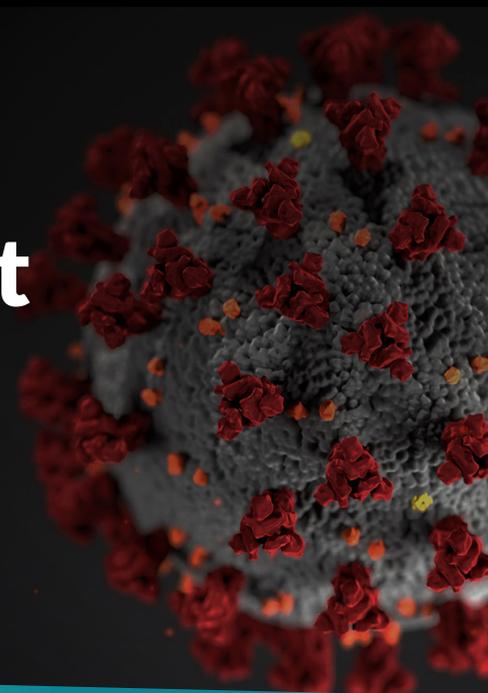


# U.S. economic forecast and COVID-19

Last updated June 19, 2020

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



## Top economic news

- **U.S. Labor Department** has reported that **1.5 million Americans** filed for unemployment claims in the week ending June 13th. The total number of Americans who have filed for unemployment benefits in the past 13 weeks is now **45.9 million**.
- **U.S. Labor Department** has reported that **California's unemployment rate** for the month of May is 16.3 %, up from last month's reported unemployment rate of 15.5%
  - Construction jobs increased by 75,000
  - Leisure & Hospitality jobs increased by 64,800
  - Education & Health Services jobs increased by 44,700
  - Professional & Business Services jobs increased by 23,500
- **U.S. Commerce Department** has reported that retail sales for the month of May have increased by 17.7%, the largest increase since 1992.
  - Auto dealership sales increased by 44.1%
  - Electronic and appliance stores sales increased by 50.5%
  - Clothing store sales increased by 188%
- **U.S. Federal Reserve Chair** Jerome Powell said in a prepared testimony to the U.S. Senate Banking Committee this week that he believes a full recovery will not begin until Americans believe the virus is under control.
- **Los Angeles Times** has reported that California is expected to see a gas tax increase on July 1st that will bring an additional \$440 million to the state in the coming fiscal year. The tax is built into the SB1 legislation and fuel taxes are expected to bring in \$7 billion in revenue to pay for road and bridge repairs.
- **Wall Street Journal** has reported that the initial economic data points to a V-shaped recovery as economic activities continue to rise into early June. Uncertainty over future fiscal stimulus, a possible second wave of COVID-19, and job losses will ultimately determine the shape of the final recovery.

## EXECUTIVE SUMMARY

- **New York Times** has reported that economists at the Harvard based research group Opportunity Insights estimate that the highest earning quarter of Americans have been responsible for about **half of the decline in consumption** during this recession.
- **The University of Pennsylvania Wharton** has reported that an anticipated Trump administration bill to invest **\$1 trillion** in infrastructure would **increase GDP** up to **\$720 billion** through June 2022.
- **Mortgage Bankers Association** has reported that applications for loans to buy a home increased 4% last week to their highest level since January 2009.
- **International Energy Agency (IEA)** has reported that the world's demand for crude will drop by 8.1 million barrels a day this year, and demand in 2021 will rebound by a record 5.7 million barrels a day.
- **Wall Street Journal** reported that milk sales have increased by 2% this year from last year during the same period, and more than 7% since the start of March, however overall domestic demand for dairy has dropped since restaurants and hotels consisted of one-third of all buyers.

## UNEMPLOYMENT

As of June 5, the U.S. unemployment rate decreased from 14.7% to 13.3%, with 2.5 million jobs gained. During the Great Recession, unemployment hit 9.9% at its highest level.

### California

The **U.S. Labor Department** reported that approximately 258,000 California workers filed for unemployment benefits during the week ending on June 6, up by 29,400 from last week's number of 228,600.

**As of June 19, the U.S. Labor Department** reported that **California's unemployment** rate for the month of **May is 16.3%**, an increase from April's unemployment rate of 15.5%.

- Construction jobs increased by 75,000
- Leisure & Hospitality jobs increased by 64,800
- Education & Health Services jobs increased by 44,700
- Professional & Business Services jobs increased by 23,500

**As of June 18, the U.S. Labor Department** reported that approximately 243,300 California workers filed for unemployment benefits during the week ending on **June 13**, down from last week by 4.8%.

**As of June 11, Employment Development Department (EDD)** reported that California has paid out \$30 billion in unemployment benefits since the week ending on March 14, 2020, and processed 6.3 million claims.

As of **June 19**, the unemployment rate in the Sacramento MSA was 13.6% in May 2020, down from a revised 14.0% in April 2020, and above the year-ago estimate of 3.2%.

As of **June 19**, the preliminary unemployment rate for the Greater Sacramento region by county for the month of May is:

- El Dorado County: 15% (April 15.4%)
- Placer County: 12.4% (April 13.3%)
- Sacramento County: 14.1% (April 14.7%)
- Yolo County: 10.5% (April 11.9%)
- Sutter County: 16% (April 17.9%)
- Yuba County: 15.1% (April 15.8%)

# 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 30% 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 17%.

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:

- 39% contraction in the second quarter

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

- 29% 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:

- 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:

- 30% contraction in the second quarter
- 4% growth in the third quarter

The **University of Michigan Ann Arbor** expects annual real GDP to shrink by 4.0% in 2020, followed by a 3.3% expansion in 2021, assuming a COVID-19 vaccine will be available. 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 37.6% 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%	-39%	29%	12%
UCLA Anderson	.4%	-7.5%	-3.1%	1%
JP Morgan	-10%	-40%	23%	13%
University of Michigan Ann-Arbor	N/A	-30%	4%	1%
Wells Fargo	-1%	-37.6%	24%	11%
Beacon Economics	0%	-30%	25%	5%
Average	-4%	-31%	17%	7%

## 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.

- U.S. Commerce Department has reported new residential construction data for May 2020.
  - New building permits increased by 14.4% to 1,220,000.
  - Housing starts increased by 4.3% to 974,000 starts.
- Cushman & Wakefield recently published a report on the Future of the Workplace finding that 73% of the workforce believes firms should embrace some level of working from home.
- 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 projects that revenue per available room (RevPAR) will decline by 37% in 2020.
- CBRE data shows major store closures in the U.S. have reached approximately 73,000.
- Cushman & Wakefield stated that the new stimulus package offers relief to commercial real estate sectors with a limited impact on vacancy rates.