Are Foreign Tourists and Immigrant Workers in California Dreaming?

The INS, Dollars, Visas and Vacations

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“See the world. It is more fantastic than any dream made or paid for in factories.”
- Ray Bradbury, Fahrenheit 451

The California economy continued to grow in the last three months. Total employment was 2.8% higher than twelve months earlier and payroll employment 2.0% higher. The rate of increase, while higher than the U.S. has slowed over the last three months of 2016. This is due in part to the impact full employment is having on the labor force. At or near full employment it becomes more difficult to bring new worker into jobs, especially when it involves moving to a high cost-of-living state like California. At present, employment in California is at record levels, 8% higher than the previous peak. (Chart 1)

Our baseline forecast has been for mild stimulus in the latter part of the year, abating in 2018 and slow growth thereafter. As the political decision making process with regard to tax cuts and military spending become clearer, actually muddier but that is the point, the national forecast has these happening in 2018. The State forecast also reflects this.
But there are four events that have become more evident: a change in the INS rules of engagement for deportations of undocumented immigrants, exchange rates, international travel visas, and the abortive travel ban. While deportations have not accelerated, the change in the INS rules of engagement has had a chilling effect on the immigrant community. This has implications for the California workforce and for the perception of the United States as a place for foreigners to visit this year.

Rules of Engagement

With respect to the workforce, undocumented workers are concentrated in four lines of work: gardening and minor home maintenance, construction, non-durable goods manufacturing, and agriculture. In some, such as agriculture the estimates are that around 50% of the workforce is undocumented. For crops that are labor intensive in harvesting, the percentage is higher. The open questions are, will the new rules of engagement lead to the detention of large numbers of workers in these sectors? Or, will the businesses that hire these workers, particularly in agriculture, use their influence to temper this? There are reports that the chilling effect of INS raids in the past weeks is impacting the number of laborers showing up for work.

We don’t have good answers at this time. All of the change in policy could be a show for the President’s base; a demonstration that he meant what he said in the campaign. The backing off of the policy of deporting those who fell under DACA and his more conciliatory language about Dreamers suggests so. Were that the case, the workforce impact will be temporary affecting perhaps only 2017 quarter 1 and then only mildly. This is the assumption we are maintaining in our forecast this quarter.

However, the threat to deport millions of undocumented immigrants, a threat that the current attorney general has endorsed, is a risk to the forecast. Were this to occur, there could well be a significant reduction in the production of food, in food processing, particularly the slaughter and preparation of meat products, in garment manufacturing and in residential construction. This is a risk that will be watched closely and were it to become more of a reality in the next three months, will lead to a downward revision of the forecast.

International Tourism in The Golden State

Tourism is important for California and international tourism is a big part of this. According to the U.S. Department of Commerce there were 17 million international trips to California in 2015 including .58 million from India and the Middle East, 1.1 million from China and 7.8 million from Mexico. A survey by Visit California and CIC Research estimated that only 13% of these arrivals were for business.

The total amount of international tourist spending in 2015 was estimated at $15,199 million of which 64.3% was on leisure and hospitality and 19.2% on retail. As a percentage of the leisure and hospitality and retail sectors, this represents 9.5% and 2.1% of total sales respectively, and 0.6% of total California GDP.

To put this in perspective, the recovery in California over the last year has been driven by a few sectors: professional and business services, leisure and hospitality, health care and human services, education, and retail services. (Chart 2) Though most of the activity by far in these sectors is domestic, a fall off in international tourism cannot but be a drag on further job gains.

Tourism is likely to take a double-whammy hit due to a less friendly environment for foreign nationals coming to the U.S. and from the higher value of the dollar making the U.S. more expensive for foreign tourists and therefore less attractive. We don’t know how much the friendliness of the U.S. in the eyes of foreigners will affect their travel plans. It may be that it makes the U.S. a more adventurous place to be, but the increased difficulty of getting visas might just do the opposite. However, initial indications are that the drop in tourists from this factor alone could be significant. After the January 27 travel ban was announced by the President, bookings searches were reportedly down by 6 to 17 percent on aggregator websites. This does not mean they won’t come back, however the promise of new travel restrictions

3. see http://EDD.CA.gov for employment statistics
including a higher threshold for obtaining visas suggest a decline is in the offing.

With respect to the stronger dollar, we can make some statement about the impact. Many studies have been done on the elasticity (responsiveness) of tourism demand to changes in the exchange rate. However, the economics literature is relatively consistent in finding exchange rate elasticity of tourist arrivals between -1.2 and -2.2. Taking the lower value, this means that a 1% increase in the real (inflation adjusted) exchange rate translates into a 1.2% decrease in the number of foreign travelers to the state.

The UCLA Anderson Forecast for the nation has an appreciation of the dollar of 4.3% for industrial countries and 5.3% for developing countries in 2017, and 0.7% and 1.3% for 2018. Using the -1.2 elasticity and weighting by the country of origin of tourists to California this translates into a drop of 5.0% of the number of tourists in 2017 and 1.1% in 2018. As for the “less-friendly environment” it is not possible to tell, but it is likely to be additive to these decreases in California arrivals.

It is possible that California will be a more attractive destination for domestic tourists, but this is not likely. The strength of the dollar makes a Fiji or Japan vacation more attractive. Moreover, the President tweeting that California is “out of control” cannot help in attracting tourists. And, higher gasoline prices make that long trek from Ohio to Disneyland that much more expensive.
The drop in tourism estimated above translates into a loss of $7.5 billion and $9.2 billion in direct income for California in 2017 and 2018 respectively. On a $2.5 trillion economy these are not big numbers, but for those who work in the sectors supporting tourism, they definitely are.

For leisure and hospitality, this represents a 0.5% and a 0.6% contraction in the sector. In terms of jobs (assuming a constant relation between jobs and income), this is approximately 12,000 jobs lost or about a third of all the jobs gained in this sector in the past year. For retail, the impact is smaller, approximately 2,300 or 10% of all jobs gained in the past year.

Though the numbers are not huge, the individuals involved are typically low skilled and are those most vulnerable to the effects of California’s rising minimum wage. Moreover, they tend to have a high propensity to consume, so the loss in income will have a greater employment and income impact than these numbers suggest. If there is a further 6 to 17 percent decrease in tourism due to new visa policies, then the losses could be up to 4½ times larger.

Consequently, we have lowered our forecast for growth in the Leisure and Hospitality Sector by the more conservative 0.8% and 0.3% for the next two years. This moderates our previous forecast slightly for overall employment growth from the December forecast.

The Forecast

The current forecast is slightly lower and pushed out in time than our previous one. This reflects the stimulus assumed in the national forecast, particularly through the defense appropriations. The weakness relative to the U.S. after that reflects the fact that California, having already reached near full-employment will benefit less from further stimulus than rust belt states and the fact that deportations of unskilled workers will impact food harvesting and food processing. We expect California’s unemployment rate to have its normal differential to the U.S. rate at 4.6% by the end of the forecast period (2019).

Our forecast for 2017, 2018 and 2019 total employment growth is 2.1%, 1.2% and 0.9% respectively. Payrolls will grow at about the same rate over the forecast horizon. Real personal income growth is forecast to be 3.4%, 3.7% and 3.2% in 2017, 2018, and 2019, respectively. Home-building will continue in California at about 118,000 units per year through the forecast horizon.