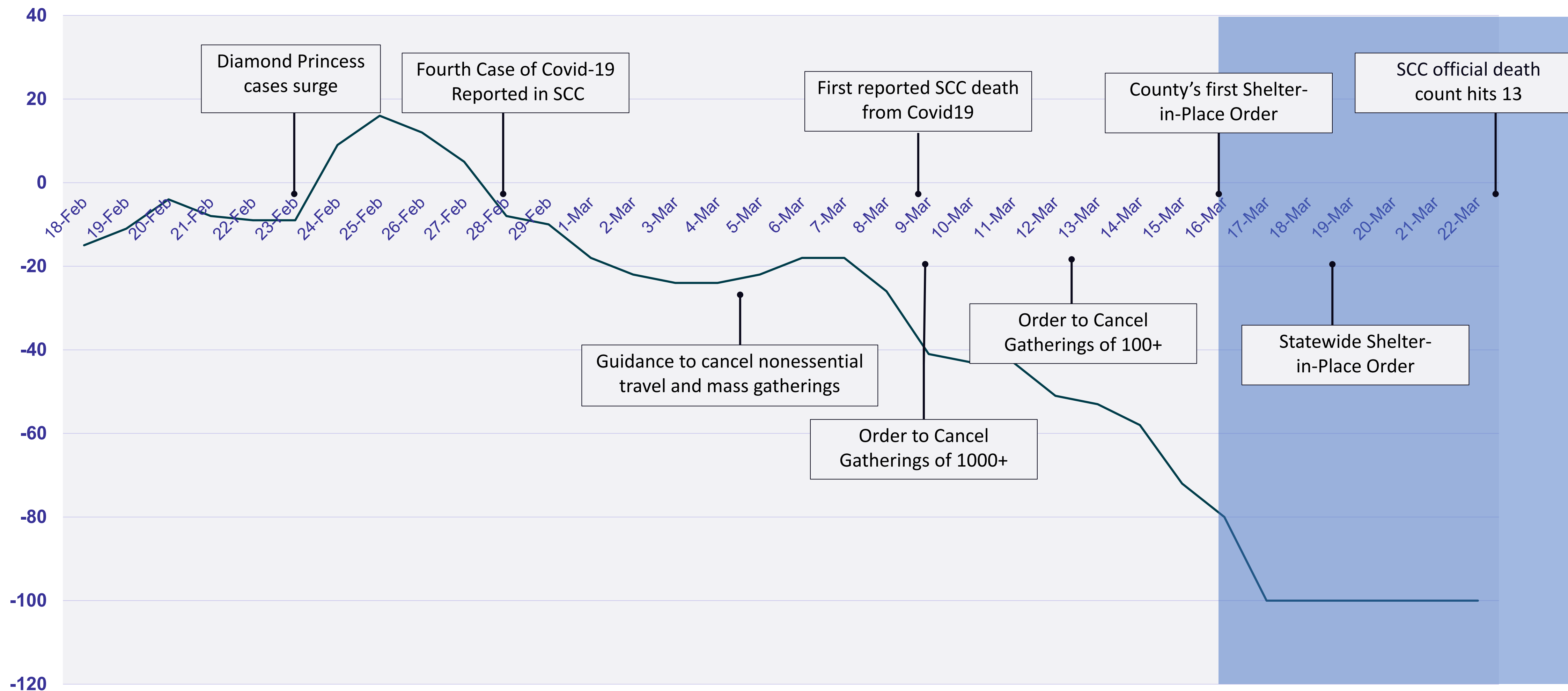
NET 1% ANNUAL SALES TAX FOR SAN JOSE

Adjusted for Inflation



Consumer confidence was