To "V" or not to "V"…

The Covid Recession: Where Next?

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BEACON ECONOMICS

**CAA** CALIFORNIA APARTMENT ASSOCIATION

From February

The Economy has been fine…

- GDP Growth: Not too hot, not too cold
  - Consumer spending supported by strong fundamentals
  - Housing markets to bounce back solid in 2020
  - Labor markets remain tight, wages on the rise
  - Interest rates down, inflation still constrained
  - Debt markets look very stable

- Reports of the end of of this expansion are highly exaggerated
  - Still a low chance of recession in next 24 months
  - Top risk: Novel Corona virus

WSJ Next Recession Survey Feb 2020

Q&A: Forecasting the Next Downturn

When do you expect the next recession to start?

2020	2021	2022	2023	2024	2025
10.8%	35.1%	29.7%	8.1%	10.8%	5.4%
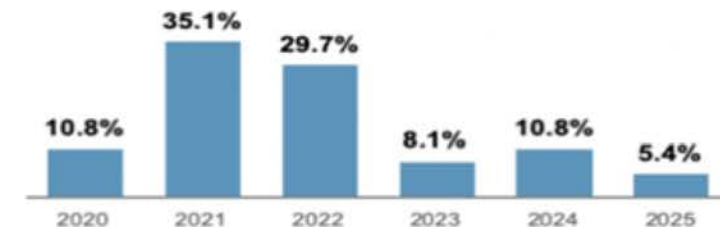
The easiest forecast: The WSJ Next Recession survey thinks the next recession is one to two years away

The Pandemic Recession

- **Covid-19: Tracking the Disease**
  - 40 million cases globally, 1 million deaths
  - US roughly one fifth of all cases, deaths
  - US will experience >250,000 additional deaths this year (typical year ~ 3 million)

- **The Pandemic Recession**
  - A unique business cycle
  - Consumer Fear / Health Mandates sharply slowed economic activity
  - Q4 19 to Q2 20 ~11% decline in real GDP (Great recession 6% decline over 6 quarters)
  - Unemployment quickly jumped to post WWII high levels

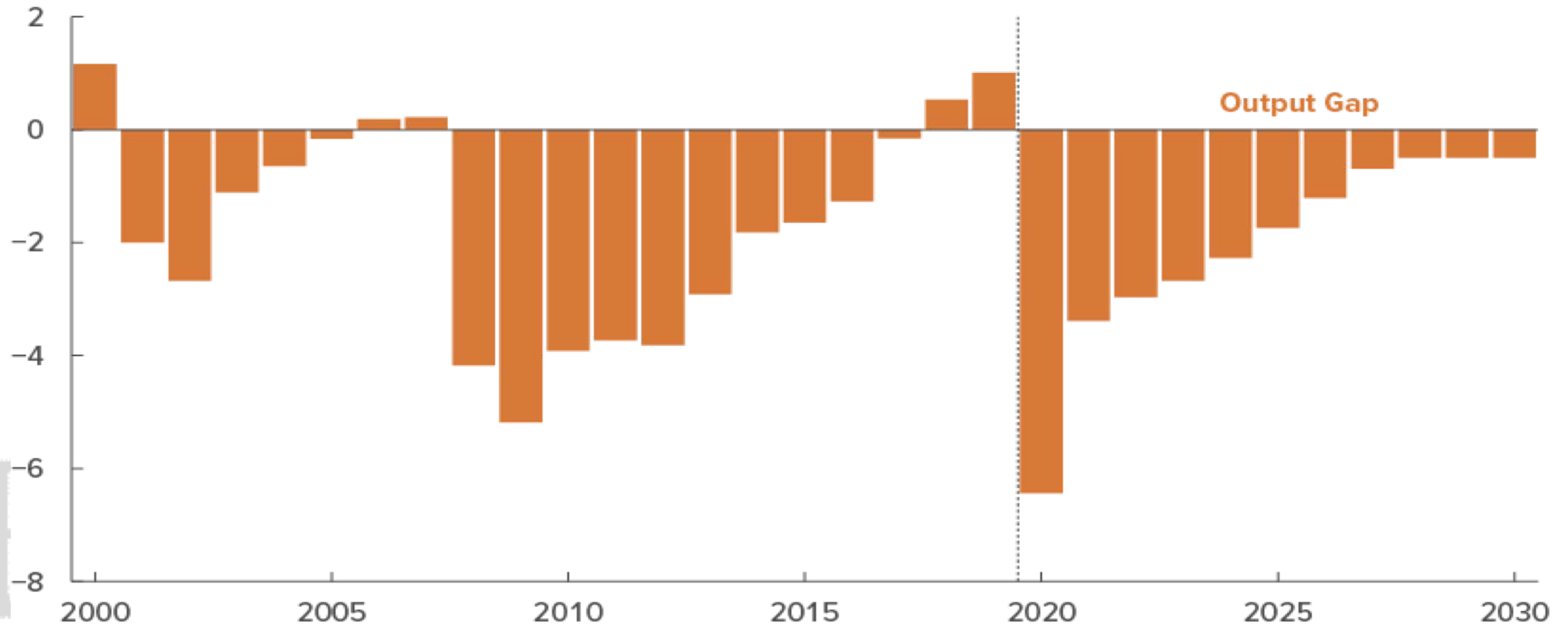- **The "U" or "V" or "whatever" debate**
  - Most forecasts in the "U" camp—long, slow recovery
  - Beacon: Called the "V", not a great recession, rather a natural disaster

Miserabilism and the Pandemic

CBO Forecast: Gap between actual and potential US output

Percentage of Potential GDP

Output Gap

The Great Recession vs today

- Subprime Lending Bubble
  - $15 trillion in borrowing 01-07
  - Collapse of lending standards

- Caused massive imbalances in economy
  - Housing and consumer spending bubbles
  - Record low savings, massive trade deficit, consumer debt levels

- 8 years to recovery
  - Truly lost jobs, rebuilding incomes, careers
  - Flow-Stock problems (housing, cars)
  - Balance sheet issues
  - Financial markets digging out of bad debt

- The Pandemic Recession
  - Driven by consumer fear
  - Very large, rapid, but not sustained
  - No reason for structural shift

- Harm to economy is building now
  - Loss of revenue / incomes
  - Supply chain effects

- Broad range of possible outcomes
  1. How healthy the economy?
  2. How much of the economy was closed?
  3. What has the government done to intervene?
  4. How long will the pandemic impact economic activity?
  5. Will there be a major shift in post-pandemic spending patterns

Where are we now?

