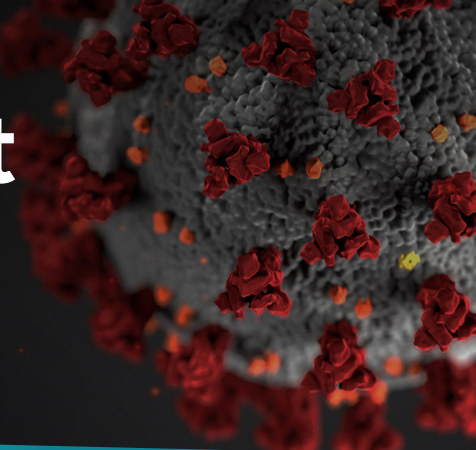


U.S. economic forecast and COVID-19

Last updated May 8, 2020

(All information is for the U.S. and references to quarters are based on calendar years.)

Top economic news

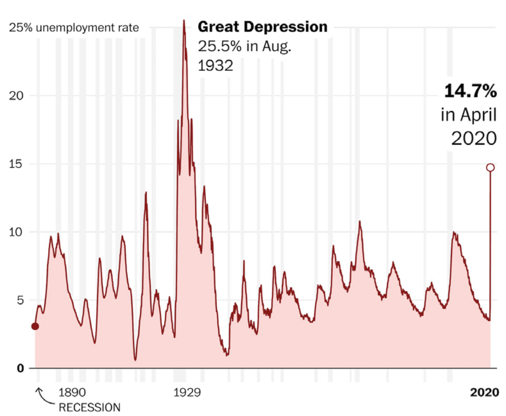
- **U.S. Labor Department** reported that the **unemployment rate is 14.7%** and the economy lost more than **20.5 million jobs in April**, the highest since the Great Depression.
    - The manufacturing sector lost 1.3 million jobs.
    - The retail trade sector lost 2.1 million jobs.
    - The education and health sector lost 2.5 million jobs.
- **California's Department of Finance** released the state's budget outlook projecting a deficit of $13.4 billion in the current fiscal year ending June 30, and $40.9 billion for the next fiscal year. The budget in January projected a $5.6 billion surplus for the next fiscal year with reserves expected to reach $21 billion.
- **The Wall Street Journal** reported that top gig economy employers such as Uber, Lyft and Airbnb are cutting jobs as they continue to struggle in the pandemic.
    - Uber has cut 3,700 jobs, a 14% reduction of their workforce.
    - Lyft has cut 982 jobs, a 17% reduction of their workforce.
    - Airbnb has cut 1,900 employees, a 25% reduction of their workforce.
- **U.S. Department of Commerce** reported that the deficit increased 11.6% from $39.8 billion in February to $44.4 billion in March.
    - Imports declined by 6.2% to $232 billion, the lowest since October 2016, and exports were also down 9.6% to $187.7 billion, the lowest since November 2016.

EXECUTIVE SUMMARY

- The massive contractions to GDP into the second quarter of 2020 are establishing records for unemployment filings. As businesses and others continue to close their doors, unemployment numbers are skyrocketing.
- As of May 8, the **U.S. unemployment rate** climbed from **4.4% to 14.7%**, with 20.5 million jobs lost.
- **U.S. Labor Department** has reported that **3.2 million Americans** filed for unemployment claims in the week ending May 2. The total number of Americans who have filed for unemployment benefits in the past seven weeks is now **33.5 million**.
- During the Great Recession, unemployment hit 9.9% at its highest level.
- **The Washington Post's** graphic to the right shows the U.S. unemployment rate in its 130-year history.

130 years of unemployment rates in the United States

In a forthcoming paper, economists analyzed historical sources to estimate the monthly unemployment rate back to 1890 – about 70 years before the beginning of monthly observations from the Labor Department.



Note: Seasonally adjusted; figures from before 1948 are estimates

Sources: Labor Department (1948-present); Annual estimates from David Weir (University of Michigan) in Research in Economic History disaggregated to monthly data by Nicolas Petrosky-Nadeau (San Francisco Fed) and Lu Zhang (Ohio State University) in Journal of Monetary Economics

THE WASHINGTON POST

UNEMPLOYMENT

California

Over the past eight weeks, **California's Employment Development Department (EDD)** has processed **4.1 million claims for benefits** and has paid a total of **$8.9 billion** in benefit payments.

The **California Employment Development Department (EDD)** has launched a new federal **Pandemic** Unemployment Assistance (PUA) program that will assist Californians who are out of business or whose ability to provide services have been directly impacted by COVID-19. Over the past 8 weeks, over 3.78 million Californian workers have filed initial claims for unemployment.

California Employment Development Department reported that **California's unemployment rate was 5.3%** for the month of March, it was the state's largest increase in unemployment since 1976.

The **unemployment rate** for the **Greater Sacramento region** in March was **4.7%**, an increase from February's rate of 3.8%.

Industries that were hit the hardest include:

- Leisure and Hospitality (-67,200)
- Other Services (-15,500)
- Construction (-11,600)
- Professional and Business Services (-8,600)
- Manufacturing (-5,300)

According to the **Tax Foundation,** 10.8% of California's workforce has filed an unemployment claim. California ranks #21 in the nation while Michigan is #1 with 19.5% of its workforce filing a claim. California's unemployment trust fund to cover unemployment benefits could run out by April. The state is #50 of U.S. states in solvency of their unemployment trust fund. California can borrow to cover the shortfall, but in the long term it will mean higher unemployment insurance rates and thus making it more expensive to do business in California.