plunging *before* Shelter-in-Place

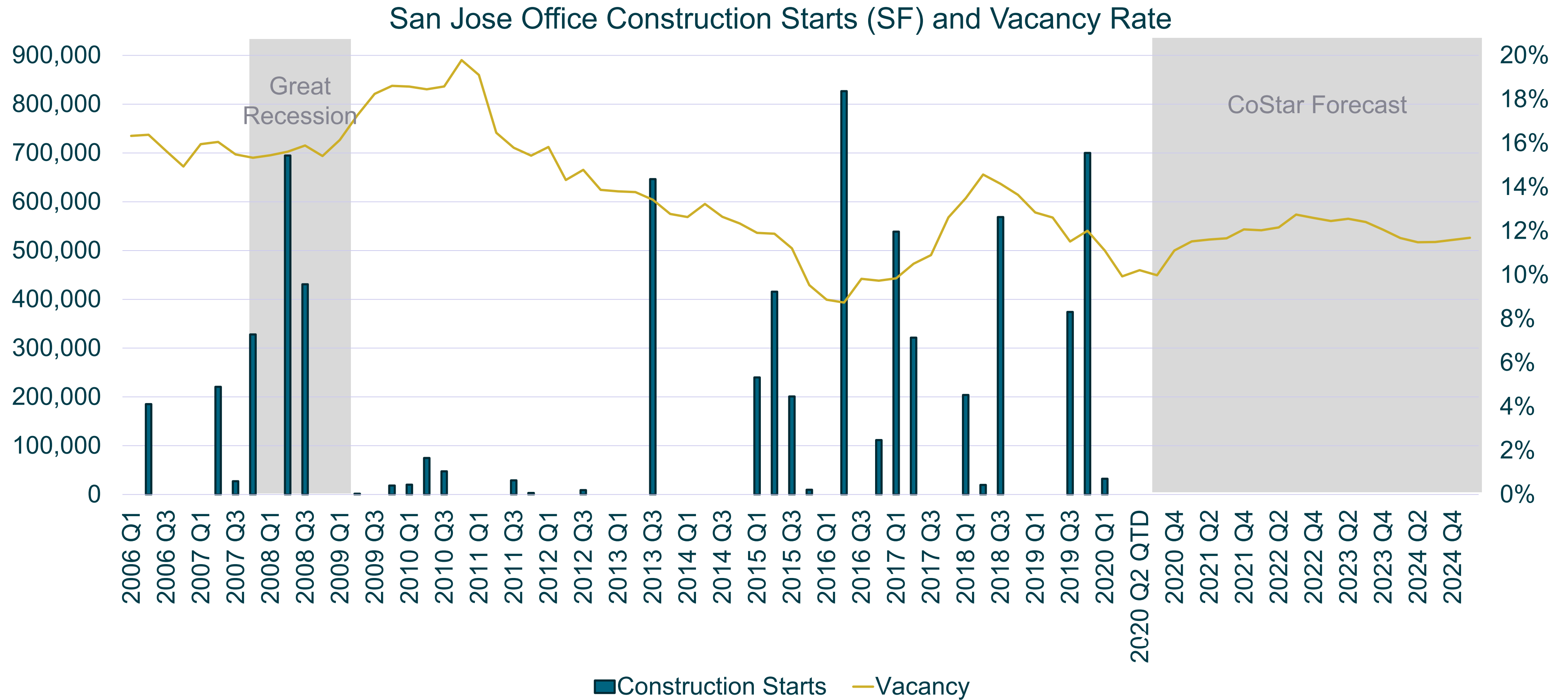
San Francisco Bay Area Restaurant Reservations