		2020	
	2019	Q1	Q2
GDP	2.4	-5.0	-32.9
Final Demand	2.4	-4.8	-29.6
Consumption	1.7	-4.8	-25.1
Goods	0.8	0.0	-2.1
Services	0.9	-4.8	-22.9
Investment	0.3	-0.2	-5.4
Structures	0.1	-0.1	-1.2
Equipment	-0.1	-0.9	-2.1
IPP	0.2	0.1	-0.3
Residential	0.1	0.7	-1.8
Inventories	-0.4	-1.3	-4.0
Trade	0.3	1.1	0.7
Exports	0.0	-1.1	-9.4
Imports	0.3	2.3	10.1
Government	0.5	0.2	0.8
Federal	0.3	0.1	1.2
State local	0.2	0.1	-0.4

		2020	
	2019	Q1	Q2
(PCE)	2.5	-6.9	-34.6
Health care	0.6	-2.9	-13.7
Food / accommodations	0.1	-2.4	-7.8
Recreation services	0.1	-1.5	-6.7
Other services	0.3	-1.1	-5.6
Transportation services	0.1	-1.0	-4.1
Clothing and footwear	0.1	-1.1	-1.3
Gasoline and energy	0.0	-0.4	-1.2
Other durable goods	0.1	-0.3	-1.0
Food and beverages	0.1	2.0	-0.4
Furnishings	0.1	-0.1	-0.2
Other nondurable goods	0.4	1.0	0.0
Motor vehicles and parts	0.0	-1.1	0.3
Financial services	0.2	-0.2	0.4
Housing and utilit	0.2	-0.1	1.0
Recreational good	0.4	0.2	1.2

The Rebound: Overall Activity

Monthly GDP, $Trillions

-3.7%
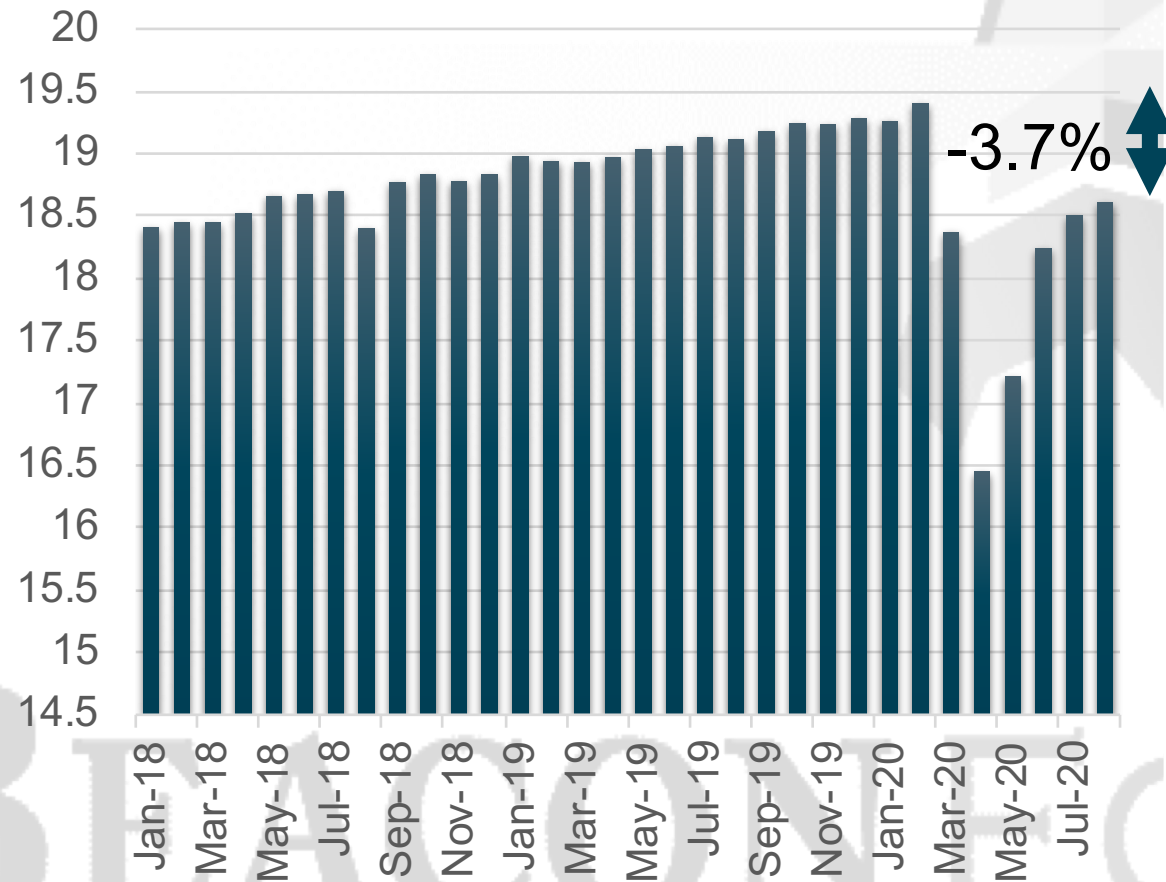
Evolution of Atlanta Fed GDPNow real GDP estimate for 2020: Q3
Quarterly percent change (SAAR)

Q3 > 35%!

Atlanta Fed GDPNow estimate

Blue Chip consensus

Range of top 10 and bottom 10 average forecasts
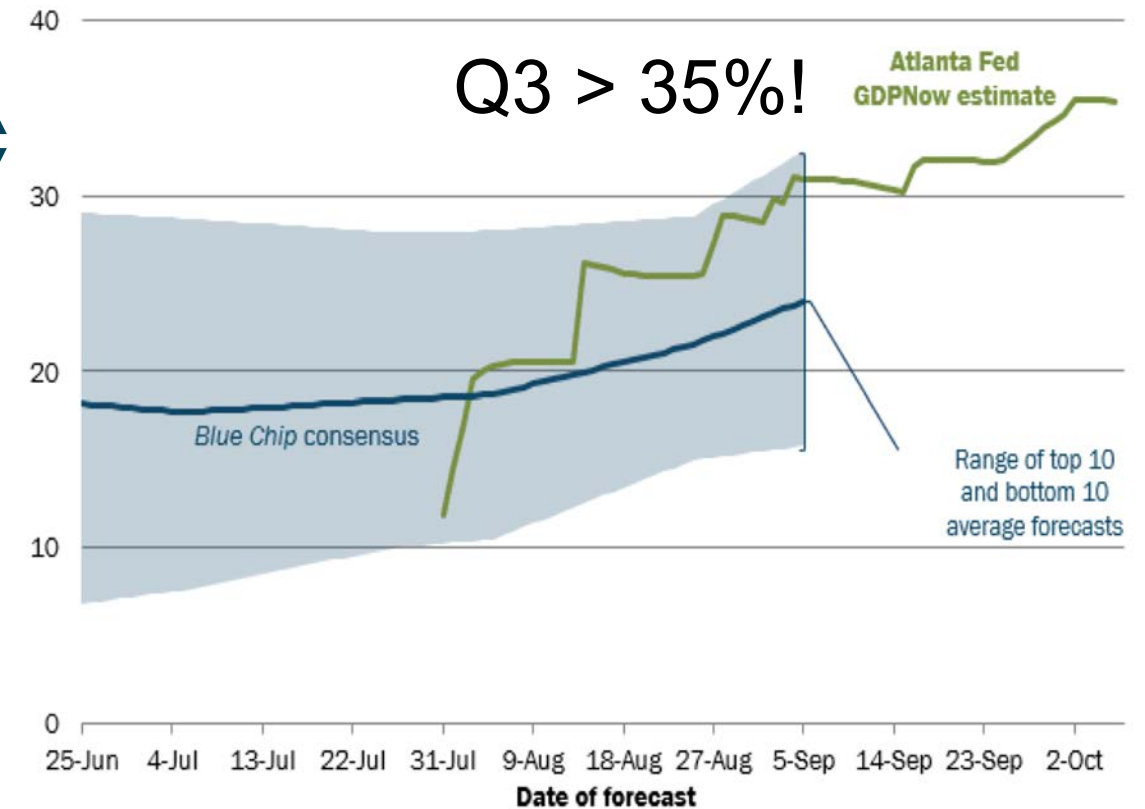
Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

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Stages of the Covid-19 Business Cycle

