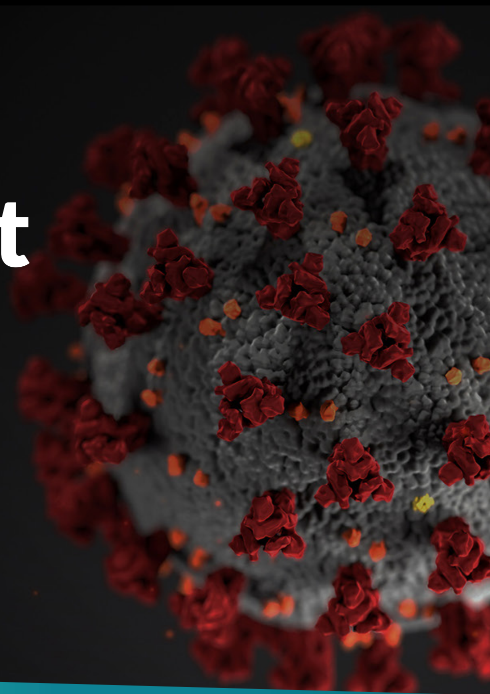
U.S. economic forecast and COVID-19



Last updated April 24, 2020

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

Top economic news

- Congress has approved an additional **$484 billion** in economic relief which includes:
  - **$310 billion** in additional money to the Payroll Protection Program (PPP)
  - **$60 billion** in additional funding for the Emergency Injury and Disaster Relief Loan Program (EIDL)
  - **$75 billion** for hospitals and health care providers to cover expenses and lost revenue related to COVID-19
  - **$25 billion** to facilitate and expand testing
- The **U.S. Labor Department** has reported that **4.4 million Americans** filed for unemployment claims in the week ending April 18. The total number of Americans who have filed for unemployment benefits in the past 5 weeks is now **26.5 million.**
- Over the past 5 weeks, over **3.35 million Californian** workers have filed initial claims for unemployment.
- **University of Michigan** reported that U.S. consumer sentiment fell another third straight month from 89.1 in March to 71.8 in April. However once the country re-opens, there will be pent-up demand surge in services spending.
- **U.S. Department of Commerce** reported that new orders for durable goods (products designed to last at least three years) declined 14.4% in March from the previous month, the biggest monthly drop since August 2014.
  - New orders for aircraft and parts fell by more than $16.3 billion in March from February, a 296% decline.
  - New orders for automobiles and parts fell 18.4% in March.

EXECUTIVE SUMMARY

According to leading Wall Street economists and investment banking firms, future U.S. GDP is expected to decline in the first half of the year, effectively entering a recession. (A recession is defined as two consecutive quarters of negative economic growth.) In aggregate, the U.S. will see a decline in GDP of -5% in the first quarter, with a **22% contraction 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 10%.**

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.

Economic Growth

Several firms have started to release their economic forecasts. Full reports from UCLA Anderson School of Management, University of Michigan Ann-Arbor, and Wells Fargo 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
- 34% contraction in the second quarter

They see a significant rebound in the second half of the year:

- 19% growth in the third quarter
- 10% 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 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 22% 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.

2020 ECONOMIC GROWTH FORECASTS

Source	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Goldman Sachs	-9%	-34%	19%	10%
UCLA Anderson	.4%	-7.5%	-3.1%	1%
JP Morgan	-10%	-40%	23%	13%
University of Michigan Ann-Arbor	N/A	-7%	4%	1%
Wells Fargo	-1%	-22%	7%	5%
Average	-5%	-22%	10%	6%

UNEMPLOYMENT

The massive contractions to GDP into the second quarter of 2020 are establishing records for unemployment filings. As businesses and others continue to close their doors, unemployment numbers are skyrocketing.

- As of April 18, U.S. jobless claims reached 26.5 million.
- As of April 3, the U.S. unemployment rate climbed from 3.5% to 4.4% with 701,000 jobs lost.
- **Wall Street Economists and the St. Louis Federal Reserve Bank are forecasting unemployment rates** that will go beyond the Great Recession's peak of 10%.
- In comparison to the Great Recession, unemployment hit 9.9% at its highest level.

California

California Labor Secretary Julie Su has indicated that Californians who are receiving unemployment insurance payments no longer have to recertify their claims every two weeks to keep receiving the money. Over the past 5 weeks, over **3.35 million Californian** workers have filed initial claims for unemployment.

California Employment Development Department reported last week that **California's unemployment rate was 5.3%** for the month of March, it was the state's largest increase in unemployment since 1976.

Industries that were hit the hardest include:

- Leisure and Hospitality (-67,200)
- Other Services (-15,500)
- Construction (-11,600)
- Professional and Business Services (-8,600)
- Manufacturing (-5,300)

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.

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.

- 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.