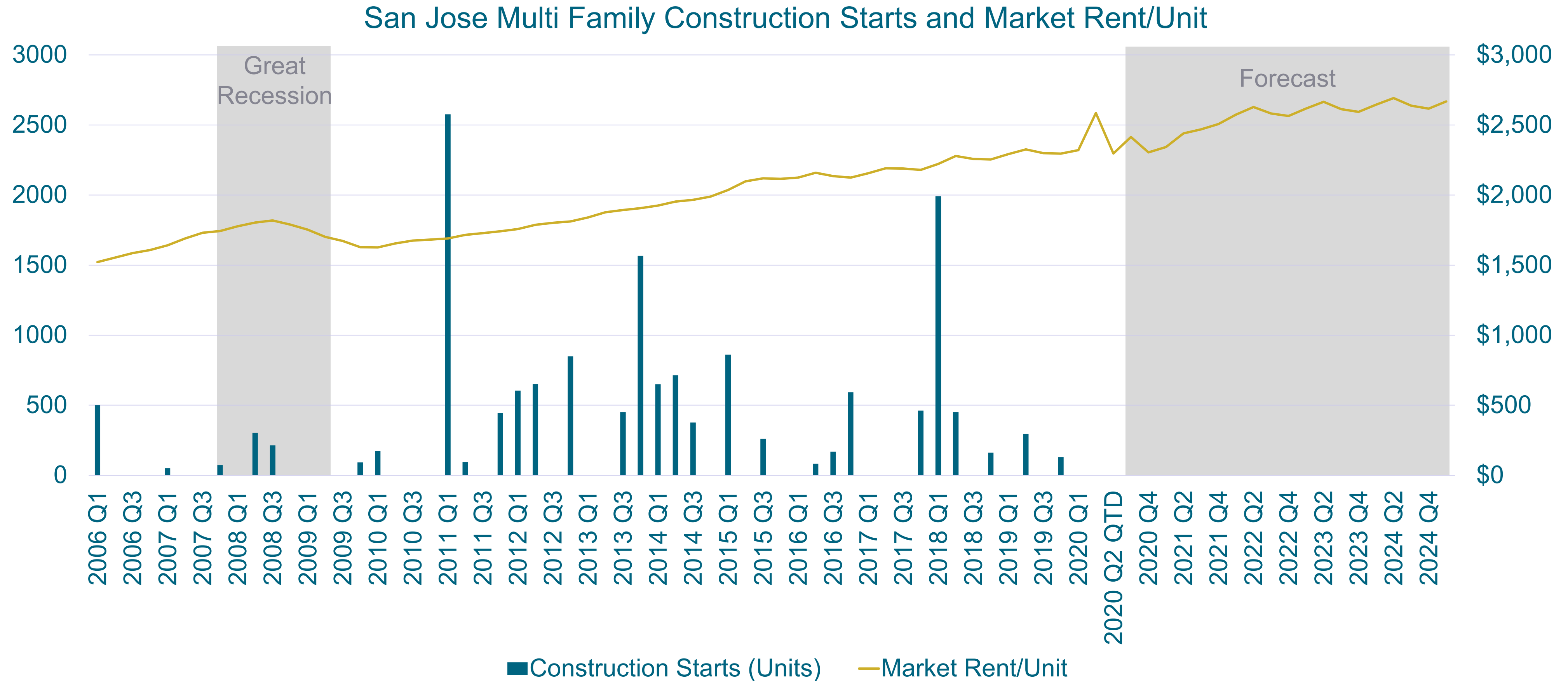
| City Budget Drivers: Development

- **Now:** Projects underway are working to complete construction but some will hold prior to moving into subsequent phases to understand the shifts in the market
- **Near-Term:** Likely to be a near term bump in permitting and some leasing as businesses redesign their spaces to accommodate new workplace standards, other new commercial construction will likely pause and new starts will stop
- **Long-Term:** - Residential development economics continue to be challenging until costs can align with rents – continuing to put pressure on regional housing availability and affordability. Commercial development in and around major transportation infrastructure (Downtown/Diridon) most likely to lead the way on new starts