- **The Recession**
  - —Driven by panic / health mandates
  - —Peak in February, trough in April, deepest / shortest ever

- **Recovery Stage 1: Learning to Live With Covid-19**
  - —Mitigation / adaptation of businesses and consumers
  - —Winners and Losers with shift in spending to less impacted sectors

- **Recovery Stage 2: Containing the Disease**
  - —Certain sectors impacted by Covid-19; travel, recreation, hospitality
  - —Accepting the Inevitable: moving down the resistance curve
  - —Policies that protect vulnerable / minimize impact on economy

- **Recovery Stage 3: Return to Normality**
  - —Modest long run damage to economy
  - —Massive government stimulus has supercharged potential demand
  - —Big issues are with Covid response: The federal debt / inflation

Consumers Leading the Way

Real Consumer Spending SAAR

Goods — Services
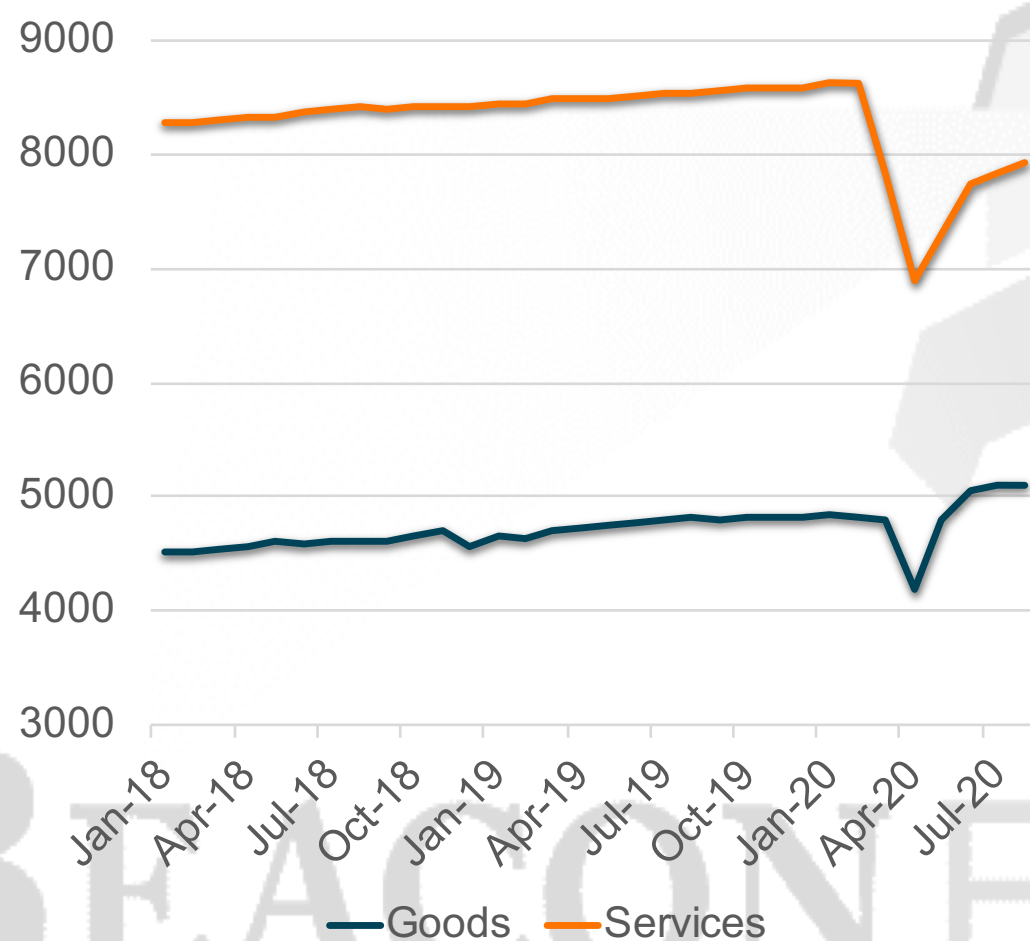
Retail Sales (x Restaurants)
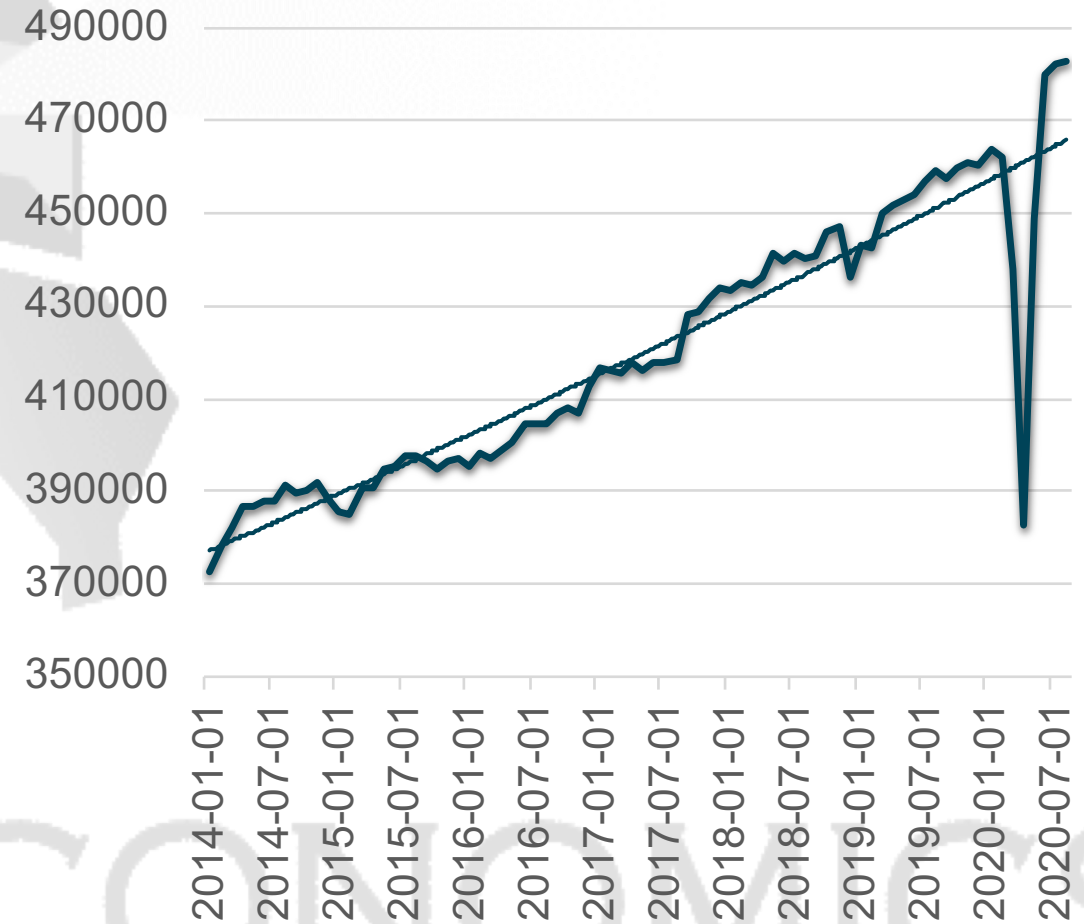
Retail Sales: Winners and Losers

