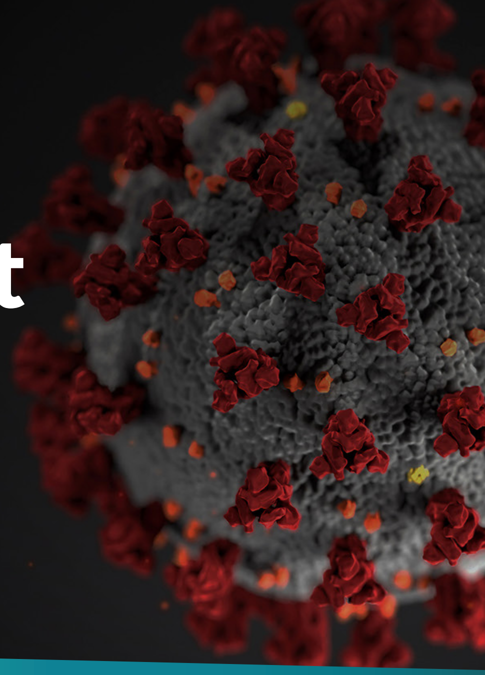
U.S. economic forecast and COVID-19



Last updated June 5, 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 **1.9 million Americans** filed for unemployment claims in the week ending May 30. The total number of Americans who have filed for unemployment benefits in the past 11 weeks is now **42.9 million**.
- **U.S. Labor Department** has reported that the **unemployment rate for May was 13.3%,** decreasing from 14.7% a month earlier.
    - Non-farm employment change by industry
        - Leisure & Hospitality (+1,239,000)
        - Construction (+464,000)
        - Education & Health Services (+424,000)
        - Trade, Transportation & Utilities (+368,000)
        - Other Services (+272,000)
        - Manufacturing (+225,000)
        - Prof & Business (+127,000)
        - Financial (+33,000)
        - Mining (-20,000)
        - Information (-38,000)
        - Government (-585,000)
- **U.S. Labor Department** has reported that **U.S. non-farm business sector labor productivity decreased 0.9%** in the first quarter of 2020, output decreased 6.5% and hours worked decreased 5.6%.
    - Hours worked saw the largest quarterly drop since the second quarter of 2009.
- **U.S. Bureau of Economic Analysis** reported that the **U.S. monthly international trade deficit increased** from $42.3 billion in March (revised) to $49.4 billion in April, as exports decreased more than imports.

EXECUTIVE SUMMARY

- **Congressional Budget Office (CBO)** has reported a revised forecast for the U.S. economy with a new estimate of total GDP output decline of $15.7 trillion from 2020 to 2030 – an equivalent of 5.3% loss of GDP as a result of the pandemic impact, including continued business closures, social distancing measures and decreased consumer spending.
- **U.S. Census Bureau** has reported that at least 60.5% of U.S. households have responded to the 2020 census in comparison to the 2010 census response rate of 66.5%.
- **Federal Reserve Bank of New York** has reported that the Weekly Economic Index (WEI) declined by 10.79% for the week ending May 30 as a result of a decline in retail sales and decreased consumer confidence.
- **ADP** has reported that companies trimmed another 2.76 million workers in May. The survey results were below the 8.75 million from economists surveyed by Dow Jones.
- **The Institute for Supply Management** has reported that the non-manufacturing index rose 3.6 points in the month of May as U.S. service providers began to emerge from the coronavirus lockdown.

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

As of June 4, the **U.S. Labor Department** reported that approximately 230,500 California workers filed for unemployment benefits during the week ending on May 30, up by 27,200 from last week's number of 203,200.

As of May 22, the U.S. Labor Department reported that **California's unemployment** rate for the month of **April is 15.5%**, an increase from March's unemployment rate of 5.3%. California experienced the largest decline of non-farm jobs in the nation, with a loss of 2,344,700 non-farm jobs. Industries that were hit the hardest include:

- Leisure & Hospitality (-866,200)
- Trade, Transportation & Utilities (-388,700)
- Education & Health Services (-280,400)

As of June 4, Employment Development Department (EDD) reported that California has paid out $22.2 billion in unemployment benefits since the week ending on March 14, 2020 and processed 5.6 million claims.

The **unemployment rate for the Sacramento MSA for April was 14.2%,** up by 4.8% from March 2020. The unemployment rate for the Greater Sacramento region by county is:

- El Dorado County: 15.4%
- Placer County: 13.3%
- Sacramento County: 14.7%
- Yolo County: 11.9%
- Sutter County: 17.9%
- Yuba County: 15.8%

According to the **Tax Foundation,** 10.8% of California's workforce has filed an unemployment claim. California ranks #21 in the nation while Michigan is #1 with 19.5% of its workforce filing a claim. California's unemployment trust fund to cover unemployment benefits could run out by April. The state is #50 of U.S. states in solvency of their unemployment trust fund. California can borrow to cover the shortfall, but in the long term it will mean higher unemployment insurance rates and thus making it more expensive to do business in California.

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 24% 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 14%.

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:

- 9% GDP growth in the first quarter
- 39% 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:

- A slight decline of .4% in the first quarter
- **7.5% contraction in the second quarter**

Project uptick in the fourth quarter:

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

Anderson's report attributed the decline in GDP to the rapid spread of COVID-19, declining oil prices, tightening financial conditions, market volatility and decreased consumer spending in key industries impacted by COVID-19 such as travel and recreation.

JP MORGAN

Expect U.S. GDP to contract by:

- 10% in the first quarter
- 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:

- 7% 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 24% 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%	-39%	29%	12%
UCLA Anderson	.4%	-7.5%	-3.1%	1%
JP Morgan	-10%	-40%	23%	13%
University of Michigan Ann-Arbor	N/A	-30%	4%	1%
Wells Fargo	-1%	-24%	7%	4%
Beacon Economics	0%	-30%	25%	5%
Average	**-4%**	**-28.5%**	**14%**	**6%**

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.

- 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.
- CBRE reported that revenue per available room (RevPAR) will decline 37% in 2020.
- Cushman & Wakefield stated that the new stimulus package offers relief to commercial real estate sectors with limited impact to vacancy rates.
- Home sales expected to fall 7-20 percent, demand decreasing sharply.