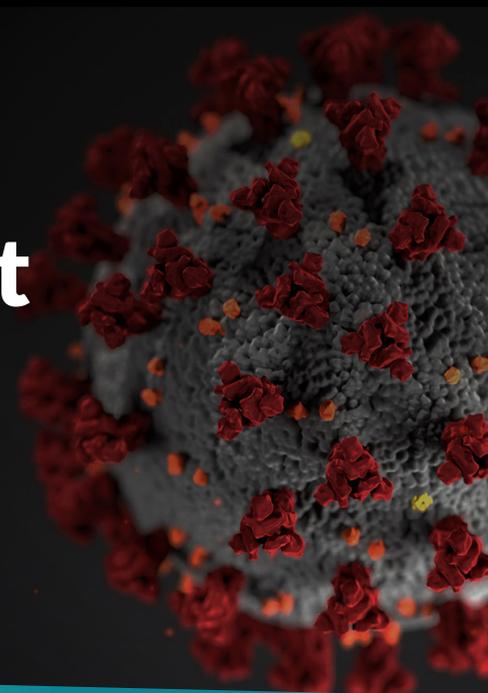


# U.S. economic forecast and COVID-19

Last updated June 26, 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 **1.48 million Americans** filed for unemployment claims in the week ending June 20. The total number of Americans who have filed for unemployment benefits in the past 13 weeks is now **47.3 million**.
- **Government Accountability Office (GAO)** has released a report finding that the Small Business Administration (SBA) processed over \$512 billion in guaranteed small business loans but is not ready to address fraud risks and has not said how it plans to oversee the loans.
- **International Monetary Fund (IMF)** has forecasted that the global economy will **contract 4.9% this year** and downgraded its 2020 forecast for all major economies, including:
  - U.S. (-8%)
  - Euro-area (-10.2%)
  - Brazil (-9.1%)
  - Mexico (-10.5%)
  - U.K. (-10.2%)
  - China (+1%)
- **Bureau of Economic Analysis** has reported that state personal income increased by 2.3% at an annual rate in the first quarter of 2020, a decrease from the 3.6% increase in 2019 Q4.
- **Small Business Administration (SBA) and U.S. Treasury Department** have reported that they will release the names of borrowers who received loans from the Paycheck Protection Program (PPP) which were \$150,000 or more, accounting for about 75% of the lent funds.
- **Bureau of Economic Analysis** reported the Personal Income and Outlays for the month of May 2020:
  - **Personal income** decreased \$874.2 billion (-4.2%)
  - **Disposable personal income (DPI)** decreased \$911.1 billion (-4.9%)
  - **Personal consumption expenditures (PCE)** increased \$994.5 billion (+8.2%)

## EXECUTIVE SUMMARY

- **Goldman Sachs CEO David Solomon sees a V-shaped recovery for the U.S. as the economy reopens this year and leading into 2021.**
- **The Wall Street Journal** has reported that Google's U.S. advertising revenue is expected to decline this year for the first time since 2008, as the company's primary core search product sales is linked to the travel industry.
- **Redfin** has reported that 27% of homeowners are looking to move to another metro area based on data from April and May 2020, with Phoenix, **Sacramento** and Las Vegas experiencing the highest net inflow.
- **The Wall Street Journal** has reported that Amazon is launching a \$2 billion internal venture-capital fund called The Climate Pledge Fund that will focus on technology investments designed to reduce the impact of climate change.
- **Sacramento Business Journal** has reported that California agriculture could lose up to \$8.6 billion due to COVID-19 in a report prepared by **ERA Economics LLC**.

## 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 25, the U.S. Labor Department** reported that approximately 287,000 California workers filed for unemployment benefits during the week ending on **June 20**.

**As of June 25, the Employment Development Department (EDD)** reported that California has paid out \$33.5 billion in unemployment benefits since the week ending on March 14, 2020, and processed more than 6.7 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 35% 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:

- 33% 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:

- 42% in Q2

### Project uptick in the fourth quarter:

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

**UCLA Anderson** has forecasted a 42% annual rate of decline in real GDP for 2020 Q2 with a 'Nike swoosh' recovery and predicts output levels will return to normal by early 2023.

## 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%	-33%	29%	12%
UCLA Anderson	.4%	-42%	-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%	-35%	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.

- **Federal Housing Finance Agency (FHFA)** has reported that U.S. house prices rose in April by .2% from the previous month. House prices rose 5.5% from April 2019 to April 2020.
- **U.S. Census Bureau and U.S. Department of Housing & Urban Development** have reported new home sales of new single-family homes in May 2020 were at 676,000 or 16.6% above the revised April rate of 580,000. The median sales price of new houses sold in May 2020 was \$317,900, and the average sales price was \$368,800.
- **National Association of Realtors** has reported total existing home sales decreased by 9.7% from April to May at 3.91 million. Total existing home sales includes single-family homes, townhomes, condominiums and co-ops.
- 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.