E-commerce share retail sales
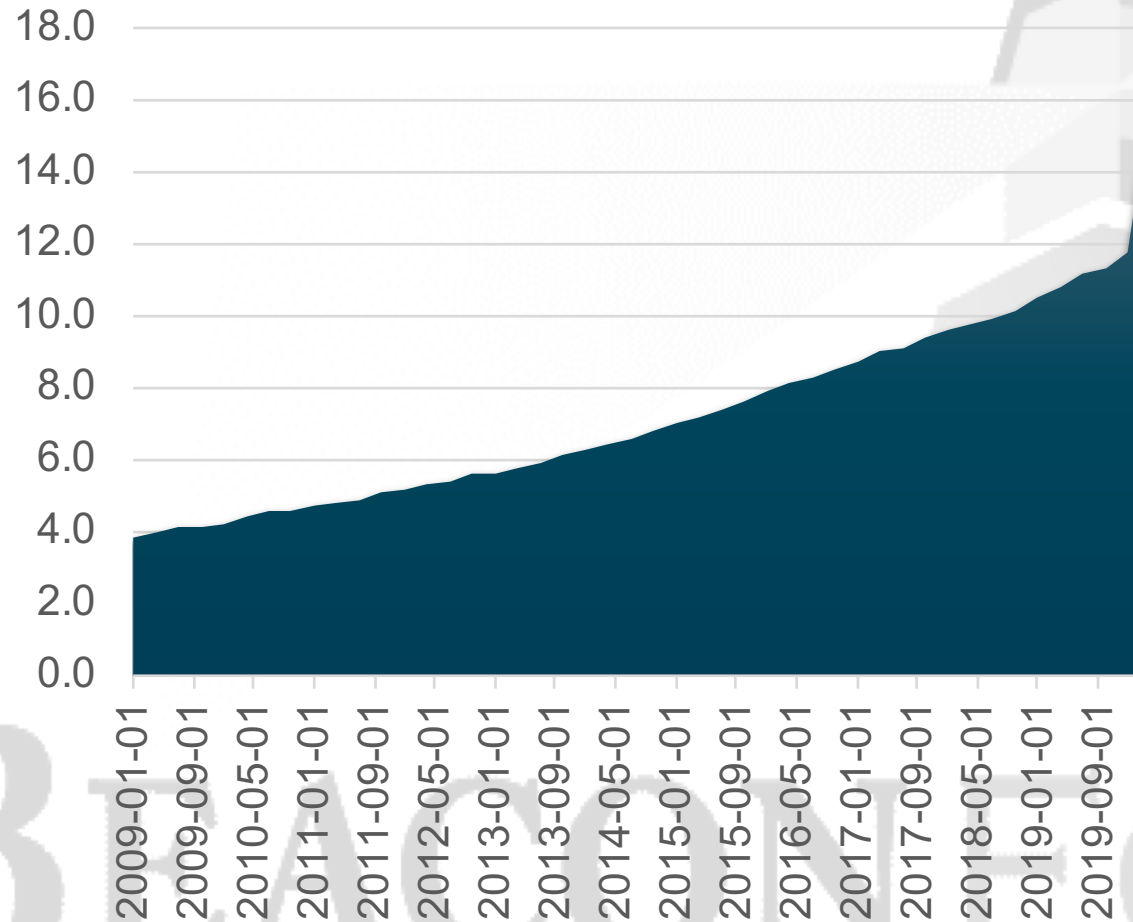
Sept-Sept Change

	Sept	YoY Ch
Total	549256	5.4%
Nonstore retailers	83781	23.8%
Hardware	37825	19.1%
Sports / Hobbies	7710	14.4%
Motor vehicle & parts	114803	10.9%
Food & beverage stores	70794	10.5%
Health & personal care stores	31425	5.3%
Furniture & home furn. stores	10407	4.6%
General merchandise	62055	4.3%
Clothing	19478	-12.5%
Gasoline	35909	-13.3%
Restaurants / Bars	55595	-14.4%

The Bounce in Production

Retail Sales: Inventory to Sales Ratio

Industrial Production

Total   Manufacturing

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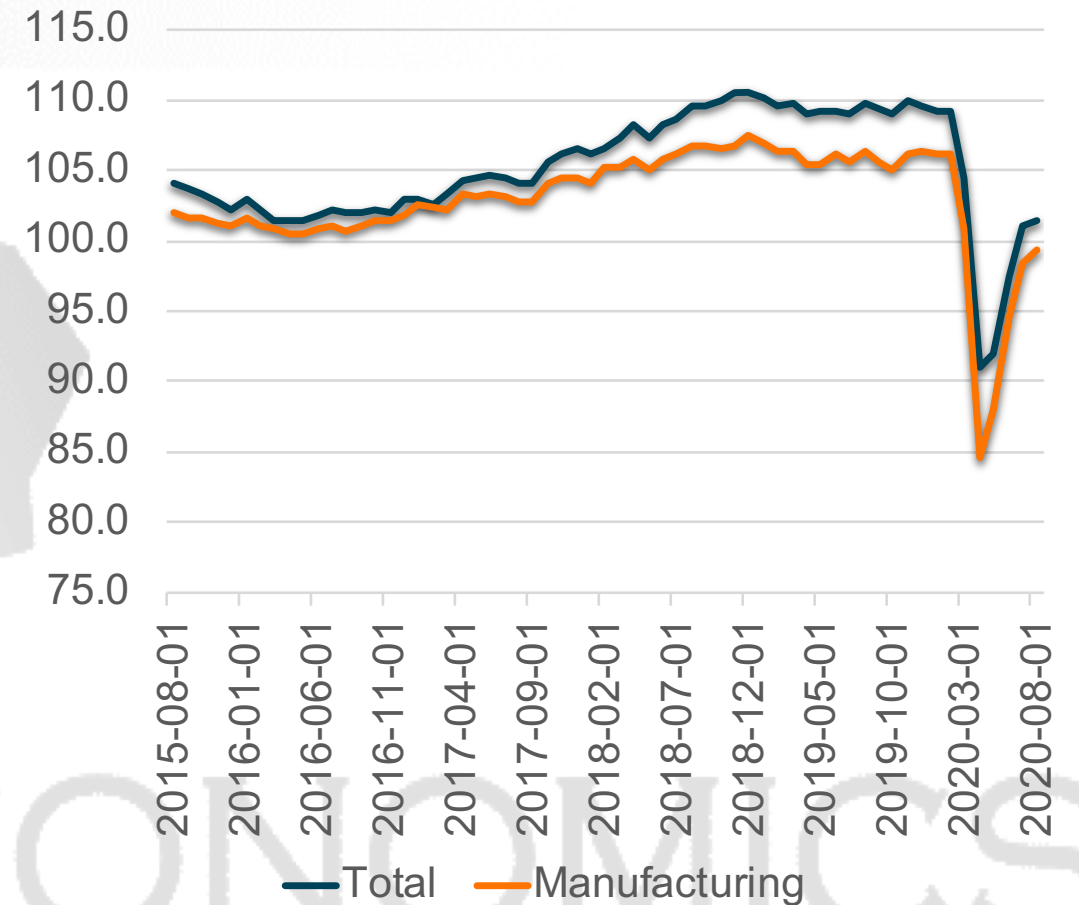
Leading Indicators

