

U.S. economic forecast and COVID-19

Last updated September 4, 2020

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

Top economic news

- U.S. consumer spending rose in July, albeit less than in prior months. This can be attributed to the expiration of enhanced unemployment checks and rises in COVID 19 infections.
 - Overall, consumer spending remained 4.6% below February's pre-pandemic level.
- Thanks to credit card data, we are now able to understand how consumers are spending in real time. In the week ending on Aug. 19 spending on specialty food and beverage rose over 55% while spending on travel decreased by over 40% according to Earnest Research.
- The Fed has shifted its priorities away from inflation in favor of unemployment. There has been a long-standing belief held by economists that there is an inverse relationship between unemployment and inflation – decreasing unemployment leads to rising inflation.
 - The Fed's new framework implies that unemployment can be too high but never be too low.
 - Fed chairman Jerome Powell believes that “a robust job market can be sustained without causing an outbreak in inflation.”
- U.S. factory output continued to grow in August according to surveys compiled by the Institute for Supply Management.
 - Output grew at the fastest pace since November 2018, driven by a surge of new demand and faster export orders.
 - Still, firms continue to cut employment. This reflects a weariness about future prospects and health concerns that have prompted employers to put more space between each worker on production lines.
- On a national level, consumers have cut travel spending to just half what they spent last summer, according to the U.S. Travel Association.
 - Nonetheless, visits to outdoor travel locations have skyrocketed. In July more people visited Fort Sumter National Park (South Carolina) and Sleeping Bear Dunes (Michigan) than any month since the National Park Service began tracking in 1979.
 - This tells us that large vacations are out. Outdoor vacations including camping, boating and hiking are rapidly rising in popularity in the U.S.
- Upwork reports that \$758 million is being saved per day by remote workers who used to drive for their commute.
 - This represents a cumulative savings of over \$90 billion since the onset of the pandemic. Each commuter who now works remotely saved over \$2,000 since mid-March.
 - In addition, an estimated 16.9 million hours of commuting per day has been saved from those who now commute.
- The U.S. Labor Department reported that the national unemployment rate fell to 8.4% for August. This is down from the pandemic high of 15% in April but still significantly higher than February's 3.5% mark.
 - Overall, the U.S. still has 11.5 million fewer jobs than before the pandemic started.

EXECUTIVE NEWS

- In August, a survey of 15 major employers that collectively employ about 2.6 million people showed that 57% of them had to postpone their back-to-work plans because of recent increases in COVID-19 cases. Nearly half said they were implementing additional safety measures for when they reopen, such as redesigned workspaces and temperature checks.
 - Dave Almeda, Chief People Officer at Kronos Inc, which employs over 12,000 people, said that 93% of their workers were just as productive at home as they were in the office.
- A Northeastern University survey of 30,000 North Americans from this summer found that about 70% of workers weren't interested in returning to the office soon. Most workers prefer a flexible schedule that would allow a split between in-office and remote work during the five-day work week.
- Tens of thousands of loans issued under the government's \$670 billion PPP are vulnerable to fraud, waste and abuse, according to a report from a House Panel.
 - Staffers for the Democratic majority on the Select Subcommittee on the COVID Crisis said that 10,856 loans collectively worth \$1 billion went to borrowers who received multiple loans. PPP rules prohibit companies from receiving more than one loan.
 - Treasury Secretary Steve Munchin said to the Senate that the U.S. Small Business Administration is preparing a comprehensive audit program in response.
- According to economists with the Federal Reserve Bank of St. Louis, there is the possibility that psychological scars from the pandemic may cause long-run economic damage ten times the initial shock.
 - Changing beliefs on the likelihood of pandemics occurring in the future hampers long run economic prospects in the form of higher precautionary savings and declining investment.
 - Economist also suggest that better preparedness for looming climate change damage may mitigate future psychologically induced economic damage in the future.

UNEMPLOYMENT

- New applications for unemployment benefits fell last week, signs of a slowly improving labor market.
- Weekly initial claims for jobless benefits fell by 130,000 to a seasonally adjusted 881,000 in the week ending on Aug. 29.
- The number of people collecting unemployment benefits through regular state programs, which cover most workers, decreased by 1.24 million to about 13.3 million for the week ending on Aug. 22.
- Economist from The Wall Street Journal forecast that employers will have added 1.3 million jobs in the month of August, while the August employment rate in the U.S. will fall to 9.8%. This will mark the first time that the unemployment rate has declined below 10% since March.
 - Keep in mind, the unemployment rate in February was a mere 3.5%, a half-century low.
- The latest unemployment numbers for California refer to July 2020. The unemployment rate in that period for the state was 13.7% in comparison to the national average of 10.2%
- Below is a table of unemployment rates across all six Greater Sacramento counties, which fared favorably compared to the state benchmark:

County	Unemployment	County	Unemployment
El Dorado	10.3%	Sutter	13.5%
Placer	9.8%	Yolo	9.5%
Sacramento	12.5%	Yuba	13.5%

Economic Growth

Despite the surge in cases across the United States, the consensus amongst economic forecasters is that the U.S. is poised for a massive recovery in production in the third quarter of 2020.

