

U.S. economic forecast and COVID-19

Last updated August 21, 2020

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

Top economic news

- Retail sales rose 1.2% in July according to the Commerce Department. After accounting for seasonal factors, sales were 1.7% higher compared to February, signaling **that retail sales have been restored to pre-pandemic levels.**
- The number of Americans who say they can't afford enough food for themselves or their children **is growing according to Census data.**
 - As of late last month, about 12.1% of adults lived in households that didn't have enough to eat during some point in the previous week, up from 9.8% in early May.
 - **Almost 20% of Americans with children at home couldn't afford to give their children enough food**, up from almost 17% in early June.
- The number of people receiving benefits from Supplemental Nutrition Assistance Program (SNAP) rose **rose almost 16% between March and April according to the U.S. Department of Agriculture.**
- This increase is more than double any one month increase in SNAP benefits observed during the Great Recession.
- **Robust federal spending significantly lessened the economic pain caused by the pandemic**, White House economist said, adding that more relief efforts would further aid the recovery.
- Warren Buffett's Berkshire Hathaway has disclosed a **\$565 million stake in Barrick Gold**, the world's second largest gold miner.
 - Many buyers are turning to **gold because they believe ultralow interest rates and government stimulus will erode the value of paper money and increase inflation.**
- Revenue for S&P 500 companies is on track to fall **9.25% year-over-year**, below the five-year average revenue growth rate of 3.7% and on track for the largest year-over-year revenue decline since 2009.
- Energy, Consumer Discretionary and Industrial companies had the most decliners while Information Technology, Health Care and Financials enjoyed the most gainers.

EXECUTIVE SUMMARY

Every year Inc. Magazine publishes its prestigious list of the 5,000 fastest growing companies in the United States. Below is a summary of how companies in the Greater Sacramento region fared in the ranking.

- A total of **21 companies in the region were recognized in the list**. Still the impact of these companies on the region was certainly substantial:
 - The median growth of the companies on the list was 154% with **4,048 jobs added across those 21 companies**.

Below is a summary of how cities within the region fared on the rankings:

Community	Companies on Inc. 5000	Community	Companies on Inc. 5000
Sacramento	7	Folsom	1
Roseville	4	North Highlands	1
El Dorado Hills	4	Rancho Cordova	1
Rocklin	2	Davis	1

Five companies made it within the top 15% of the national ranking:

Company	Ranking	Growth	Sector	City
ICU Technologies	86	3,782%	Government Services	Roseville
TransAmerica Express Logistics	180	2,241%	Logistics	Sacramento
MDStaffers	476	956%	Human Resources	Rancho Cordova
A+ Construction & Remodeling	507	923%	Construction	North Highlands
VFP Consulting	667	702%	Business Products	Rocklin

- ICU Technologies, a safety technology solutions company, was the top performing company from the region on the list, **finishing within the top 2% of all U.S. companies in terms of growth**.
- Engage3, a retail analytics startup company from Davis, made it into the Inc. 5000 list for the fourth consecutive year. Only 7% of companies on the list have ever made it for four consecutive years.

UNEMPLOYMENT

- New applications for **unemployment benefits rose last week after consecutive weeks of declines**, signifying the labor market recovery is still in swing.
- Weekly initial claims for jobless benefits increased by 135,000, from the week ending August 8, to a seasonally adjusted 1.1 million in the week that ended on August 15.
- The number of people collecting unemployment benefits through regular state programs decreased to about 14.8 million for the week ending August 8. **While this is the lowest number of unemployment benefit rolls since April**, it is still double the pre-pandemic high of 6.6 million workers collecting benefits in 2009.

- Aerospace giant Boeing is planning job cuts in response to the dip in jetliner demand.
 - Clothing retailers like Rent the Runway and TJ Maxx have had to permanently close retail locations across the country.
- The Federal Emergency Management Agency administrator said that the disaster relief money signed as an executive order by President Trump on August 8 will provide about **six weeks of \$300-a-week enhanced benefits on top of state unemployment benefits.**
- **U.S. employers added nearly 9.3 million jobs over the past three months**, but still have a long way to go to replace the 22 million jobs lost in March and April to go to replace the 22 million jobs lost in March and April.

Economic Growth

WALL STREET JOURNAL ECONOMIC FORECASTING SURVEY

The Wall Street Journal surveys a group of over 60 economist on major economic indicators. Below is a summary of key highlights from the latest forecasting data.

