SANDAG

May 28, 2020

COVID-19 Impact on the San Diego Regional Economy

CONSUMER SPENDING

SUMMARY

Since the start of the COVID-19 pandemic, SANDAG has monitored the economic impact on the San Diego region. The purpose of SANDAG's work is to provide regional elected officials and decision makers with relevant data and analysis to support their efforts in managing this crisis.

SANDAG's prior analytic efforts include: forecasts of retail and *TransNet* sales tax revenues, analysis of industry trends, consumer spending and foot traffic data, daily freeway traffic volumes, crime statistics, estimates of unemployment in the region, and providing additional telework resources to SANDAG's iCommute employers.

Federal, State, and local agencies are providing guidance to reopen the economy. Up-to-the-minute information and data are not available from traditional data sources, so SANDAG uses "big data" and data analytics to estimate and understand what is happening in the economy on a timely basis.

In this report, sales are estimated based on several big data sources, and includes considerations such as comparisons to the past eight weeks, stimulus impacts, and more. Some sources of data include:

RESEARCH
Data collection and telephone interviews were conducted since the start of the stay home orders in mid-March.

MOBILITY DATA
Foot traffic and travel patterns were captured by cell phone provider data via SafeGraph and Google Mobility.

DEBIT CARD TRANSATION DATA
Samples of national and regional debit card transaction data were collected at a merchant and categorical level to analyze consumer spending.

NATIONAL RETAIL SALES
The U.S. Census Bureau published advance estimates of U.S. retail and food services sales for April 2020, on May 15.

WHAT'S NEW?

National
The House of Representatives passed the HEROES Act (H.R. 6800) on May 16.

State of California
Governor Newsom announced the State will modify its stay home order to move into Stage 2. As of May 26, hair salons and barbershops are added to the growing list of industries that can resume operations under modified conditions. Retail, restaurants, and manufacturing facilities are also included.

Regional
Several jurisdictions, including the County and City of San Diego, have announced small business relief funds for businesses during the public health crisis.

This report is researched, written, and updated by SANDAG through the Data Science and Analytics Department and Office of the Chief Economist. For more information, contact Public Information Officer Jessica Gonzales at (619) 699-1950.

Although monthly sales data are highly variable, SANDAG estimates that taxable sales averaged $5.3 billion per month in the San Diego region prior to the stay home orders issued around March 16, 2020. April 2020 estimates of taxable sales show a 44 percent decline of $2.3 billion to approximately $3.0 billion.

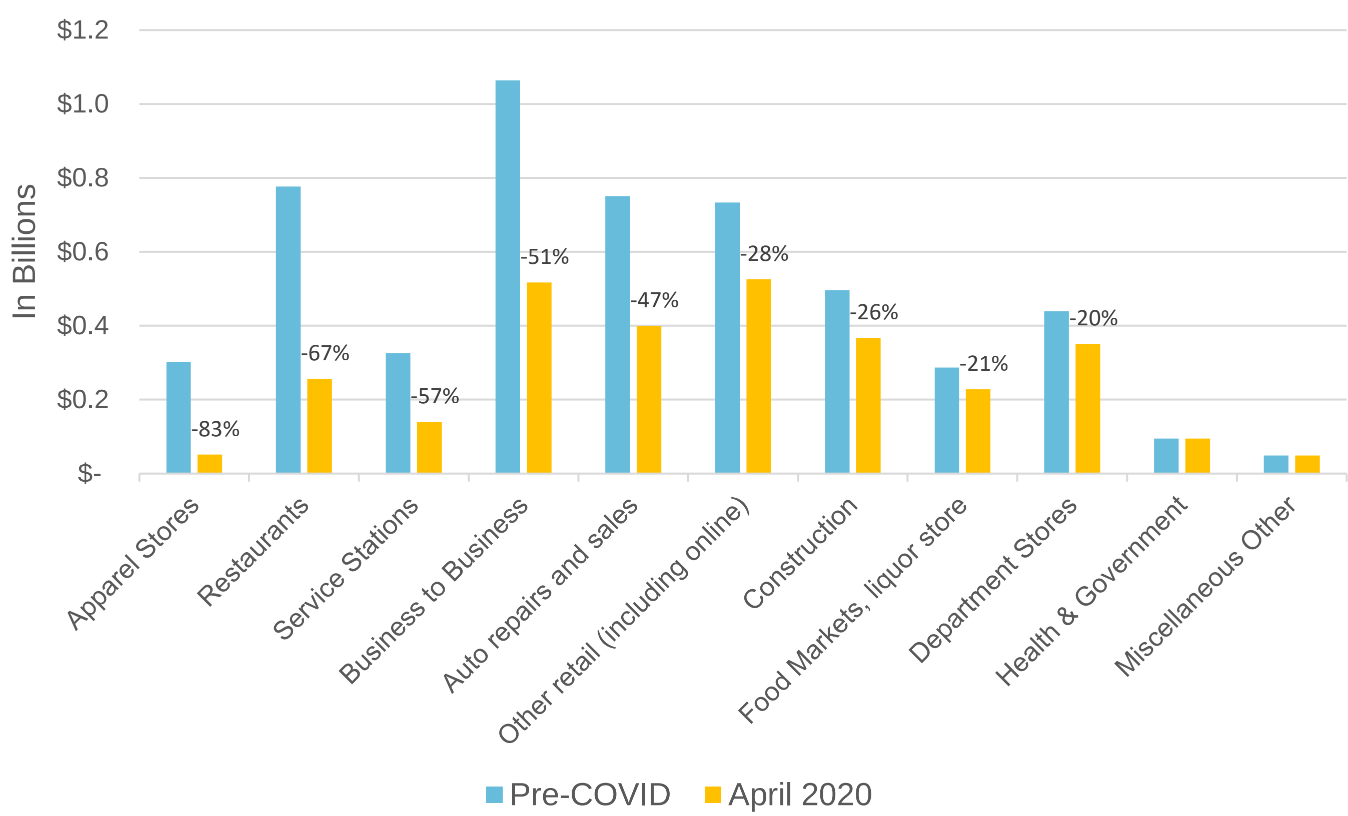
44% **April estimated taxable sales in San Diego County are down 44%.**

