

Silicon Valley saved California during Covid, but people still want to leave

For all the talk of a California exodus, the largest U.S. state is in the midst of an economic resurgence.

When Covid-19 shut down much of the economy in early 2020 and forced office workers to log on from home, some in the tech industry packed their bags, publicly announcing their permanent departure from California. Others just hit the road, uncertain of where the future would take them.

Whether it was high taxes, political disenchantment, rising crime rates or the devastating wildfires that arrived earlier than normal and produced toxic air across wide swaths of the West Coast, California residents found many reasons to seek refuge elsewhere. For those with office jobs, escaping was easy because they could suddenly work from mountains, beaches, campsites and rental homes along the way.

Some of the criticisms of California are the same as ever: State income taxes are the highest in the country. Regulations are stifling. Red tape is everywhere. Living costs are crazy.

Others were Covid-specific: The response has been choppy and seemingly arbitrary. Schools and businesses were closed for way too long. Gov. Gavin Newsom, a Democrat, looked like a hypocrite for attending a dinner party at the French Laundry restaurant, where a meal costs around \$300 a person, while many businesses in the state were shuttered and citizens uncertain as to whether it was safe to go out at all.

Newsom's erratic leadership frustrated enough people to inspire a recall campaign that's likely going to hit the ballot this fall, echoing the successful 2003 recall of Democratic Gov. Gray Davis and his replacement by Republican Arnold Schwarzenegger.

But despite all the fuss, it turns out that the industry best prepared to weather the pandemic was still centered in California. Even as notable names like Oracle, Palantir and Hewlett Packard Enterprise decamped and population growth stagnated, the financial success of the tech sector during the Covid pandemic helped propel California to a \$15 billion tax surplus for the upcoming fiscal year — a sharp turnaround from last year's projected \$54 billion deficit.

The stock prices of Apple, Facebook, Alphabet and Netflix soared to all-time highs. Shares of videoconferencing company Zoom climbed fivefold as it became a household name. Emerging companies Snowflake, Airbnb, DoorDash and Unity held some of the biggest IPOs on record, producing windfalls for employees and investors.

Now, as vaccinations mount and California sports the lowest Covid-19 positive rate in the country, Hollywood is poised for a rebound, tourism is set to come back and popular theme parks are reopening their gates.

Bill McDermott, CEO of cloud software vendor ServiceNow, said his employees are starting to return to Silicon Valley as signs of life reemerge. He said workers temporarily scattered to states including Texas, Florida, Colorado and Idaho.

"We already see the band coming back," said McDermott, who moved to California when he took the ServiceNow job in 2019, after almost a decade running German software company SAP. "Silicon Valley is still the heartland of innovation around the U.S. and the world. California will do just fine."

Here today, gone tomorrow?

The debate about whether California is flourishing or failing is too nuanced for social media, where it's defined by GIFs, one-liners and cherry-picked data points. In the Twitter tech bubble, the argument plays out between rich techies who've left for business-friendly cities like Miami, Austin, Texas, or Denver, and locals who post pictures of the Golden Gate Bridge at daybreak or Twin Peaks at sunset, with captions like, "truly miserable here."

The data is equally messy.

In March of this year, California added 119,600 jobs from the prior month. The 0.7% increase was topped by only 11 states, according to the Bureau of Labor Statistics.

However, the year-over-year numbers for California are still bleak. The state has lost 1.35 million jobs since March 2020, for a 7.7% decline, fifth worst among the 50 states.

Five of the six biggest venture-backed debuts on the public market last year were from California companies, according to the National Venture Capital Association's annual yearbook, and the other was Palantir, which had only just left for Colorado. California's start-up scene attracted 34% of total funding last year, and venture investing in the state surged 28% to a record \$84.2 billion, the NVCA said.

But those numbers are backward-looking and say nothing about trends happening at the earliest stages of start-up development.

In the same report, the NVCA said that "meaningful investment activity" is taking place outside of the traditional hubs, and Covid-19 has caused tech talent to disperse. "The impact this migration of talent will have on investment and startup patterns will be felt as the industry continues to evolve," the report said.

For California's financials, the more immediate concern is the move toward remote work and the uncertainty about what that means for tax revenue. The state's budget surplus for the coming fiscal year, which begins July 1, is largely the result of taxes on the highest earners with big tech salaries and outsized investment gains.

The \$185 billion that Californians made in capital gains income last year produced \$18.5 billion of tax revenue. Are those people staying or going?

Why pay so much for housing?

As the pandemic proved that employees could be productive without working in a central office, many Bay Area companies are giving employees the flexibility to live and work wherever they want.

