

U.S. economic forecast and COVID-19

Last updated October 1, 2020

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

Top economic news

- The Federal Reserve announced it plans to keep interest rates near zero through the next three years until they see evidence of a tight labor market or inflation nearing 2 percent.
 - A near zero interest rate over a prolonged period raises the question and risk of asset bubbles.
- The interest on a 10-year Treasury note, which is a debt obligation issued by the U.S., is expected to rise in the coming months and projected to hit 1.13 percent in December 2021.
- Consumers are beginning to grow more confident about the U.S. economy.
 - The Conference Board Index has surged to 101.8 in September from a revised 86.3 in August. Comparatively, the index stood at 26.9 in March of 2009 and amid the Great Recession.
 - The sense of optimism among consumers differs geographically. The index indicated confidence rising in New England and the Pacific while slipping in the Western North Coast.
- The Congressional Budget Office released the latest long-term budget last week.
 - The office expects annual economic growth to average just 1.6 percent over the next three decades. The U.S. has not seen a growth rate trend that low since the 1930s.
 - Projected labor productivity growth is expected to decline as well from 2031-2050. According to the CBO, this is due to the anticipation of a smaller and aging workforce which will in turn lead to businesses investing less.
- Mergers and acquisitions have surged in recent months according to Goldman Sachs.
 - Announced merger and acquisition volumes have broken through the \$1 trillion level for September representing significant rise from the early COVID-19 numbers.
- The stock market has reached new highs following the COVID-19 crash.
 - The Nasdaq holds a 24 percent year-to-date gain despite volatility in the market. The S&P 500 is up 3 percent, the Dow is down 1 percent and the Russell 2000 is down 10 percent this year.
- Home price growth began to accelerate in August according to the S&P CoreLogic Case-Shiller National Home Price Index.
 - The index measures average home prices in major metropolitan areas across the nation. Sales rose by 10.5 percent year-over-year, putting the summer's housing market ahead of last year's sales levels.
- Earnest Research reports an anticipated decline in the back to school seasonal growth for many school related retailers due to COVID-19. Nordstrom and Foot Locker saw a year-over-year decline in sales growth by 26 percent and 37 percent respectively.
 - Overall sales have declined by 21 percent year-over-year relative to the 2 to 5 percent growth seen historically.
 - In-store sales growth slowed by 30 percent while online sales growth accelerated by 10 percent.

EXECUTIVE NEWS

- Sacramento County COVID-19 risk was downgraded along with other many counties that entered “red tier” as of Tuesday, September 29.
 - The decision allows restaurants to open indoor seating at 25 percent capacity. Movie theatres, houses of worship and fitness centers will all be allowed to open at limited capacity.
 - This comes as the rate of positive COVID-19 test in Sacramento County has dropped below 5 percent for two weeks. The number of new cases per 100,000 residents has dropped below seven.
- Democrats introduced an updated version of the \$2.2 trillion bill called the HEROES Act on Monday, September 28.
 - The reduced and revised stimulus bill is aimed at supporting middle- and low-income families who have been affected by COVID-19. A popular component of the bill is the additional \$1,200 stimulus check that would be provided to adults.
 - The new bill would also restore the \$600 in extra weekly jobless benefits, which provided a lifeline to those in jeopardy.
 - The odds of the bill passing are small. Heights Securities analysts give it a 15 percent chance of providing stimulus relief before the November 3 presidential election.
- According to a recent Gallup Poll, remote workdays have more than doubled since last year.
 - Assuming 20 workdays per month, U.S. workers report working remotely 5.8 days per month, an increase of 2.4 from 2019. Of those who had telecommuted before the pandemic, the number of days telecommuting has doubled as well, increasing from 5.8 days to 11.9.
 - One in four workers say they are working entirely from home.
 - Only 49 percent of workers have ever telecommuted, according to Gallup.
- Tens of thousands of loans issued under the government’s \$670 billion Paycheck Protection Program are vulnerable to fraud, waste and abuse, according to a report from a House Panel.
 - Fifty-seven people have been charged with trying to steal more than \$175 million from the PPP, the Justice Department stated.
 - Treasury Secretary Steve Mnuchin said that the Senate is preparing a comprehensive audit program in response.