$2.3b **Taxable sales are down nearly $2.3 billion between February and April.**

The largest contractions in taxable sales are estimated for apparel stores (-83%) and restaurants (-67%). As a result, apparel store sales, which typically make up to 6% of total taxable sales in San Diego County, now only account for an estimated 2% of taxable sales in April. Restaurant sales, which typically account for approximately 15% of total taxable sales in the region, now only account for an estimated 9%. Other retail and online sales categories are among those less affected, as they saw sharp increases in activity during the pandemic. Other businesses that remained opened during stay home orders and are currently faring well include food markets and big-box retail stores such Costco, Target, and Walmart (classified here under “department stores”).

SANDAG estimations are in line with the U.S. monthly sales for retail and food services through April, which notably show that non-store (online) retailers were the one category to see an expansion at the national level, while all other categories contracted. Nationally, apparel stores saw an even larger decline than the San Diego region (cumulative -89% between pre-COVID and April).

Figure 1: Estimated Taxable Retail Sales April 2020 compared to Pre-COVID



CONSUMER SPENDING AND INDUSTRY TRENDS

50% — **Retail and recreation are down 50% since national stay home orders were issued.**

10% — **Grocery and pharmacy are down by 10% during the same time period.**

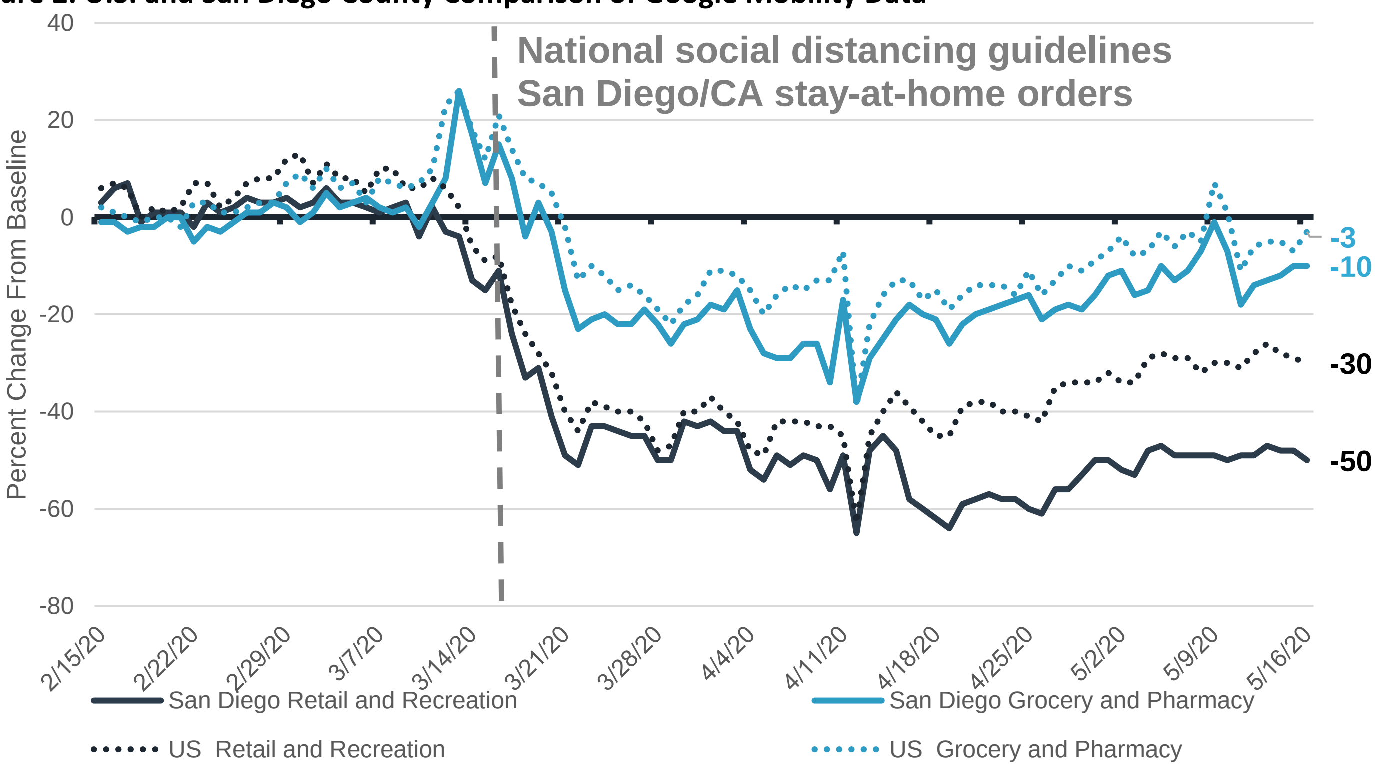
Google Community Mobility Reports provide insights into how policies aimed at combating COVID-19 have affected movement trends over time in the different geographies, and across different destination categories. Figure 1 (above) compares spending trends in the U.S. and San Diego County:

