

U.S. economic forecast and COVID-19

Last updated August 6, 2020

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

Top economic news

- The **Federal Reserve has extended the operation of all its emergency lending programs** by at least three months. One of the main purposes of the programs is to support lending for an array of credit markets, including debts of large investment-grade corporations and short-term borrowing for more than 250 state and municipal governments.
 - The **Treasury has provided almost \$200 billion to cover the losses** on these emergency lending programs extended by the Federal Reserve.
- **The dollar is on track to close out its worst month since April 2011** as a rise in coronavirus infections across the U.S. has kept low interest rates in place for longer. Recently, investors have sold the dollar and bought currencies of countries with lower infection rates.
 - This has **erased 3.8% of the dollar's value** in July, on track for its worst monthly performance in over nine years.
- **Demand for motor vehicles and parts jumped 85.7% from May to June** according to the Department of Commerce. New orders for durable goods, products designed to last at least three years, increased 7.3% overall in June.
- White House economic adviser Larry Kudlow **says a V-shaped economic recovery is in place**. Kudlow cited **sales of existing homes jumping 20.7% in June after dropping almost 10% the month before**. In addition, he cited another report from HIS Markit that showed manufacturing in July expanded for the first time since February.
- For the first time since it began collecting data, **Yelp has reported that the number of permanent store closures has eclipsed the number of temporary ones**. While a slowing in temporary closures is a good sign of stores re-opening, the rise in permanent closures may be foretelling for the future of U.S. stores: temporary hardship becoming permanent damage.

EXECUTIVE SUMMARY

- California Democrats have **introduced a \$100 billion stimulus plan** aimed at aiding struggling small businesses and families affected by the pandemic.
 - The plan is reported **not to include any increases in taxes** and will need to be completed by August 31, the end of the legislative session.

- Governor Gavin Newsom **announced a \$52 million grant from the federal government aimed at slowing the coronavirus' rampage through California's Central Valley.** The money will go toward more focused testing efforts to identify outbreaks, education for employees and employers about rights to sick leave and improvements to quarantine and isolation protocols.
 - While statewide overall positivity rates have plateaued at about 7.5%, Central Valley rates are ranging from 10.7% to 17.7%.
- Google is allowing its employees to work from home **until at least July 2021.** The move will affect nearly all of the 200,00 full-time and contract Google workers.
 - The move was made to allow employees with families to plan for uncertain school years that may involve at-home instruction. It also **frees staff to sign full-year leases elsewhere** if they choose to move.
- U.S. Senate Republicans **released a stimulus blueprint Monday** that would expand the Small Business Administration's Paycheck Protection Program, **enhance small-business tax breaks and provide businesses a legal shield for claims related to COVID-19.**

Unemployment UNITED STATES

According to the Labor Department, **seasonally adjusted unemployment claims were down to 1.2 million in the week that ended on August 1. This represents a decrease of 249,000 from last week's revised number of 1.43 million.** This decline comes as an extra \$600 a week in pandemic-related unemployment benefits ended. This number of jobless benefit applications last week **was the lowest since the pandemic struck the U.S.**

The Wall Street Journal forecasts that the unemployment rate will fall from 11.1% in June to 10.6% in July. This would represent **an addition of 1.5 million jobs to the U.S. economy.**

Data from payroll processor ADP shows **private-sector payrolls grew by 167,000 last month.** Still, management software company Kronos reported an **increase in employee shifts of just 1% in July**, a slowdown in month-on-month shift growth compared to a 5.9% increase in June and an 8.7% gain in May

THE GREATER SACRAMENTO REGION

The Employment Development Department (EDD) has released MSA-wide unemployment data for the month of June. Below is a summary detailing unemployment within the six Greater Sacramento counties. For reference, note that the nation's unemployment rate during the same period was 11.2%.

| County | June Unemployment | Region | June Unemployment |
|------------|-------------------|----------------|-------------------|
| El Dorado | 12.9% | Sacramento MSA | 12.8% |
| Placer | 11.2% | Yuba City MSA | 14.8% |
| Sacramento | 13.6% | California | 15.1% |
| Sutter | 15% | | |
| Yolo | 10.6% | | |
| Yuba | 14.4% | | |

- Yuba City MSA's unemployment rate went down 1% from the previous month while the Sacramento MSA rate decreased 0.9% from May 2020.
- Within the Sacramento MSA, **there were 2,300 job losses in state government and 1,600 job losses in local government between May 2020 and June 2020.**
 - Leisure and hospitality led the region in month-over employment gains **by adding 14,700 jobs.**
 - Despite these gains, employment in leisure and hospitality is down 28% since February.
- Within the Yuba City MSA, there was over a 31% increase in jobs within leisure and hospitality from May 2020. However, jobs in this sector are down over 21% for the year.
 - More notable job growth was observed in the government sector, which saw jobs increase 13.3% from the previous month.
 - The agriculture industry has been hit hard. Yuba City now has over 41% less farm jobs than it did in June 2019.