Increased vacancy, declining construction starts



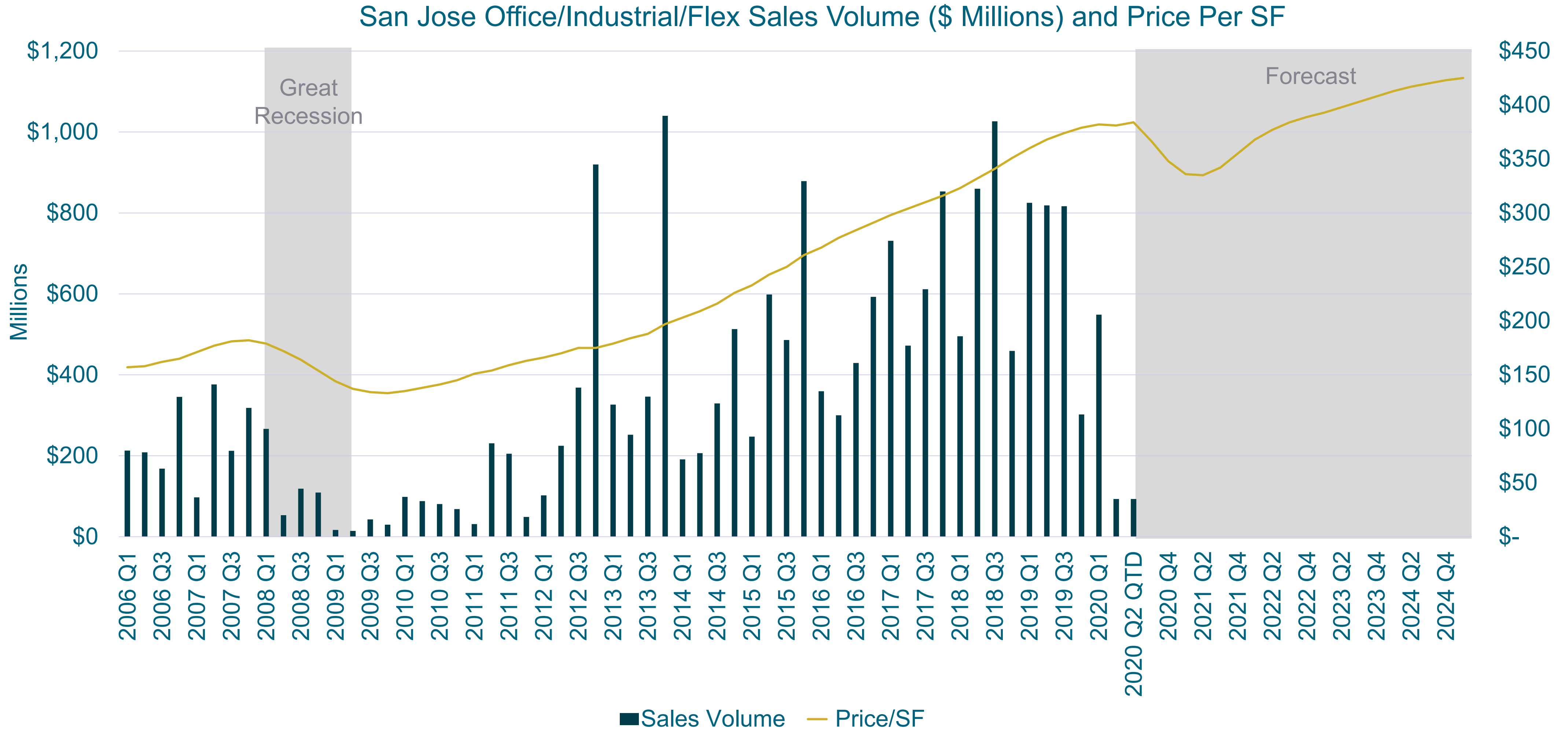
Continued pressure on the Housing Crisis



| City Budget Drivers: Property Tax

- Property tax revenues tend to track with longer term economic trends, influenced by the sale of real estate
- **Now:** Property taxes were due early in the pandemic. Property owners are waiting to see what impacts to work environment mean for leasing and demand.
- **Near-Term:** Expect to see decline in number of commercial property sales as owners wait out near term impacts on price. SFR market may hold value but similarly expect to see slowdown in transactions.
- **Long-Term:** Property tax revenue growth will slow but return to upward trend longer term.