- **Retail and Recreation**: Covers mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters.
- **Grocery and Pharmacy**: Covers mobility trends for places like grocery stores, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies.

The comparisons show relatively similar patterns at the national and local levels right before the stay home orders began, with a spike in trips to grocery stores and emergency purchases in the weeks preceding the orders. On the other hand, declines in retail and restaurant activity began as concerns about the pandemic began to grow and people focused on preparing to shelter in place.

Immediately following the stay home orders, mobility to grocery stores and pharmacies declined approximately 20% in San Diego County, slightly more than the national level (15%) reflecting that not all U.S. states had implemented stay home orders. Mobility to retail and recreation has dropped nearly 50% in San Diego County, more than the national level (30%). Mobility to retail and recreation also shows a marked divergence between the San Diego region and the U.S. after mid-April. This difference in the data is likely due to different rules being imposed in different areas of the country.

Figure 2: U.S. and San Diego County Comparison of Google Mobility Data



Source: Google LLC "Google COVID-19 Community Mobility Reports" https://www.google.com/covid19/mobility/ Accessed: <5/10/2020>

The next series of information identify San Diego County patterns by foot traffic. These sectors make up approximately three-quarters of sales tax revenue. Examination of travel patterns and consumer spending data is used as a proxy to help estimate consumer activity at places of commerce and in turn taxable retail sales in the region.

General Retail

28% of taxable sales

Estimated $1.4 billion in taxable sales each month

Includes: apparel, department stores, furniture/appliance, drug stores, recreation products, florist/nursery, miscellaneous retail