Manufacturing Inventory / Sales Ratio

Non-Defense, Non-Aircraft New Durable Orders
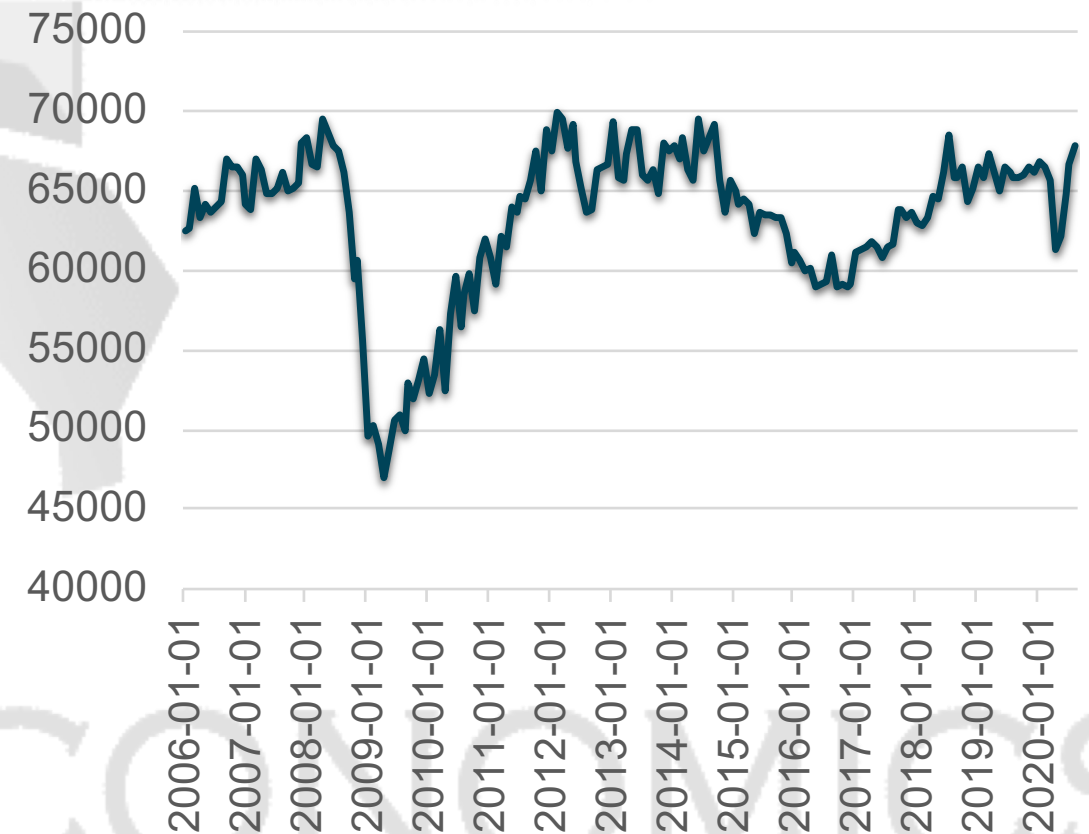
No Sign of a RE Bubble

