U.S. economic forecast and COVID-19

Last updated July 2, 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 **1.43 million Americans** filed for unemployment claims in the week ending June 27. The total number of Americans who have filed for unemployment benefits in the past 15 weeks is now **48.8 million**.
- The **Federal Reserve** opened its **$500 billion lending program** to support issuance of new debt by large corporations on Monday, the last of nine emergency programs it is running to combat a downturn in the lending markets from the pandemic.
- A survey from the **Initiative of Global Markets** at the University of Chicago showed that **a reverse radical sign** (√), rather than the initially believed V shape, is the most likely **shape of the economic recovery** from the recession after the relaxation of restrictions and massive uptick in cases across the U.S.
    - This would signify a sharp initial fall followed by a sharp partial recovery and a slow, mixed subsequent recovery.
- Household spending on goods and services **rose a recorded 8.2% in May** according to the **U.S. Department of Commerce,** more than double the prior all-time high on data dating from 1959
    - Despite the recovery, consumer **spending is still down 12% overall from February**.
- A recent study by six MIT economist concluded that **half of the entire American workforce is now working remotely**
    - The main author, Erik Brynjolfsson, predicts a **"Productivity J-Curve"** pattern in the data. A pattern in which **productivity dips at first** when companies are slow to adopt new technologies but **rises in the long run** when new technology has been adopted and the investment subsequently pays off.
- The **Federal Reserve Board** released the results of its annual stress tests. The results showed that while large banks in the U.S. are prepared to sustain a shock, **about a quarter of them** will get near or breach their capital minimums if the economy experiences a "double-dip" recession as a result of a second pandemic wave.

EXECUTIVE SUMMARY

- **Secretary of State Mike Pompeo issued a warning to all U.S. CEOs of companies with suppliers or customers in China of the legal, economic and reputational risks of association to the ongoing human-rights violations there.**
- **Car sales fell in Q2,** despite deals and stimulus. Overall Q2 auto sales in the U.S. are **projected to have fallen about one third** according to The Wall Street Journal. General Motors reported a **34% drop** in Q2 sales compared to a year earlier while Fiat Chrysler reported **39% decline.**
- **Microsoft aims to train 25 million workers for free in 2020.** The company will provide free online classes and job-hunting resources in response to the global economic slowdown from the pandemic.
- California's state economic development **office has approved $73.5 million in California Competes Tax Credits** for 22 companies **that have pledged to create nearly 6,000 new jobs.** This list of 22 companies includes four companies from Greater Sacramento: Fortress North America, ThePape' Group, Coveka and Redtail Technologies.
- A poll conducted by Randstad Workmonitor of 13,600+ employees in 34 countries showed that 78% of **U.S. employees feel satisfied at work**, third highest amongst the countries surveyed.

UNEMPLOYMENT

United States

As of July 2nd, the **U.S. unemployment rate decreased from 13.3% to 11.1%** according to the US Labor Department, with 4.8 million jobs gained. Despite the job growth, the US labor market is still operating with about 15 million fewer jobs than in February.

It should be noted that this data reflects the mid-June period, **prior to the new spike in rates** which could hamper the job market's recovery.

Job gains in leisure and hospitality **accounted for about 40% of June's employment growth.** Due to the rise in infection rates across states these workers will also be the most vulnerable to renewed layoffs.

Temporary layoffs decreased about 5 million from May to June while **permanent layoffs rose by 600,000**.

Declines in unemployment last month were uneven across racial groups. Below is a table depicting a snapshot of unemployment among the major racial groups for the period ending in June:

Race	Drop in Unemployment	Unemployment Rate
White	2.3%	10.1%
Black	1.4%	15.4%
Latino	3.1%	14.5%
Asian	1.2%	13.8%

California

California's employment numbers for June will be released on July 17. The numbers will likely mirror the national trend.

For an in-depth look into the unemployment numbers in California and within the Greater Sacramento region for the month of May please refer to last week's newsletter.

Economic Growth

While forecast at the moment are far from perfect, we will focus on the most up to date economic forecast from Goldman Sachs, the UCLA Anderson School of Management, JP Morgan, the University of Michigan and Wells Fargo, all leaders in the economic forecasting landscape at the moment. In the coming editions we will expand our range to include 8-10 forecast in total.