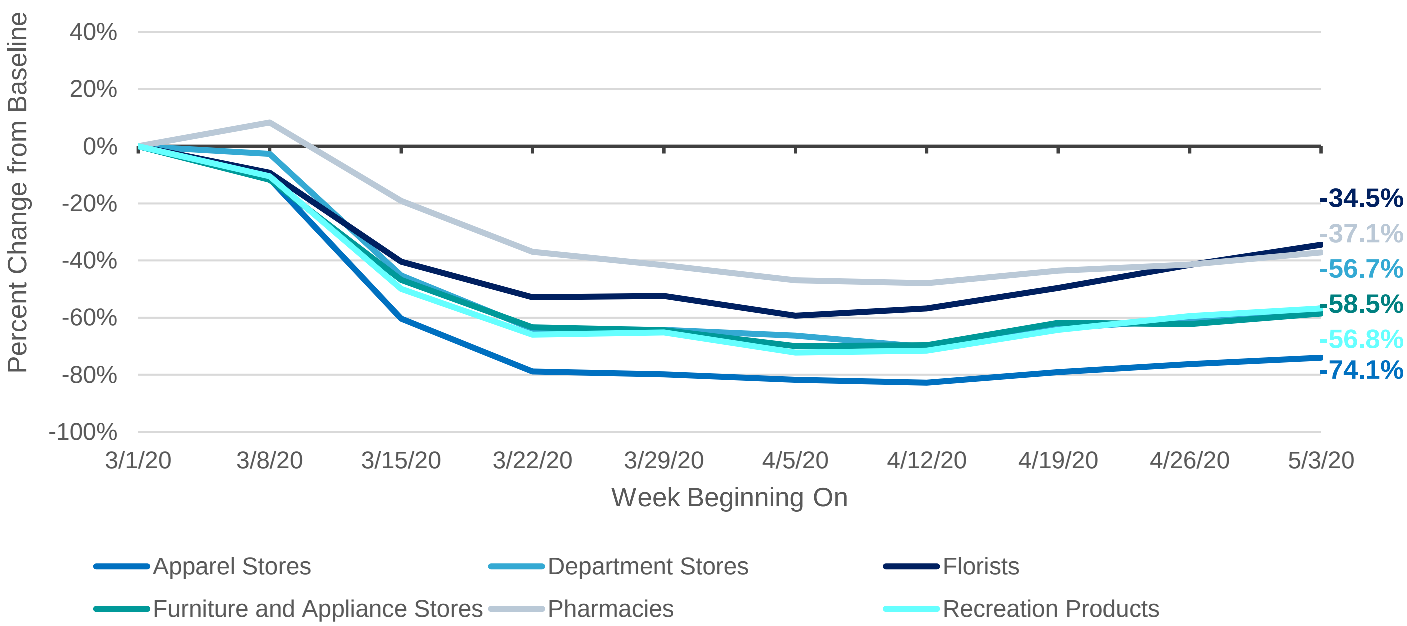
Current Impacts

Consumer spending and foot traffic data indicates that apparel and recreation products were among the hardest hit in general retail. Pharmacies saw an increase of nearly 10% prior to stay home orders, and then a dramatic decline of almost 50% by April 12.

With the shuttering of shopping malls, the apparel sector saw the largest decline of approximately 74% since March 1.

Online retailers such as Amazon continue to increase market share, as consumer spending in the online sector increased 35%, according to Facteus. This spike in online consumer spending resulted in an announcement by Amazon to hire 175,000 new employees during the stay home orders. This pandemic shows a re-invention of eCommerce and a reshaping of retail in the future.

Figure 3: San Diego County Foot Traffic – General Retail*



Source: SafeGraph COVID-19 Response Dataset - Weekly Patterns, v1

*Dates represent totals by week beginning, i.e. 3/1/20 represents totals from 3/1/20 to 3/7/20.

Outlook

As of May 8, San Diego County was early into Stage 2 of Governor Newsome's reopening plan, where retail (curbside and delivery only), limited personal services, and other businesses could open with modifications. The Governor has now given San Diego County the authority to open destination retail (retail stores), including shopping malls and swap meets with strict guidelines.

As retail begins to reopen there should be a corresponding increase in foot traffic, retail sales, and increased employment. However, if the nation and/or region go into a prolonged recession, this sector will likely take some time to recover. In addition, for those who have been out of work for the past 10 weeks and who remain out of work will increasingly have less money to spend on non-essential goods and services. In some local shopping centers where store fronts have become empty, foot traffic, and by extension, sales to the remaining businesses could be negatively affected.

Food and Beverage

20% of taxable sales

Estimated $1 billion in taxable sales each month, ($777 million from restaurants)

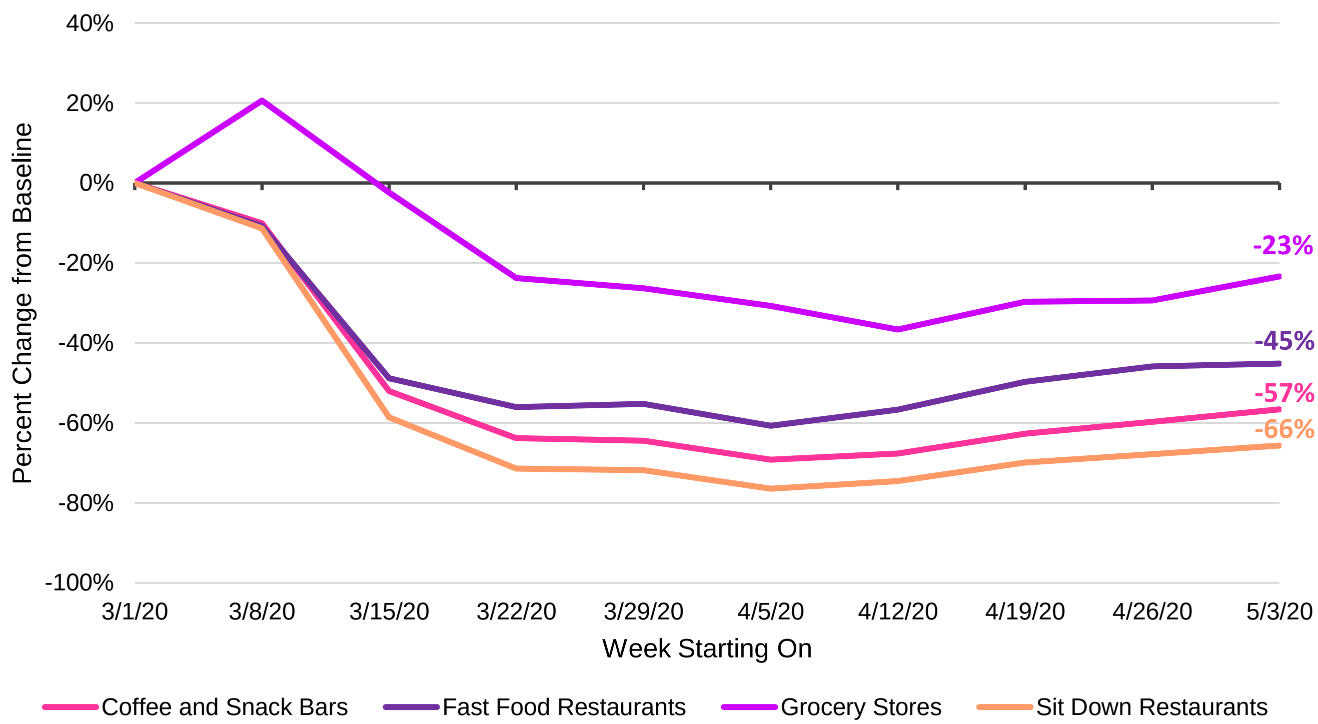
Includes: restaurants, food markets, liquor stores, food processing equipment