- **The odds of another recession happening in the next 12 months is now down to 37%.** In July it was 54.4% and it was 96.2% in April.
- When asked how reduced state and local government spending would affect growth in 2020, **59.6% responded that a “small drag on [economic] growth”** will ensue while 31.6% of the economists said reduced government spending would have a “significant drag on growth.”
- The consensus seems to be that the shape of the economic recovery will resemble that of a **“Nike swoosh,” a sharp drop with a gradual recovery**, with 70.4% of the economists surveyed in agreement.
 - In contrast, 14.8% believe that the recovery will be V-shaped, a sharp drop followed by sharp rebound, and 11.1% responded W-shaped, a double-dip recession.
- The **current projected GDP growth (annualized) in Q3 according to the latest survey is 18.3%** followed by a predicted 5.9% increase in Q4 to finish off the year.

ATLANTA FED GDPNOW FORECAST

- The GDPNow model released by the Atlanta Fed, a running estimate of real GDP growth based on available economic data for the current quarter, **estimates a seasonally adjusted annual rate of growth of 25.6% for GDP** as of August 18.
- This forecast is **down from their latest August 14 forecast of 26.2% growth.** The reason for the slight downgrade lies in a housing starts report from the U.S. Census (highlighted in the Real Estate section), which led to the GDPNow model decreasing real residential investment growth projections from 60.7% to 39% for Q3.

Real Estate

HOTEL DEMAND REMAINS STAGNANT

- According to CoStar, a **slow rise in demand for U.S. hotel rooms is showing signs of dragging the hospitality industry's recovery from the pandemic into 2024.**
- Hotel demand is not expected to fully recover until 2023 and room revenue is not expected to be restored to pre-pandemic levels until 2024 according to data from the hotel research firm STR.

- STR projects \$32 billion in revenue from U.S. hotel room revenue from 2020 to 2021, 32.5% lower than it was in 2019.
- Western states still lead the country in occupancy because of leisure travelers. South Dakota posted the highest with 71.6% hotel occupancy thanks to an annual motorcycle rally.
 - Montana came in next with 70.3% hotel occupancy, followed closely by Idaho (70%), New Jersey (67.6%) and Wyoming (66.6%).
- While group meeting and conventions are unable to return, hoteliers must rely heavily on leisure travelers for revenue..
 - The Las Vegas Convention and Visitors Authority reported zero convention business for the third month. Group occupancy in hotels across the U.S. came in at 5%.

REMOTE WORK IS RESHAPING SAN FRANCISCO

- Bay Area tech companies have appeared to touch off an exodus from the Bay Area thanks to the freedom offered to remote workers.
- Nationally, median list prices of homes were up 6.6% for the year ending August 1 while list prices **went down nearly 5% in San Francisco**.
- The number of homes for sale in San Francisco has skyrocketed in recent weeks according to data from Redfin. **New listings are currently up 64% on the year in San Francisco**. For comparison, they are up only 14% in San Jose and down 5% in Oakland.

HOUSING INDEX REACHES ALL-TIME HIGH

- The National Association of Home Builders reported that its **housing index matched its highest level on record in data dating back to 1985**.
- All three of the index's components (home builder's assessments of current sales, their expected sales and foot traffic) were up strongly.
- Home builders are benefiting from mortgage rates that continue to reach new lows.
- Single family homes with a yard have also seen an increase in demand with new teleworking flexibility. This reflects the fact that most new home buyers tend to be more financially secure than the average American.
- The National Association of Home Builders **housing market index has jumped 160% from its 2020 low in April**.

JULY RESIDENTIAL CONSTRUCTION REBOUNDED STRONGLY ACCORDING TO U.S. CENSUS REPORT

- Privately-owned housing units authorized by building permits in July were at a seasonally adjusted annual rate of approximately 1.5 million in July. **This represents an 18.8% increase from June**.
- Single-family building permit **authorizations grew 17% from 840,000 in June to 983,000 in July**.
- Privately-owned housing starts in July grew 22.6% from June and 23.4% from July of 2019.
- Privately-owned housing completions in July grew 3.6% in June and 1.7% from July 2019 while single-family housing completions in July grew 1.8% from June.
- Overall, this further enforces the strength of the U.S. housing market at the moment. With many high-earning, tech employees working remotely for the near future, **this trend should only continue for the coming months as teleworkers leave costly and densely populated areas like San Francisco and Manhattan**.