The Wall Street Journal Economic Forecasting Survey projects growth of 18.3% in Q3 followed by 5.9% growth in Q4 to close out 2020.

The Atlanta Federal Reserve's GDPNow economic forecasting model has a more favorable outlook on GDP growth in Q3. Their model predicts 28.5% growth. They list favorable news from the Manufacturing ISM Report and the Construction Spending report from the U.S. Census as main contributors to their optimistic outlook for Q3 2020.

MICHIGAN QUANTITATIVE ECONOMICS' 2020-22 U.S. ECONOMIC OUTLOOK:

- According to the University of Michigan, real GDP growth should return to 20.9% in Q3 2020 followed by a more moderate growth rate of 8.2% in Q4.
- The net shrinkage of GDP in 2021 is projected to be about 4.9%. The forecast does not foresee GDP to return to pre-pandemic levels until mid-2022.
- Further damage to output is expected to be observed in 2021 thanks to moratoria on foreclosures and evictions expiration while unemployment rates are still high. A full housing recovery is not expected until 2022 while declining unemployment will help spur new home construction.
- Inflation is projected to decline due to the damage in aggregate demand outweighing the decrease in aggregate supply according to the economist at the University of Michigan. CPI inflation is projected to reach around 1.2% by the end of the year. It will subsequently rise to 1.7% in 2022 according to the forecast.
- Interest rates are slated to remain unchanged for the next two years, hovering between 0 and 0.25%. We should not expect negative federal funds rates like those observed in Europe at any point from the Federal Reserve according to the Michigan economist.
- Thanks to the lasting immune system response triggered by COVID-19, the severity of infectiousness to others upon a potential reinfection is likely reduced. Hence it is expected that the pandemic will end once enough people acquire a significant immune response either through infection or an effective vaccine.
- The "Michigan Model" cites that the U.S. is halfway through the acute phase of the pandemic thanks to national case dynamics. The authors of the "Michigan Model" are hopeful for a wide distribution of a vaccine by mid-2021.

Real Estate

SACRAMENTO HIGH-RISE HOUSING ROLLOUT ON THE RIVERFRONT

- Last week, Sacramento City Council approved the West Broadway Specific Plan. The city estimates around 1,300 units of high-density residential and 132,670 square feet of commercial space could be built on a 25.4-acre piece of land.

- The zoning allows for up to 175 units per acre and buildings up to 240 feet high. This would be the densest housing on the river.
- Currently, the West Broadway area has 1,113 residential housing units. Under the new plan it may reach an estimated 4,900 units.

SACRAMENTO'S BOOM IN MORTGAGE BACKED SECURITIES

- Trepp, a New York-based data analytics firm, ranked the top U.S. secondary markets for investment both on population growth and on other commercial mortgage backed securities metrics. It ranked the Sacramento MSA fifth of the 21 markets analyzed.
- Trepp found that Sacramento had \$1.8 billion in outstanding commercial mortgage backed securities balance by the end of 2019, representing 14.8% growth.
- Sacramento also had a delinquency rate of 3.4%, fourth amongst MSAs included. Lodging and retail exposure, properties most impacted by COVID-19, is sitting at nearly 53% delinquency.
- Redfin noted that Sacramento had the largest inflows of people in the U.S. for the month of July. Once again, the top place of origin for these people was the Bay Area.

"STAYCATIONERS" ARE KEEPING THE HOSPITALITY INDUSTRY AFLOAT

- Although it is estimated that around 197.5 million travel-related jobs will be lost worldwide thanks to COVID-19 (nearly 40% of the total before the pandemic), travel accommodation is proving resilient.
- "Staycationers", people holidaying in their own countries, have helped fuel domestic travel sales.
- While airline revenue from passengers fell by 91% in June, hotel room earnings only dropped 70%.
- Gross operating profit per available room went positive in July according to data from STR. In contrast, airline executives believe air-passenger numbers need to double from current levels before airline carriers are no longer in the red.
- Cheap hotels with car parking have done the best due to the economic uncertainty caused by the pandemic as car travel is safer than air travel.
- Demand for non-hotel accommodations, serviced by companies like Airbnb, has been up as much as 25% year-over-year in some rural areas in the U.S. Still, research firm Insider Intelligence forecasts that the number of Americans who will use Airbnb this year will drop by 60%, the first time the company has experienced negative user growth.