Current Impacts

Figure 4 shows a surge in foot traffic to grocery stores prior to March 15, likely due to residents stocking up on groceries as news began to increase about COVID-19. Although grocery and liquor stores remained open, foot traffic decreased and billions of dollars in food market spending shifted as consumers went from in-store grocery shopping to online purchases. Foot traffic to restaurants and bars started to decline even before the stay home orders. Dine-in restaurants were most affected by the pandemic with a nearly 70% decrease in foot traffic since March 1.

Some restaurant chains and small independent businesses have announced permanent shutdowns due to the pandemic. Although fast food restaurants have seen a decline, they are likely to recover well. Data suggests that many consumers used stimulus checks to purchase food, as there was a large spike in restaurant takeout and delivery just a few days after stimulus check deposits.

Figure 4: San Diego County Foot Traffic – Food and Beverage*



Source: SafeGraph COVID-19 Response Dataset - Weekly Patterns, v1

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Outlook

This sector of the economy was one of the hardest-hit by the pandemic, and the restaurant scene in San Diego County will be very different after COVID-19 than it was before. Many restaurants, especially small and independent establishments, may not survive the pandemic. Social distancing regulations will continue to negatively affect these businesses as their business model and financial structures are turned upside-down.

After two months without income, fixed costs such as rent, utilities, and equipment purchased on credit may be too much of a financial burden for many businesses to survive. Other businesses that open at 50 percent capacity will find it increasingly difficult to pay their bills, let alone make a profit. Some, such as Souplantation and other buffets, will disappear altogether because their business model cannot effectively support social distancing.

As of May 27, San Diego County has been given state approval to reopen dine-in restaurants. Restaurants will need to comply with new County of San Diego regulations before reopening. Those that have completed their reopening plan can reopen immediately. As establishments begin to reopen, we will see an increase in foot traffic and sales; however, increases resulting from the reopening are not reflected in the data.

Transportation

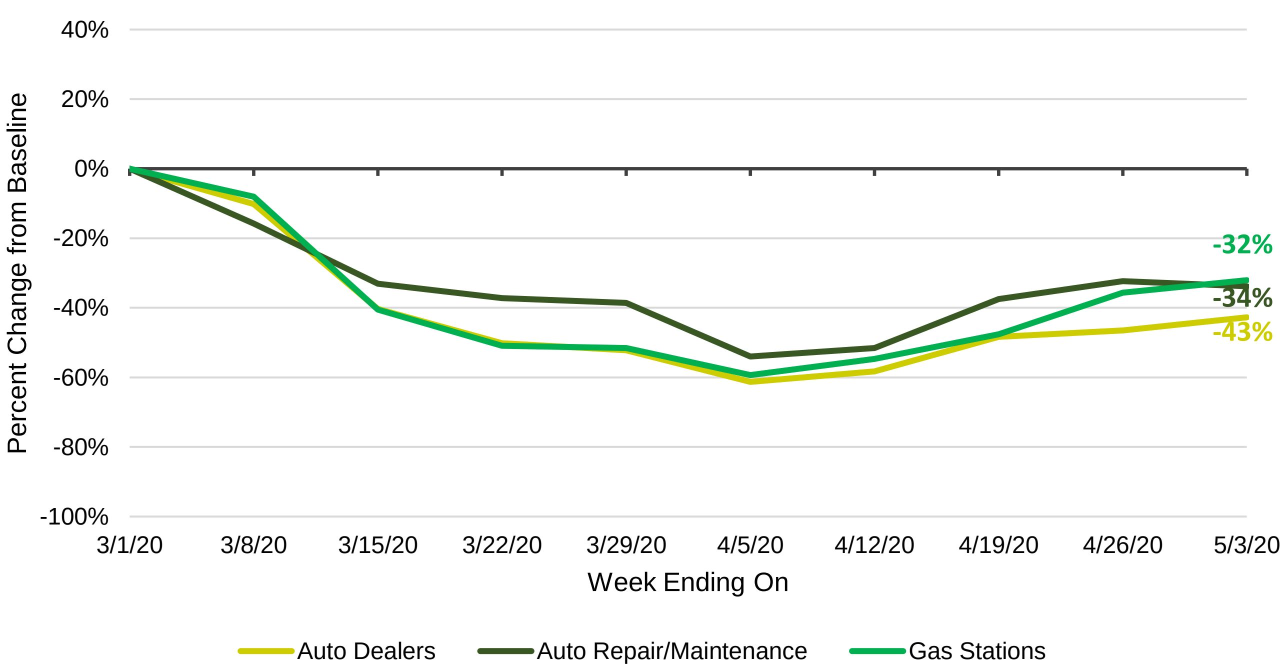
20% of taxable sales
Estimated $1 billion in taxable sales each month
Includes: auto parts/repair, auto sales new and used, service stations

