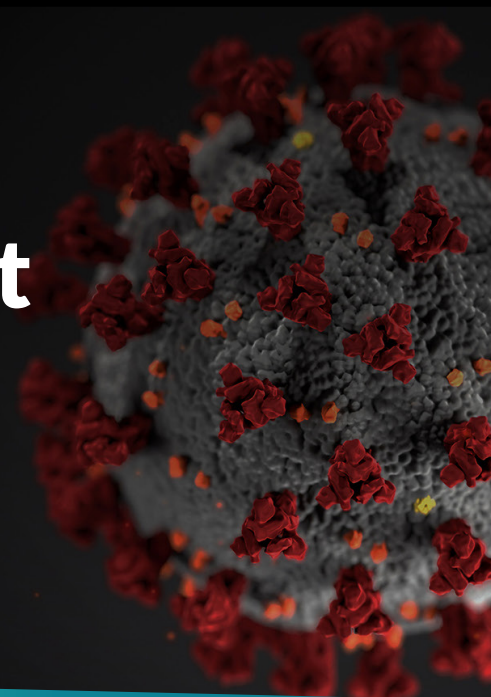


# U.S. economic forecast and COVID-19

Last updated June 12, 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 **1.5 million Americans** filed for unemployment claims in the week ending June 6. The total number of Americans who have filed for unemployment benefits in the past 12 weeks is now **44.4 million**.
- **Federal Reserve Bank of New York** has reported that its weekly Nowcasting Report projects GDP growth to be a -25.9% for 2020Q2 and 12.5% for 2020Q3.
- **National Bureau of Economic Research (NBER)** has reported that the **U.S. officially entered a recession** in February, marking the end of the 128-month expansion, the longest in records reaching back to 1854.
- **Congressional Budget Office (CBO)** has reported that **the federal deficit nears \$2 trillion this year**.
- **U.S. Department of Labor** has reported the **number of job openings fell in April to just 5.05 million**. Not since 2014 have there been so few jobs available.
  - The number of people hired fell to just 3.5 million, the lowest in records that go back about 20 years.
- **U.S. Labor Department** has reported that the **consumer price index decreased by .1%** in May after falling .8% in April.
  - The gasoline index declined 3.5%, and the food index increased by .7%.
  - The indexes for motor vehicle insurance, apparel, airline fares, used cars and trucks declined in May.
  - The indexes for shelter, recreation, medical care, household furnishings and operations and new vehicles all increased.

## EXECUTIVE SUMMARY

- **U.S. Labor Department** has reported that the **Producer Price Index** for final demand **rose .4% in May**, seasonally adjusted. This increase followed declines of 1.3% in April and .2% in March.
- **The Wall Street Journal** has reported that economists forecast the **U.S. economy will be in recovery by the third quarter** of this year and expect GDP to contract by 5.9% this year, and unemployment to be at about 9.6% by December.
- **U.S. Labor Department** has reported that the prices of U.S. **imports increased 1.0%** in May, after declining 2.6% in April and 2.4% in March.
- **University of Michigan Ann Arbor** has reported that the **U.S. consumer confidence index increased by 6.6 points** to 78.9 in June from 72.3 in May.
- U.S. Census Bureau has reported that U.S. manufacturing corporations seasonally adjusted after-tax profits for 2020Q1 were \$111.7 billion, down by \$38.8 billion from 2019Q4 of \$150.5 billion.

## 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

The **U.S. Labor Department** reported that approximately 258,000 California workers filed for unemployment benefits during the week ending on June 6, up by 29,400 from last week's number of 228,600.

**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 11, Employment Development Department (EDD)** reported that California has paid out \$26.2 billion in unemployment benefits since the week ending on March 14, 2020 and processed 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 30% 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 17%.

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 37.6% in the second quarter
- Expand by 24% 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%	-37.6%	24%	11%
Beacon Economics	0%	-30%	25%	5%
Average	-4%	-31%	17%	7%

## 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.