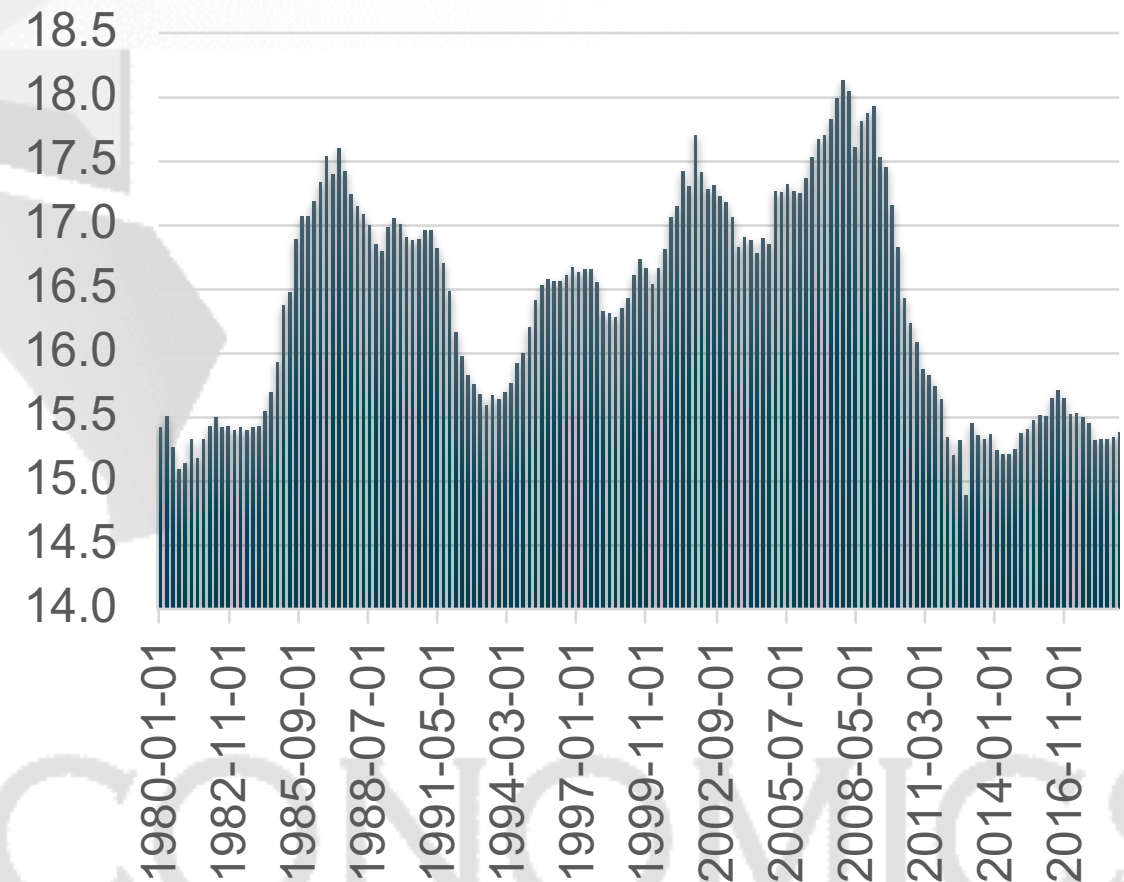## Case Shiller HPI

Vacant Units

For Sale / Rent — Held Off Market
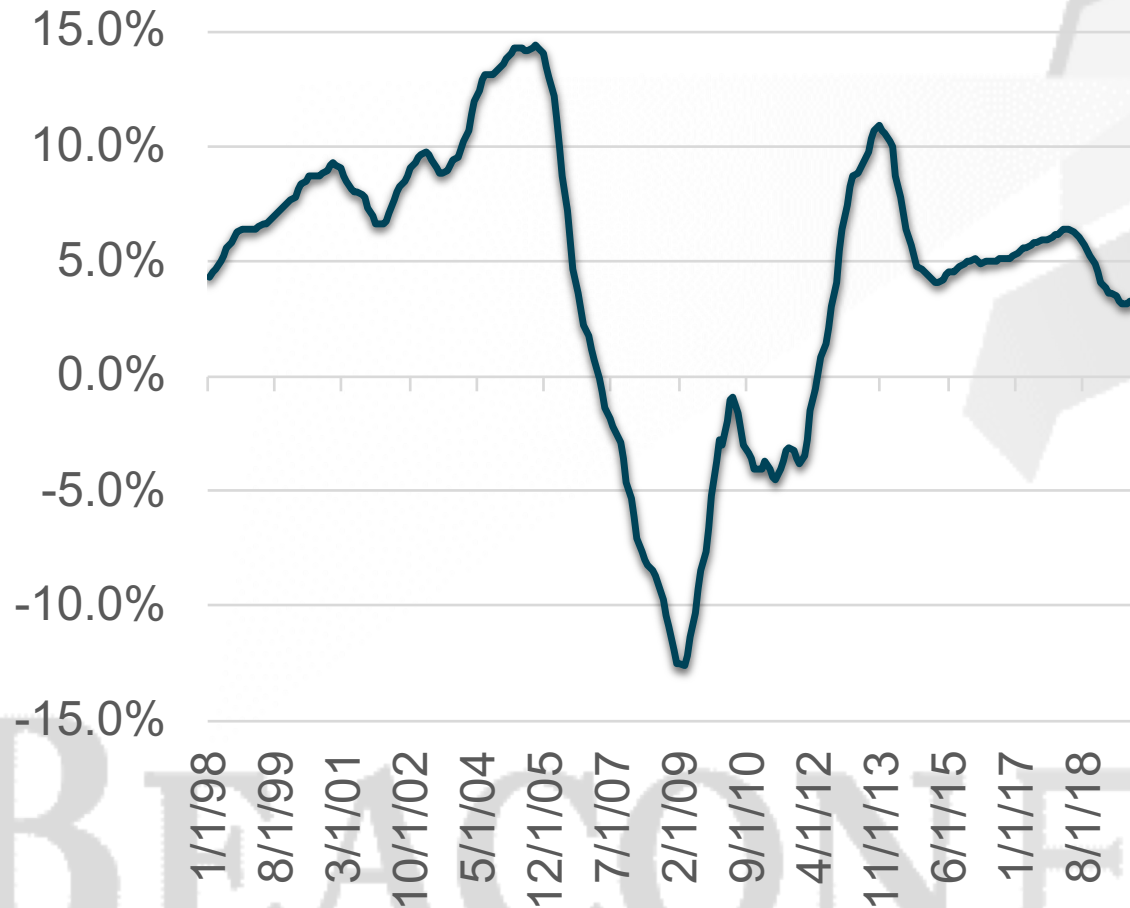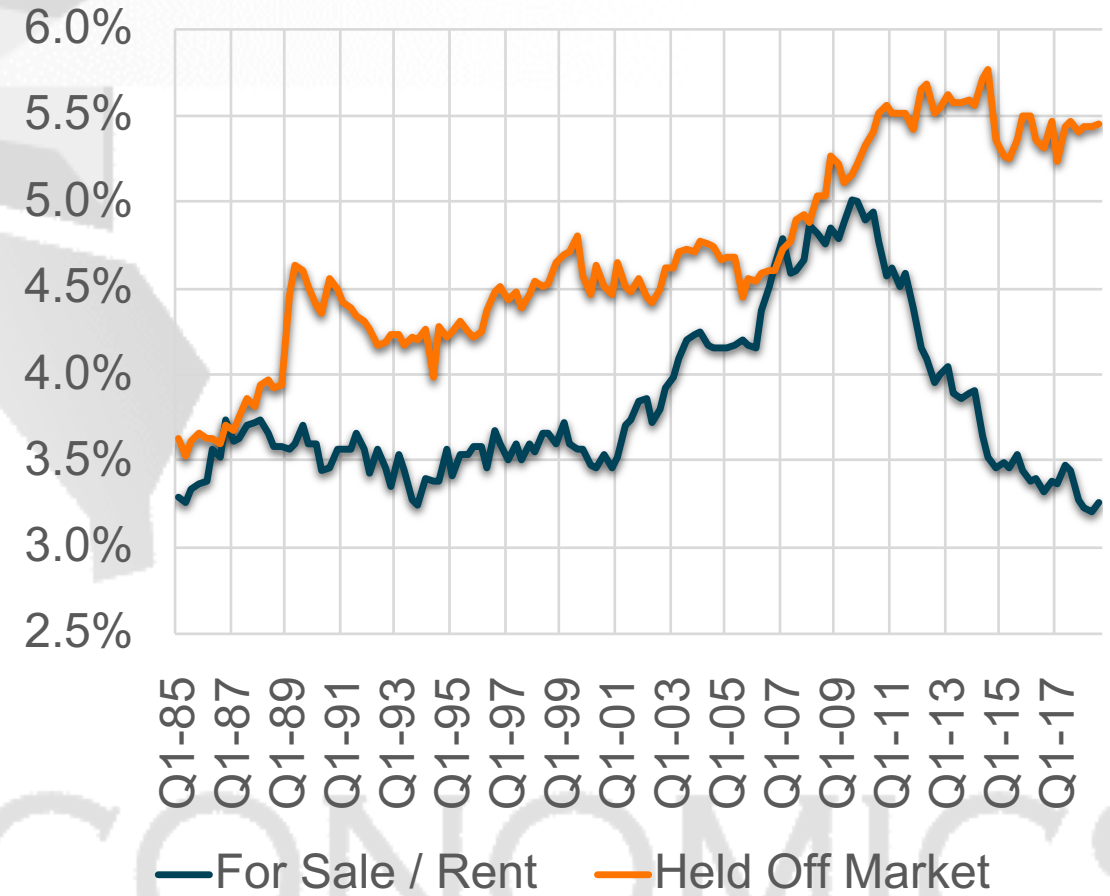
Consumer Debt Problems?

Ratio of debt payments to family income

Family characteristic	Median			Share 40% plus		
	1998	2007	2016	1998	2007	2016
All families	17.9	18.7	14.7	13.6	14.8	9.1
Percentile income						
Less than 20	18.6	19.1	11.9	29.8	26.9	21.6
20–39.9	17.5	17.1	15.6	18.3	19.5	13.3
40–59.9	19.4	20.3	14.4	15.9	14.5	8.3
60–79.9	19.5	21.9	16.1	9.8	12.9	4.2
80–89.9	17.8	19.3	16.3	3.5	8.2	4.2
90–100	13.7	12.5	11.3	2.8	3.8	1.5