Current Impacts

During the first several weeks that stay home orders were implemented, many auto dealerships were open with limited staff, modified hours, and limited maintenance related service only. By April 5, auto dealerships saw nearly 60% decline in foot traffic. Gas stations saw sharp declines, as residents were driving less and gas prices continued to fall (more details can be found on page 7).

Slight increases in all areas of the transportation sector, identified below as of April 12, are in part due to lockdown fatigue as people began to leave their houses and travel more even with the stay home order in full effect.

Figure 5: San Diego County Foot Traffic – Transportation*



Source: SafeGraph COVID-19 Response Dataset - Weekly Patterns, v1

*Dates represent totals by week beginning, i.e. 3/1/20 represents totals from 3/1/20 to 3/7/20.

Outlook

As the economy reopens, more people will begin to travel around the region, both for work and for leisure activities. Demand for fuel will return to near normal levels as restrictions are lifted. Social distancing rules should not significantly affect gas stations or repair shops. However, the purchase of a new car may be somewhat hampered until the industry implements effective social distancing guidelines. Auto dealers and manufacturers offering incentives to purchase new vehicles should help auto sales, however, a national recession would negatively affect sales in this sector.

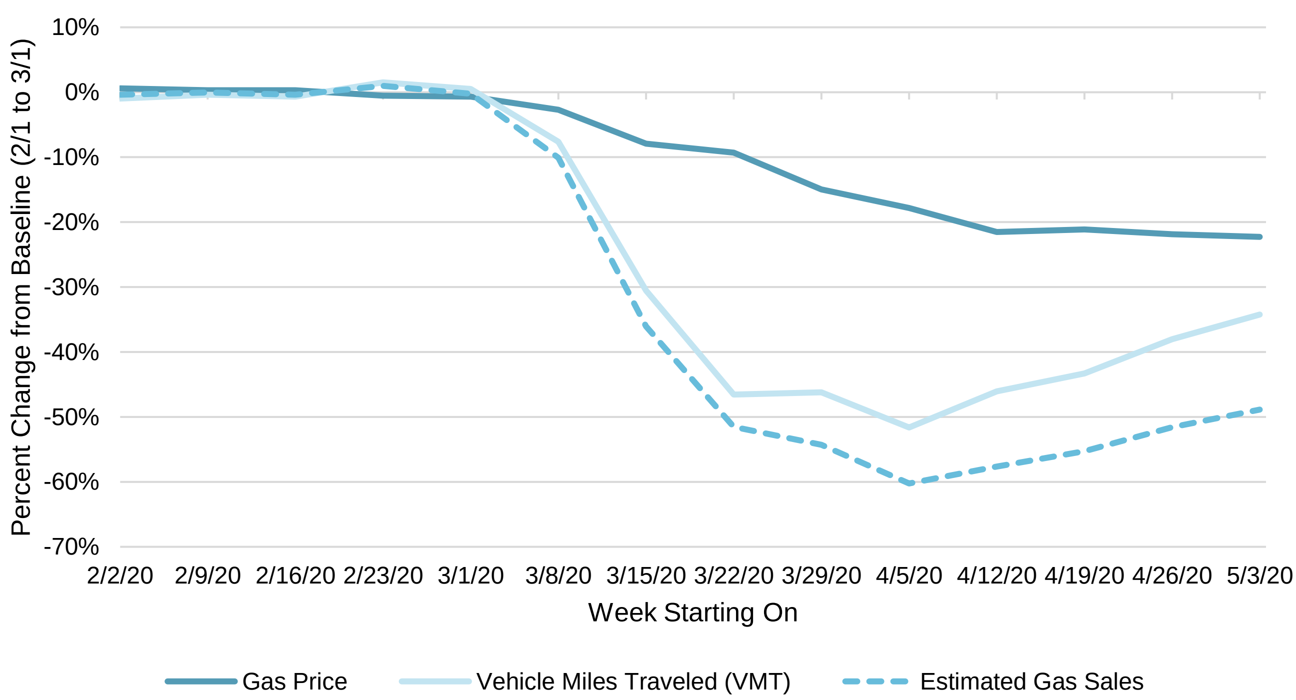
COVID-19 IMPACT ON VEHICLE MILES TRAVELED AND GAS PRICES IN THE SAN DIEGO REGION

As stay home orders continued, regional residents were driving much less, with sharp declines of roughly 50% by early April, either as a result of teleworking or job loss. For more information about daily travel on San Diego regional freeways, see the SANDAG infoBits on daily traffic volumes.