UNEMPLOYMENT

- In August, the national unemployment rate declined by 1.8 percentage points to 8.4 percent, and the number of unemployed persons fell by 2.8 million to 13.6 million. Both figures have declined the past four months.
- The latest unemployment numbers for California refer to August 2020. The unemployment rate in that period for the state was 11.6 percent in comparison to the national average of 8.4 percent.
- In the week ending September 19, the advance figure for seasonally adjusted initial claims was 870,000, an increase of 4,000 from the previous week’s revised level.
- The 4-week moving average for initial claims was 878,250, a decrease of 35,250 from the previous week’s revised average.
- In the week ending September 12, the number of people collecting unemployment benefits through regular state programs, which cover most workers, decreased by 167,000 from the previous week’s revised level to 12.58 million.

- The 4-week moving average for people with unemployment benefits was 13.04 million, a decrease of 478,000 from the previous week's revised average.
- 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	8.0%	Sutter	10.7%
Placer	7.7%	Yolo	7.5%
Sacramento	10.3%	Yuba	10.8%

Economic Growth

As daily COVID-19 cases across the United States fall slightly, the consensus amongst economic forecasters is that the U.S. is poised for a massive economic recovery for the third quarter and into the fourth quarter of 2020.

The Wall Street Journal Economic Forecasting Survey projects growth of 23.9 percent in Q3 followed by 4.9 percent growth in Q4 to close out 2020.

The Wall Street Journal additionally predicts the Consumer Price Index (CPI) to increase alongside their projected growth numbers. CPI was 0.6 percent in June and is expected to rise 2.2 percent by June 2021.

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

- According to the University of Michigan, real GDP growth should return to 20.9 percent in 2020Q3 followed by a more moderate growth rate of 8.2 percent in 2020Q4.
- The net shrinkage of GDP in 2021 is projected to be about 4.9 percent. 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 percent by the end of the year. It will subsequently rise to 1.7 percent in 2022 according to the forecast.
- 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 are hopeful for a wide distribution of a vaccine by mid-2021.

Real Estate

COMMERCIAL REAL ESTATE IS STRUGGLING

- U.S. commercial properties have lost 27 percent or more of their value as the impacts of COVID-19 and remote work have begun to take over, according to Wells Fargo.
- Wells Fargo cites that hotels are amongst those who have been struggling the most. A Crowne Plaza hotel in Houston was newly valued at \$25.9 million, down 46 percent from its valuation in 2014. The Holiday Inn La Miranda in Los Angeles was recently valued at \$22.1 million, a decrease of 27 percent since 2015.
- One sector of commercial real estate that is holding up is warehouses and storage centers. The ability to cater to e-commerce companies has helped keep them afloat.

GREATER SACRAMENTO AREA REAL ESTATE PRICES CONTINUE AN UPWARD SURGE

- The Sacramento Bee noted median prices hit \$425,5000 in Sacramento County and \$469,000 in the region during August, showing an increase of roughly 10 percent from this time last year. This sharp uptick is a surprise for many who saw home prices in the region dip in March and April.
- Additionally, the supply of monthly existing resale houses in Sacramento County hit a 20-year low at the beginning of August.
- Last year in September, there were 4,700 houses listed for sale in the region compared to this year's 2,220.
- With mortgage interest rates at historic lows, roughly 3 percent, and a shortage of real estate, the Greater Sacramento region has turned into a seller's market.

GREATER SACRAMENTO'S BOOM IN MORTGAGE BACKED SECURITIES

- Trepp, a NY 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 number 5 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 percent growth.
- Sacramento also had a delinquency rate of 3.4 percent, fourth amongst MSAs included. Lodging and retail exposure, properties most impacted by COVID-19, is sitting at nearly 53 percent delinquency.