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California Warns Investors of Labor Market and Supply Chain Issues.

California, whose recovery of jobs lost during the height of the pandemic lags that of the U.S. overall, said low labor market force growth and supply chain disruptions pose risks to its municipal-bond investors.

In documents circulated to potential buyers of its $2.2 billion general-obligation deal on March 9, the state added the threats to its list of dangers they should consider.

The administration of Governor Gavin Newsom expects the labor force to recover to pre-pandemic levels in the third quarter this year. “If current labor market frictions (impediments to employers and job seekers agreeing on employment, e.g., disagreements on appropriate wages, workplace safety or ability to work remotely) persist longer than projected, then low labor force growth would constrain job growth, which in turn would lead to less consumption and spending,” the state said in the documents.

California has regained 72% of the jobs lost during the onset of the pandemic, while the nation has recovered 87%, according to federal data. Its unemployment rate of 6.5% in December was the highest among U.S. states.

Meanwhile, the pandemic-wreaked havoc at factories and ports also present a threat to the state. If regular production and transportation don’t resume by early 2023 as expected by the administration, “a slower resolution of supply chain issues would potentially keep inflation high for longer than assumed and could also lead to lower production and economic activity,” the state said.

In the bond documents, California listed 13 risks. They are:

- Covid-19 pandemic
- Threat of recession
- Inflation
- Labor market friction
- Supply chain disruptions
- Capital gains volatility
- Global relations and trade
- Health care costs
- Housing constraints
- Debts and liabilities
- Climate change
- Energy risks
- Cybersecurity risks

California’s general obligation bonds are rated Aa2 by Moody’s Investors Service, AA- by S&P Global Ratings and AA by Fitch.

Bloomberg Markets

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