In early April, gas prices declined by 20% compared to February and early March. Declines have been driven by the fall in oil prices. Demand for oil collapsed alongside the COVID-19 pandemic activity and travel restrictions. Further downward pressure on price came from oil producing countries unable to agree on supply reductions.

The dual effect of decreasing gas prices, and sharp decrease in vehicle miles traveled (VMT), have resulted in sales tax revenue reductions of over 50 percent from this important tax source.

Figure 6: COVID-19 Impacts on VMT and Gas Prices



Source: Gas Buddy, 3 Month Average Retail Price, Regular Gas Price, US Dollar per Gallon; Caltrans Performance Measurement System (PeMS) Vehicle Miles Traveled Data

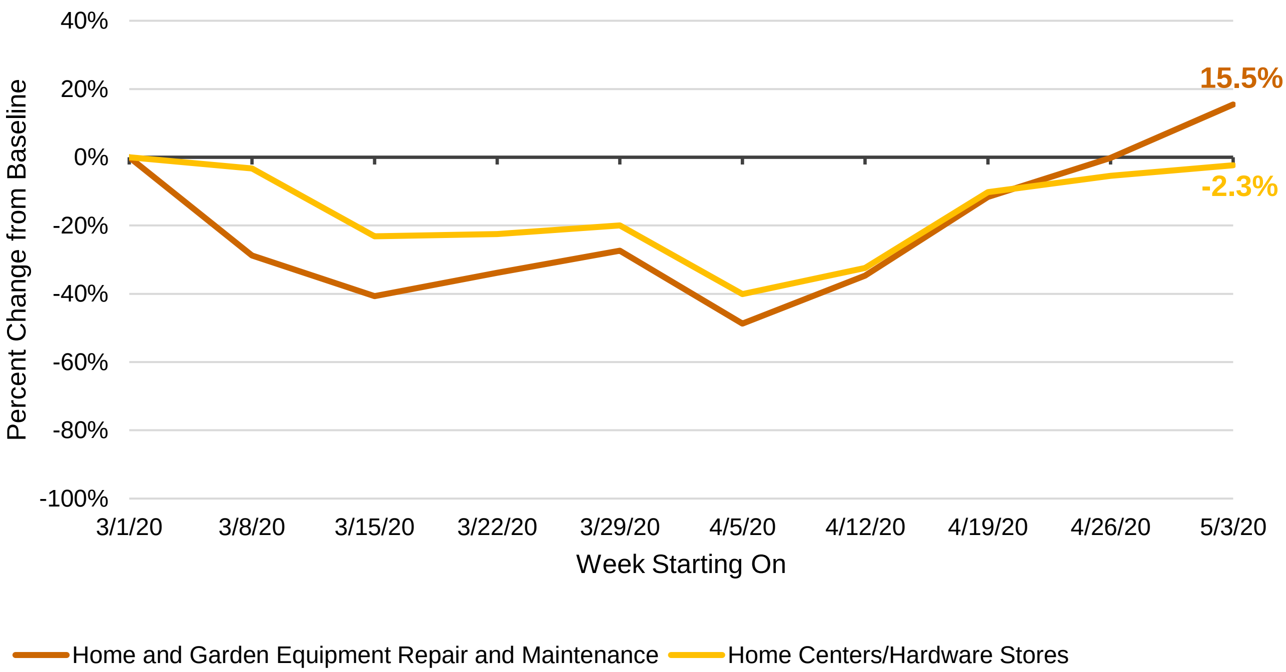
Construction Materials

9% of taxable sales
Estimated $0.5 billion in taxable sales each month
Includes: building materials retail and wholesale

Current Impacts

In the first few weeks of the pandemic, many consumers stayed home and only visited stores for essential indoor repairs, etc. As the pandemic continued, and more people were spending time in their homes, stores such as Home Depot saw an increase in sales, as people had more time to work on house projects, outdoor landscaping, gardens, beautification projects, etc. People are turning to building home gardens as a way to keep themselves content during these stressful times. Seed companies saw increases nearly four times their average sales during this pandemic.

Figure 7: San Diego County Foot Traffic – Home and Hardware*



Source: SafeGraph COVID-19 Response Dataset - Weekly Patterns, v1
*Dates represent totals by week beginning, i.e. 3/1/20 represents totals from 3/1/20 to 3/7/20.