Volume of sales and price dip but return to upward trend

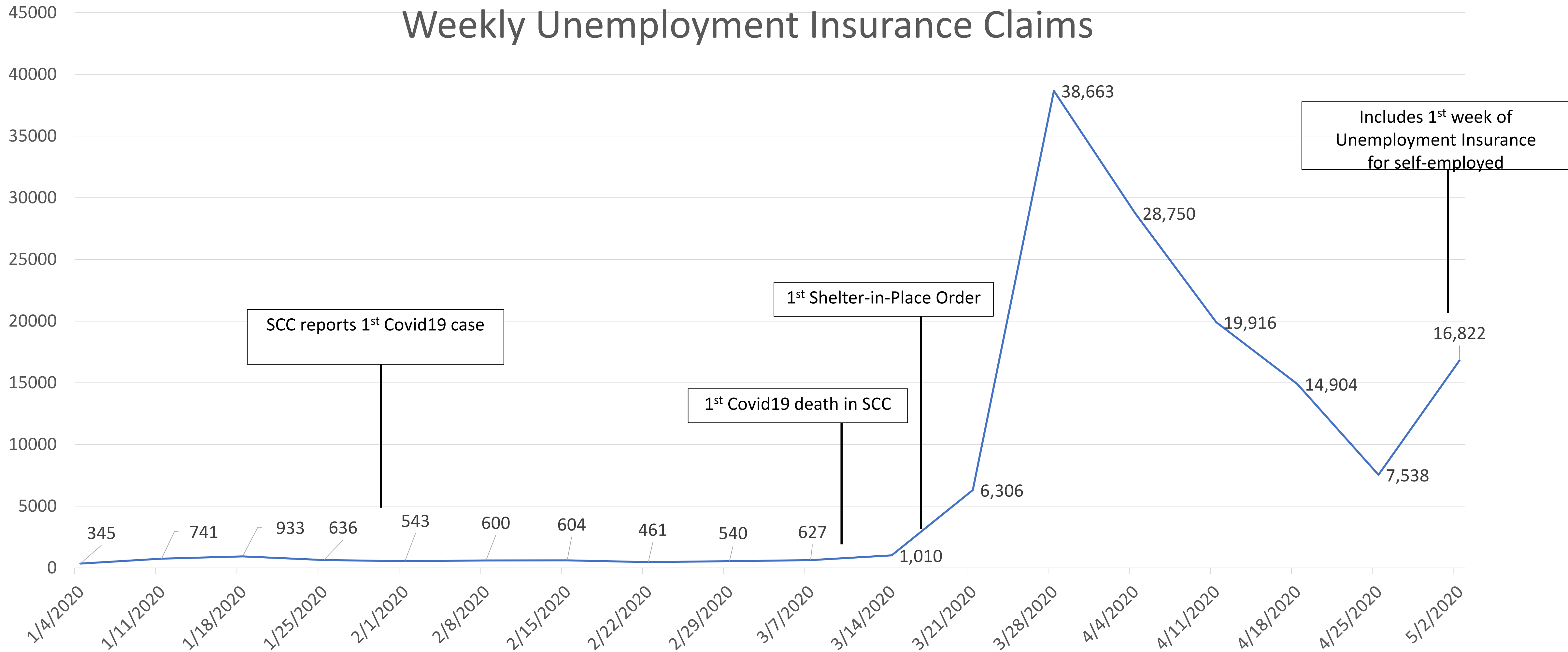


Economic Context: Employment

- High unemployment – difficult to understand actual impact as numbers currently include furloughed employees and sole proprietors
- Brookings: less than 13% of metro employment in High Risk Industries
- Pandemic hit the leisure and hospitality sectors earliest and hardest; as the SiP continues job losses are rippling through multiple industries and occupations. Key question: What percentage of temporary furloughs become permanent and at what point?
- Occupations most likely to be impacted by future automation face risk of not returning to work as companies accelerate innovation in the workplace to mitigate impacts of SiP

HIRING

Insurance Claims close up: A spike led by hospitality/retail, followed by tech ...Then a double-spike as PUA comes online



Economic Context: Global crisis – individual impact

- Unique nature of the pandemic is that its largest economic impact is on occupations rather than industries
- The impact to individuals throughout the City varies significantly, highest impact on vulnerable populations
- Early analysis based on typical entry-level education requirement for different occupations:
 - Entry-level workers are least likely to be able to work from home
 - Entry-level and middle skilled workers are more likely to be in occupations that had below-average employment growth prior to Covid
 - Entry-level occupations suffered the most significant employment losses during the Great Recession and were more likely to be affected early in this crisis

Kim Walesh

Deputy City Manager
Office of Economic Development
City of San Jose
Kim.Walesh@sanjoseca.gov

Chris Burton

Deputy Director
Office of Economic Development
City of San Jose
Chris.Burton@sanjoseca.gov