Due to the uncertainty surrounding the growth of the pandemic within states and the US as a whole, we will **focus solely on Q2 growth** and use an average across forecast to generate a prediction of Q2 GDP contraction.

GOLDMAN SACHS

In its most recent economic outlook report, Goldman Sachs expects **GDP to decline 39% in Q2** and **by 6.3% on the year.**

As economic outlooks continue to develop with restrictions being re-implemented, GS is sure to revise its outlook for future quarters in the next report it issues in July.

The fiscal deficit is now forecasted to nearly -10% of GDP by the end of 2020 due to COVID-19. A dramatic decrease from the pre-COVID forecast of -2% of GDP.

In a featured interview with Harvard Economist Kenneth Rogoff, he discusses findings backing **a correlation between lower long-term economic growth and higher debt** for advanced countries.

UCLA ANDERSON SCHOOL OF MANAGEMENT

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

While this is similar to the reverse radical sign previously discussed, revised estimates of the shape of the economic recovery are sure to come with the new surge in cases taken into account in the July report of the UCLA Anderson Forecast.

JP MORGAN

In their weekly economic update ending on June 29th JP Morgan reported **that Q1 GDP fell by 5% at a seasonally adjusted annual rate.**

They report that inventory data supports their previous forecast of a **40% plunge in GDP for Q2.**

In their economic outlook update JP Morgan warns of risks of a slower than anticipated recovery for the market, political headlines inducing market volatility, and the possibility of inflation spiking in the medium term.

UNIVERSITY OF MICHIGAN ANN-ARBOR

The latest University of Michigan US Forecast was issued on May 18th. Due to the fast-paced nature of COVID-19 and its ever-changing effects on the US economy we will omit data from this forecast, now dated by over a month, in our overall prediction until the next update is issued in August.

The forecast, written well before the second wave cases began, **predicts a 30% drop in Q2 GDP.**

WELLS FARGO

In their most recent economic update on June 26th, Wells Fargo predicts a **37.6% drop in GDP** for Q2 and a **5.8% drop on the year** in the United States.

They cite an increase in COVID-19 cases that have been greater than can be explained by testing alone along with a failure of slowing infections as temperatures rise as part of the unknown nature of the virus which pose a "mammoth risk to the economic outlook".

GSEC PREDICTION

Overall, we expect a decline in GDP for Q2, at an annualized rate, **of approximately 39.7%** at the moment.

REAL ESTATE

Below is a summary from the latest research and findings from the most notable contributors in the real estate industry such as the NAR, JLL, and Cushman & Wakefield:

- **Federal Housing Finance Agency (FHFA)** reports that four-quarter appreciation of housing prices was 5.9% and one-quarter appreciation 1.8% in the Sacramento MSA for the month of April 2020. Data for May will be available at the end of July.
- **National Association of Realtors (NAR)** has reported that May's pending home sales pace **rose 44.3% from April** and **fell 5.1% from a year ago.** Housing market activity also fell **9.7% from April** and **existing home sales dropped 26.6%** from May 2019.
- In their Future of the Workplace report, Cushman & Wakefield find a **10% increase in team collaboration** and a **1% increase in personal productivity** from pre-COVID-19 levels.
- Cushman & Wakefield also cite **sub-par connectivity** as the top challenge working from home. Additional generational challenges such as **inadequate workspace** for Gen Z and **caregiver duties** for Millennials and Gen X are also noted in the data collected from more than 40,000 respondents worldwide.
- In their Future of Global Office Demand published on June 24th, JLL cites four factors that will shape future office demand:
    - Remote working: flexibility will be key to employee satisfaction and the balance between office and remote working will be based around the individual worker.
    - Office design: A great focus on spaces which emphasize face-to-face interaction is likely as office space is redesigned or repurposed away from individual full-day occupancy desks.
    - Technology: Occupier demand is expected to gravitate toward technology heavy smart office buildings. Therefore, reduced demand for lower-quality assets over the longer term seems likely.
    - Commuting patterns: The lack of commuting is the most quoted benefit of working from home and it is one of the areas that is causing the most concern on re-entry to the office, particularly on cities dependent on public transport. A slower re-entry is likely in many of these cities. Still, over the long term face-to-face interaction is still expected to gravitate toward central urban centers.