Outlook

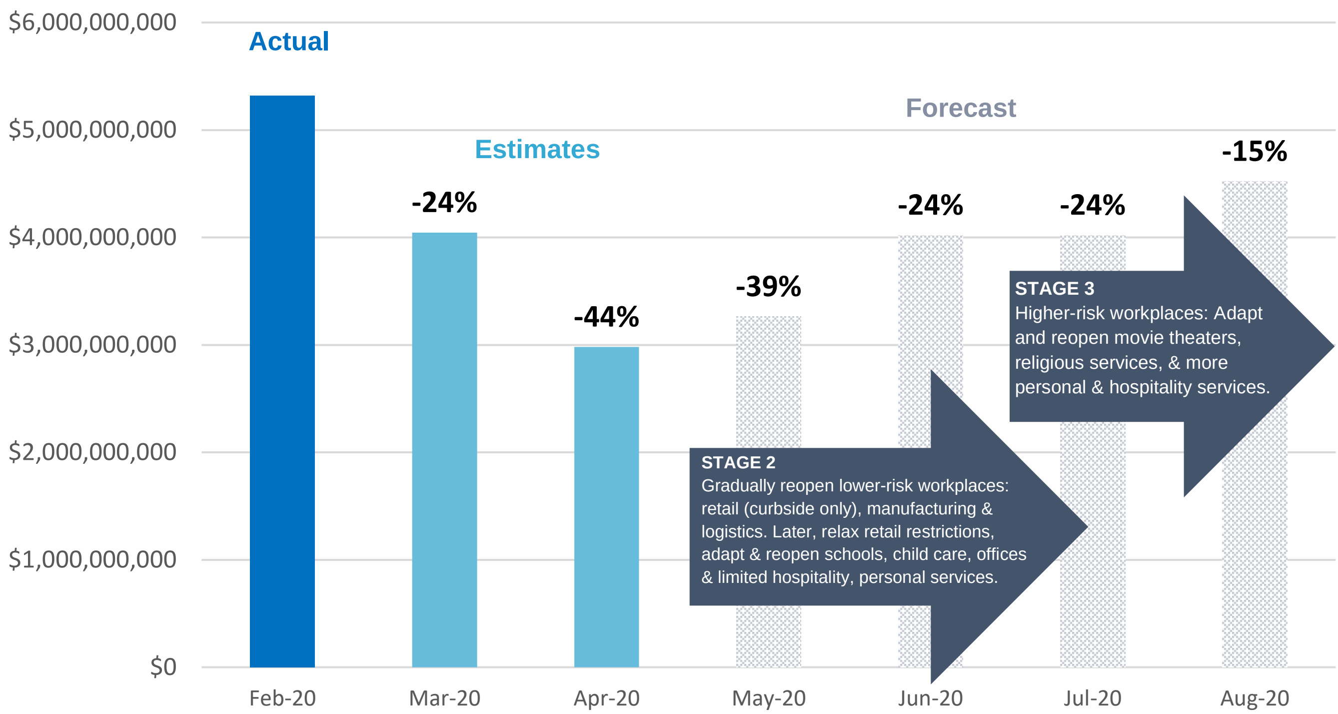
This sector of the economy rebounded successfully even during the stay home orders. The outlook for the industry remains strong as consumers continue to spend on home improvement projects. Figure 7 shows a return to baseline for home centers and home and garden starting the week of April 12, likely due to stimulus check distribution.

RETAIL SALES IN THE SAN DIEGO REGION

As noted in the April 8 report, in FY 2019, the San Diego region recorded taxable retail sales of $59.6 billion. Taking into account SANDAG's primary research and weekly mobility and spending data, the data shows how taxable sales have been affected during the stay home orders. As the economy begins to reopen, SANDAG will continue to use these data to monitor the economy.

SANDAG estimates taxable sales declined by 24% in March, which is in line with the initial forecast presented in early April. Taxable sales were lower than the pre-COVID baseline by 44% in April; this is less of a decline than our initial estimate of -50%. Consumer spending on taxable goods rose in late-April, after the first stimulus checks were distributed. Academic research[1] suggests that consumers rapidly spent their stimulus payments, with between 25 and 35 cents for each dollar of stimulus received spent during the first ten days.

Figure 9: Taxable Retail Sales Estimates and Forecast



SANDAG estimates based on the following sources: Facteus, SafeGraph, PEMS, U.S. Department of Commerce, and Gas Buddy

As the local economy reopens, taxable retail sales should continue to improve. The pace towards recovery will depend on how quickly the economy is fully reopened. For comparison sake, during the Great Recession, taxable sales fell by 18% between FY 2007 and FY 2010, less than half the amount experienced today in just a couple of months. Even if the economy fully reopens, some surveys suggest that it may take time for some consumers to feel confident about going out in public even as restrictions are lifted. Returning to pre-COVID-19 levels for some sectors will take many months and in some cases years.

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[1] Scott R. Baker, R. A. Farrokhnia, Steffen Meyer, Michaela Pagel, Constantine Yannelis (2020) " Income, Liquidity, and the Consumption Response to the 2020 Economic Stimulus Payments" NBER Working Paper No. 27097, May 2020