Financial Obligations % DPI

Housing – U.S.
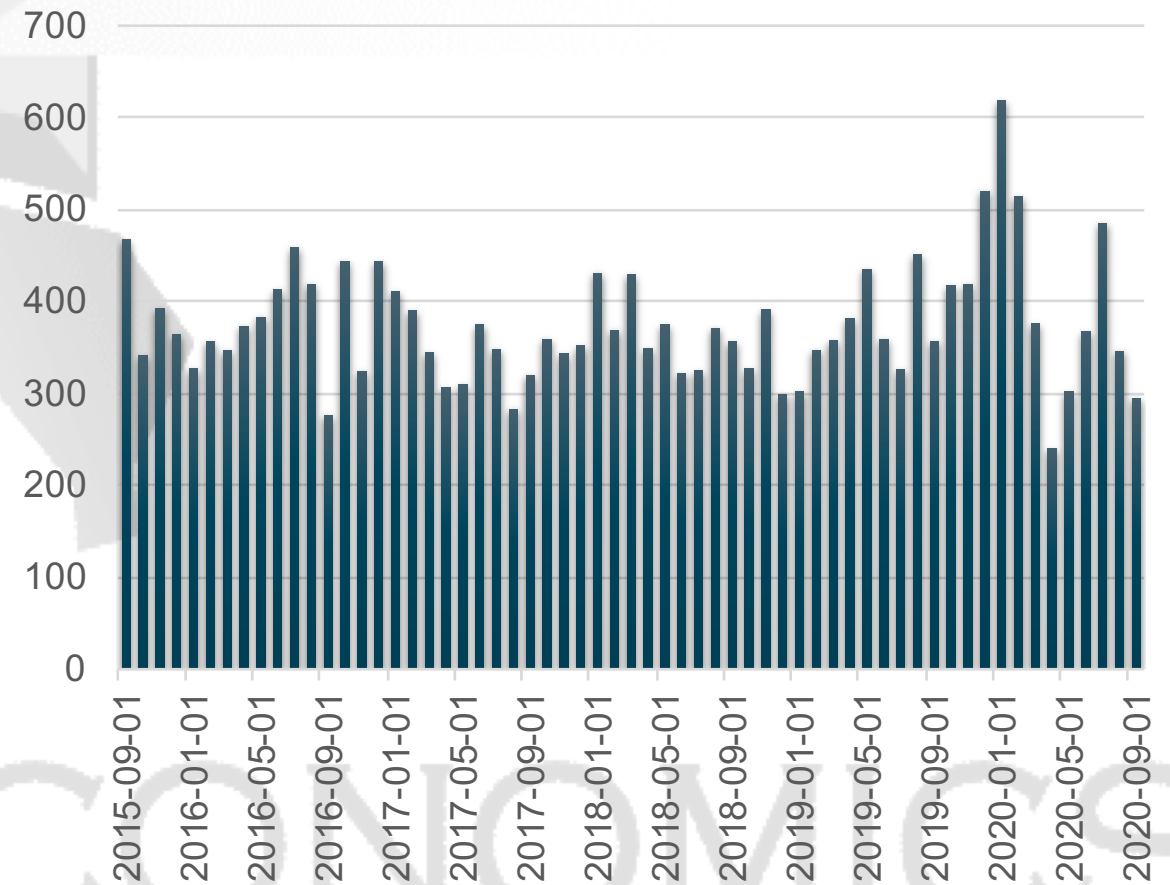

U.S. Home Sales
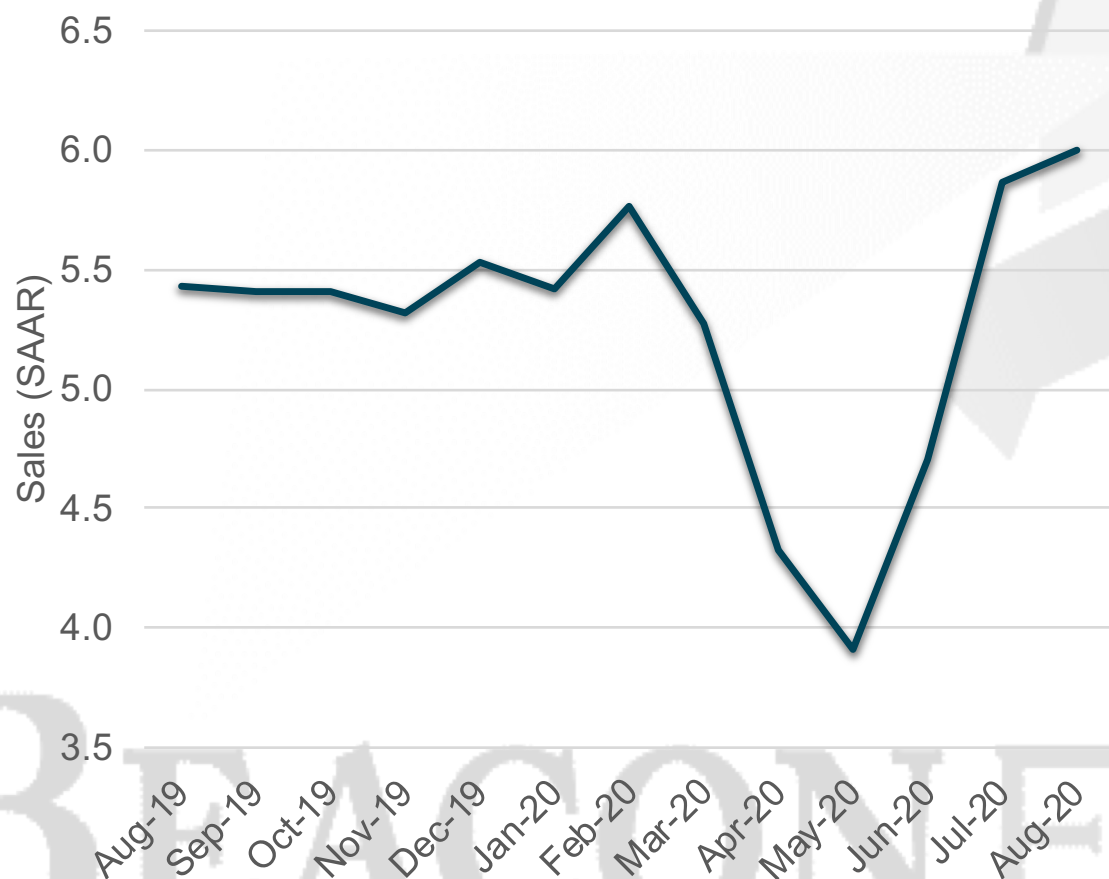
S&P/Case-Shiller National Index