Economic Growth

As of July 30, the Bureau of Economic Analysis has released their report on GDP growth in the second quarter of 2020. For this week's edition of the newsletter we will focus on this report, along with an outlook for the rest of the year.

Real gross domestic product (GDP) **decreased at an annualized rate of 32.9% in the second quarter of 2020**, a 9.5% drop compared with the same quarter a year ago. The major drivers of this decline in GDP, the steepest since records dating to 1947, were decreases in personal consumption expenditure, exports, private inventory investment, nonresidential fixed investment and state and local government spending.

In current-dollar terms, **GDP decreased by \$2.15 trillion in the second quarter to a level of \$19.41 trillion.** In comparison, GDP decreased by \$186.3 billion in the first quarter the year.

Despite the steep declines in GDP, **disposable personal income increased by \$1.53 trillion, or 42.1% in the second quarter**, compared to a \$157.8 billion increase in the first quarter. This increase in disposable income can be largely attributed to the federal stimulus bill that has been sending hundreds of dollars to millions of households across America.

Despite the increase in disposable income, Americans are saving more than they did at the beginning of the year. Personal saving was \$4.69 trillion in Q2, compared to \$1.59 trillion in Q1. **The personal saving rate, personal saving as a percentage of disposable personal income, was 25.7% in Q2 compared to 9.5% in Q1.**

The contraction has come as states imposed lockdowns across the country to contain the virus and then lifted restrictions. Many economists think the economy will resume growth in the third quarter. In GSEC's last economic forecast, we highlighted several Q3 GDP forecasts. The general consensus seems to be that **Q3 GDP will grow at around 15%**, at an annualized rate. This prediction is barring any major developments, beneficial or detrimental, with regards to the pandemic.

Real Estate

Below are some key highlights that showcase the state of the housing market in the U.S. at the moment.

- The S&P CoreLogic Case-Shiller National Home Price Index, which measures average home prices in major metropolitan areas across the nation, **rose 4.5% in the year that ended in May, down from a 4.6% annual rate the prior month.**
- The Case-Shiller 20-city index shows that **Phoenix had the fastest home-price growth in the country** in March at 9% followed by Seattle at 6.8%.
- Sales of previously owned homes, which make up the bulk of the housing market, dropped 9.7% in May from a month earlier, according to the NAR. **Existing-home sales have since surged 20.7% in June.**
- A shortage of homes for sale around the U.S. has kept home price growth from being exacerbated by the pandemic. **Record-low interest rates have boosted demand from home buyers** while the inventory of homes for sale has dropped from last year's level at this time as sellers remain cautious.
- On July 28, the Commerce Department reported that **the homeownership rate rose to 67.9% in the second quarter**, up from 64.1% a year earlier and the highest level since mid-2008. However, the Department has cited issues with data collection as a result of the virus along with declining survey response rates, which may affect the accuracy of its estimates.
- For households headed by someone under 35 years old, a key source of homebuying demand, the **homeownership rate rose to 40.6% from 36.4% a year earlier**, according to the Federal Housing Finance Agency.

GSEC REAL ESTATE NEWS

- According to data published last week by residential brokerage firm Redfin, a record 27.4% of users on the website were looking to move to a different metro area than the one they were in this spring.
- **Sacramento ranked No. 2 among the most popular destinations homebuyers were interested in moving to**, second only to Phoenix.
- The net inflow in Sacramento, which subtracts the number of people looking to move out of the area, was nearly 9,000 users. In addition, 46% of the total searches for homes in Sacramento were made outside the area. **The top origin of these searches was from the San Francisco metro area.**
- A construction project scheduled to start in September at Sacramento International Airport is getting **nearly \$10 million from the federal government**, thanks in part to the CARES Act. The project will add a new Aircraft Rescue and Fire Fighting Station, replacing the current 51-year-old firefighting building at the airport.