Economic Growth

According to the **U.S. Department of Commerce, GDP decreased by 4.8%** in the first quarter of 2020, it was the steepest quarterly decline since the last recession of 2008. **The first quarter GDP decline of 4.8% closely matched the 1st quarter forecast of 4% reported in Table 1 of this publication.** First quarter GDP forecasts in this publication are from UCLA Anderson, Wells Fargo, JP Morgan, Goldman Sachs and Beacon Economics.

Economists expect GDP to contract by 23% in the second quarter. On the positive side, the U.S. economy will slowly pick up momentum in the third quarter with a growth rate of 12%.

Similarly, global economic growth **will slow down in the first two quarters and rebound towards the end of 2020.** Macroeconomic indicators will be revised continuously as officials learn more information about the spread of COVID-19 and its short-term and long-term impact on the U.S. economy.

Several firms have started to release their economic forecasts. Full reports from UCLA Anderson School of Management, University of Michigan Ann-Arbor, Wells Fargo and Beacon Economics are available. Goldman Sachs and JP Morgan have commented on their projections of the U.S. economy, but have not released full reports. All have qualified that with so much uncertainty, these forecasts could and probably will change as more is learned about the progress of COVID-19.

GOLDMAN SACHS

Predict a slowdown with:

- 9% GDP growth in the first quarter
- 34% contraction in the second quarter

They see a significant rebound in the second half of the year:

- 19% growth in the third quarter
- 12% growth in the fourth quarter

The economy's resiliency will be impacted by the COVID-19 infection rate and the effectiveness of social distancing measures, however higher levels of uncertainty prevail than under normal conditions.

The **industries most impacted** by COVID-19 include travel, leisure & hospitality, entertainment and restaurant sectors with major U.S. cities closing bars, restaurants and non-essential business. The supply chain for these business and other service sector jobs has also added to the slowdown in economic growth according to Goldman Sachs.

UCLA ANDERSON SCHOOL OF MANAGEMENT

Project real GDP will decline:

- A slight decline of .4% in the first quarter
- **7.5% contraction in the second quarter**

Project uptick in the fourth quarter:

- 3% contraction in the third quarter
- 1% growth in the fourth quarter

Anderson's report attributed the decline in GDP to the rapid spread of COVID-19, declining oil prices, tightening financial conditions, market volatility and decreased consumer spending in key industries impacted by COVID-19 such as travel and recreation.

JP MORGAN

Expect U.S. GDP to contract by:

- 10% in the first quarter
- 40% in the second quarter

JP Morgan has not stated any forecast for the remainder of the year.

The "sudden stop" in the economy has been due to changes in social distancing measures and quarantines. High volatility, tumbling asset prices and irrational sentiments will contribute to economic contraction over the next two quarters according to JP Morgan. Global financial conditions are tightly sharpening as assets deteriorate, while the risk of sovereign and corporate debt adds to the economic outlook. According to JP Morgan's revised update, the U.S. economy will continue to experience a slowdown in economic activity as social distancing has been expanded and increased in duration. JP Morgan economists considered supply side factors such as a decreased labor and stay-at-home orders in their revised economic forecasts.

UNIVERSITY OF MICHIGAN ANN-ARBOR

The University of Michigan Ann-Arbor has revised their economic forecast with the following:

- 7% contraction in the second quarter
- 4% growth in the third quarter

The revised economic forecast was issued as a result of severity of the economic contraction, as non-essential workers have been required to stay away from their jobs leading to reduced economic activity.

WELLS FARGO

Expect U.S. GDP to:

- Contract by 22% in the second quarter
- Expand by 7% in the third quarter

The U.S. economy is expected to decline about 3% this year with the bulk of economic contraction occurring in Q2 as social distancing continues. Under the assumption that the pandemic does not return to the northern hemisphere later this year, growth in the economy will turn positive again by the end of 2020.

BEACON ECONOMICS

Expect U.S. GDP to:

- Contract by 30% in the second quarter
- Expand by 25% in the third quarter

According to Beacon Economics, the U.S. economy will experience a V-shaped recovery and unemployment will return back to normal levels at the end of the year.

TABLE 1: 2020 ECONOMIC GROWTH FORECASTS

Source	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Goldman Sachs	-9%	-34%	19%	12%
UCLA Anderson	.4%	-7.5%	-3.1%	1%
JP Morgan	-10%	-40%	23%	13%
University of Michigan Ann-Arbor	N/A	-7%	4%	1%
Wells Fargo	-1%	-22%	7%	5%
Beacon Economics	0%	-30%	25%	5%
Average	-4%	-23%	12%	6%

REAL ESTATE

The large real estate firms such as JLL, CBRE and Cushman & Wakefield have forecasted negative economic growth for the economy including implications for the real estate market.

- A recent CBRE report indicated that 16 of the top 20 markets for under-construction-space account for 70% of the total under-construction inventory nationally and have workers active and on site working on "essential" projects.
- Cushman & Wakefield reported the construction industry will continue to face interruptions in their supply chains with respect to PPP, supplies and inputs.
- JLL has found that travel restrictions will impact the hotel and hospitality sector with occupancy rates declining in the short term.
- CBRE reported that revenue per available room (RevPAR) will decline 37% in 2020.
- Cushman & Wakefield stated that the new stimulus package offers relief to commercial real estate sectors with limited impact to vacancy rates.
- Home sales expected to fall 7-20 percent, demand decreasing sharply.