Twitter employees are no longer tethered to the office or to any particular location. The same is true for workers at Atlassian and Dropbox. Google CEO Sundar Pichai wrote in a blog post on Wednesday that, under the company's latest plans, about 60% of employees will be in the office a few days a week, 20% will be in new offices and 20% will be home.

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Region	April 2020	March 2021	April 2021	Percentage Point Change	
				1 month	12 months
San José–Sunnyvale MSA	12.4%	5.1%	5.1%	- 7.3	0.0
San Francisco MD	12.5%	5.2%	5.1%	- 7.4	- 0.1
California	16.0%	8.2%	8.1%	- 7.9	- 0.1
United States	14.4%	6.2%	5.7%	- 8.7	- 0.5

Sector — April 2021	San Jose MSA	San Francisco MD	Combined Region	Percentage Change (Combined Region)	
				1 month	12 months
Total Nonfarm	1,079,200	1,066,400	2,145,600	+ 1.2%	+ 6.3%
Construction	49,000	43,200	92,200	+ 1.2%	+ 37.2%
Manufacturing	168,700	36,400	205,100	- 0.0%	+ 3.0%
Retail Trade	73,000	68,900	141,900	+ 0.2%	+ 17.0%
Information	107,600	107,400	215,000	+ 0.3%	+ 3.3%
Professional & Business Services	240,200	282,100	522,300	+ 0.3%	+ 3.0%
Educational Services	40,700	29,300	70,000	+ 0.4%	- 4.9%
Health Care & Social Assistance	132,700	115,500	248,200	+ 0.4%	+ 10.5%
Leisure & Hospitality	65,500	82,600	150,100	+ 10.4%	+ 28.8%
Government	92,600	125,900	218,500	+ 0.7%	- 3.0%

Note: San José MSA (San José–Sunnyvale–Santa Clara Metropolitan Statistical Area) = Santa Clara and San Benito Counties
 San Francisco MD (San Francisco–Redwood City–South San Francisco Metropolitan Division) = San Mateo and San Francisco Counties

Source: California Employment Development Department, LMID

Jurisdiction	Labor Force			Unemployment			Unemployment Rate		
	April 2020	April 2021	Change	April 2020	April 2021	Change	April 2020	April 2021	Change
• San Mateo County	427,500	424,000	- 0.8%	50,200	20,500	- 59.2%	11.8%	4.8%	- 7.0
• Santa Clara County	1,007,200	1,003,800	- 0.3%	122,500	49,900	- 59.3%	12.2%	5.0%	- 7.2
Cupertino	26,700	27,800	+ 4.1%	1,900	1,100	- 42.1%	7.1%	4.0%	- 3.1
Los Altos	13,100	13,800	+ 5.3%	800	500	- 37.5%	5.9%	3.5%	- 2.4
Milpitas	43,700	43,300	- 0.9%	5,600	2,200	- 60.7%	12.8%	5.2%	- 7.6
Mountain View	47,600	49,800	+ 4.6%	3,000	1,700	- 43.3%	6.3%	3.3%	- 3.0
Palo Alto	31,600	33,200	+ 5.1%	1,800	1,000	- 44.4%	5.8%	3.1%	- 2.7
Santa Clara	67,700	68,800	+ 1.6%	6,600	2,900	- 56.1%	9.7%	4.2%	- 5.5
Sunnyvale	81,100	83,400	+ 2.8%	6,700	3,200	- 52.2%	8.3%	3.8%	- 4.5
NOVAworks Region	739,000	744,100	+ 0.7%	76,600	33,100	- 56.8%	10.4%	4.4%	- 5.9

Note: NOVAworks Region consists of seven cities in Northern Santa Clara County and the entirety of San Mateo County

Source: California Employment Development Department, LMID

Company	Location	# Affected	WARN SUMMARY	
			Events YTD [†]	Individuals Affected YTD [‡]
All About Parking	Multiple cities	208	208	24,225
ART Asset Adjusters	Sunnyvale	2		
Flying Food Group	South San Francisco	226		
Off the Grid Services	Multiple cities	251		
Stitch Fix	South San Francisco	162		
United Airlines (SFO)	San Francisco	3,139		
Total		3,988	31,962	

WARN SUMMARY

Events YTD[†]: 208
 Individuals Affected YTD[‡]: 24,225
 Individuals Previous YTD[‡]: 31,962

* **WARN: Worker Adjustment and Retraining Notification** (notice of mass layoff or closure)

† **YTD: Year to Date** (Program year: July 1–Present)

‡ **Previous YTD:** (Same date range as YTD, one year prior)

Note: Layoff data are preliminary and should be considered an estimate of monthly regional activity

Source: California EDD, CalJOBS: WARN Data