Legend: Index — Year-Over-Year Change

Beacon Economics
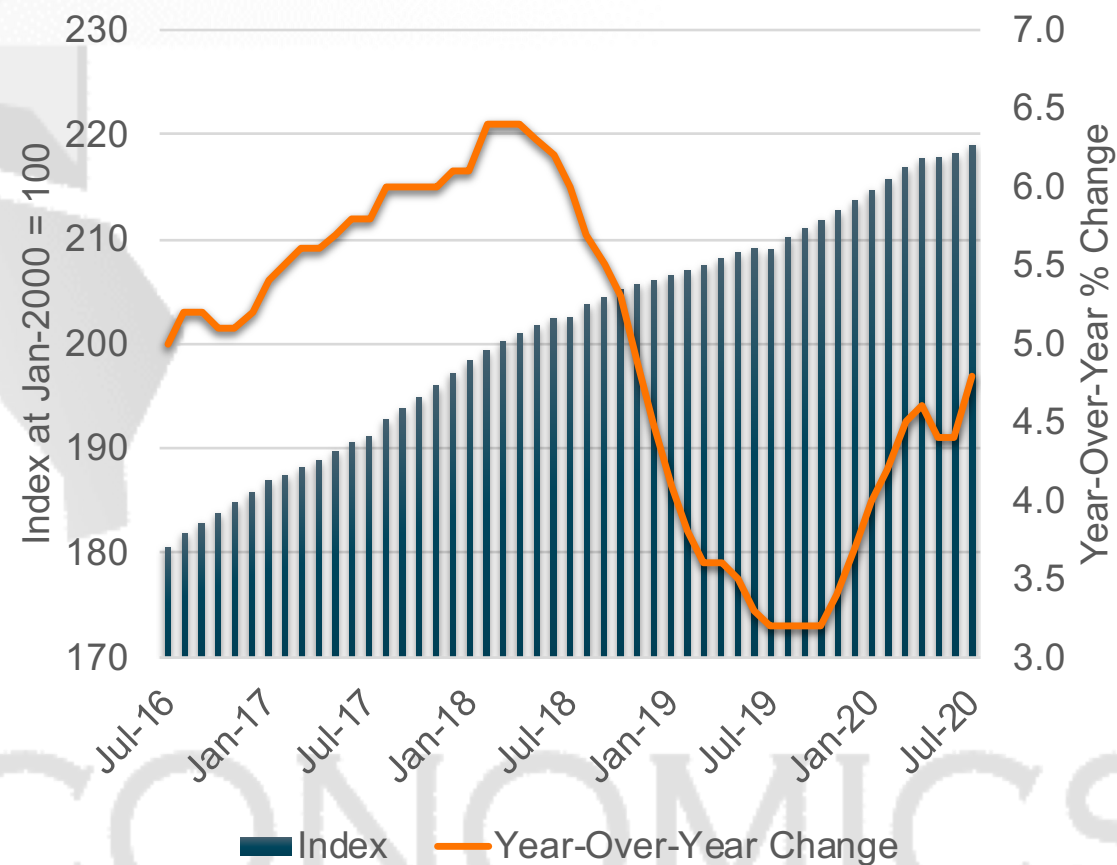
Housing Starts

SF Housing Starts SAAR
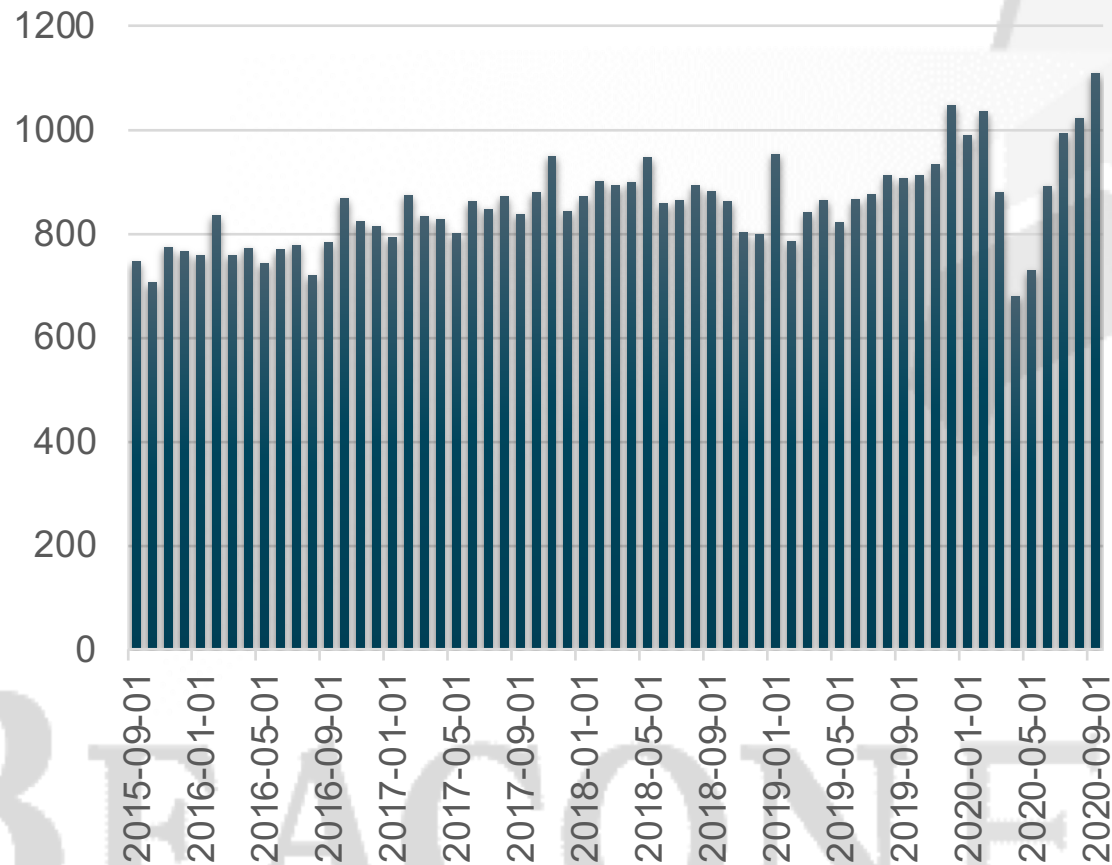
MF Housing Starts

Residential Permits

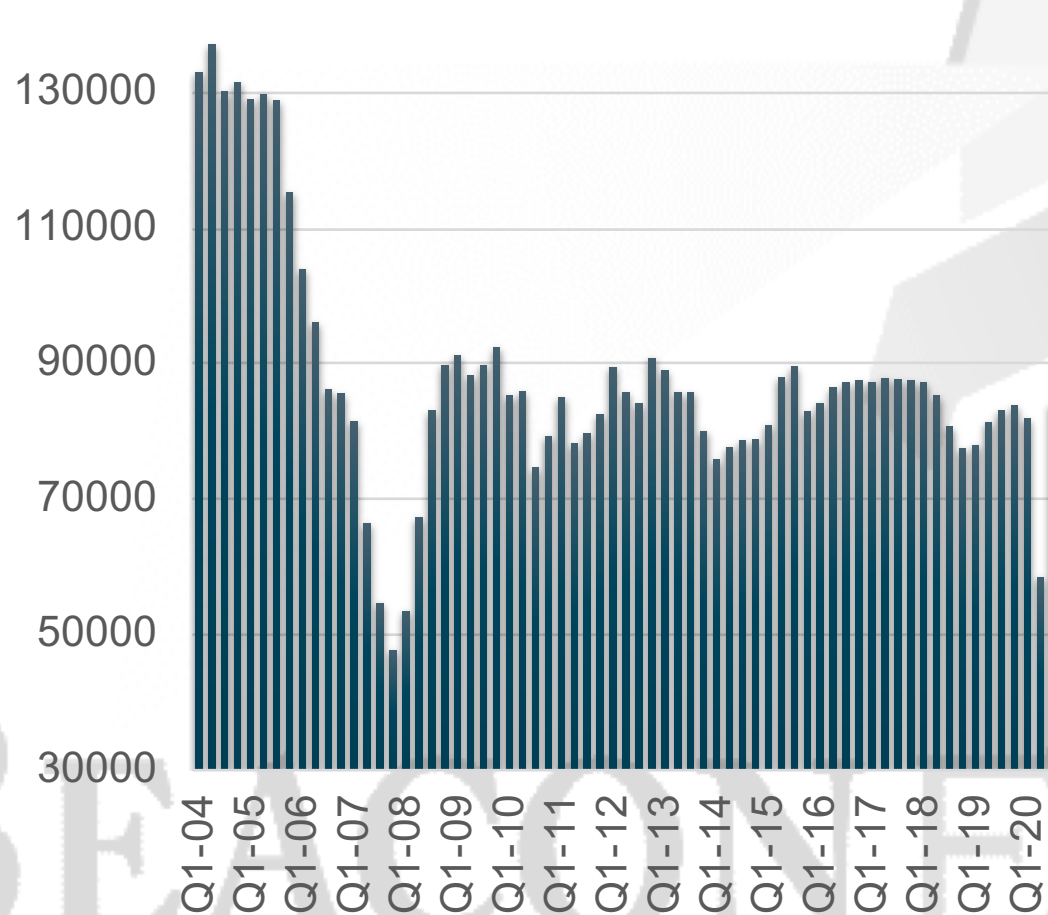| Region	Single-family		Multifamily	
	Aug-20	1-Yr Change	Aug-20	1-Yr Change
California	5,599	622	2,591	-1,275
Oregon	984	23	713	-245
Washington	2,142	-47	1,395	-549

US Housing Permits SAAR
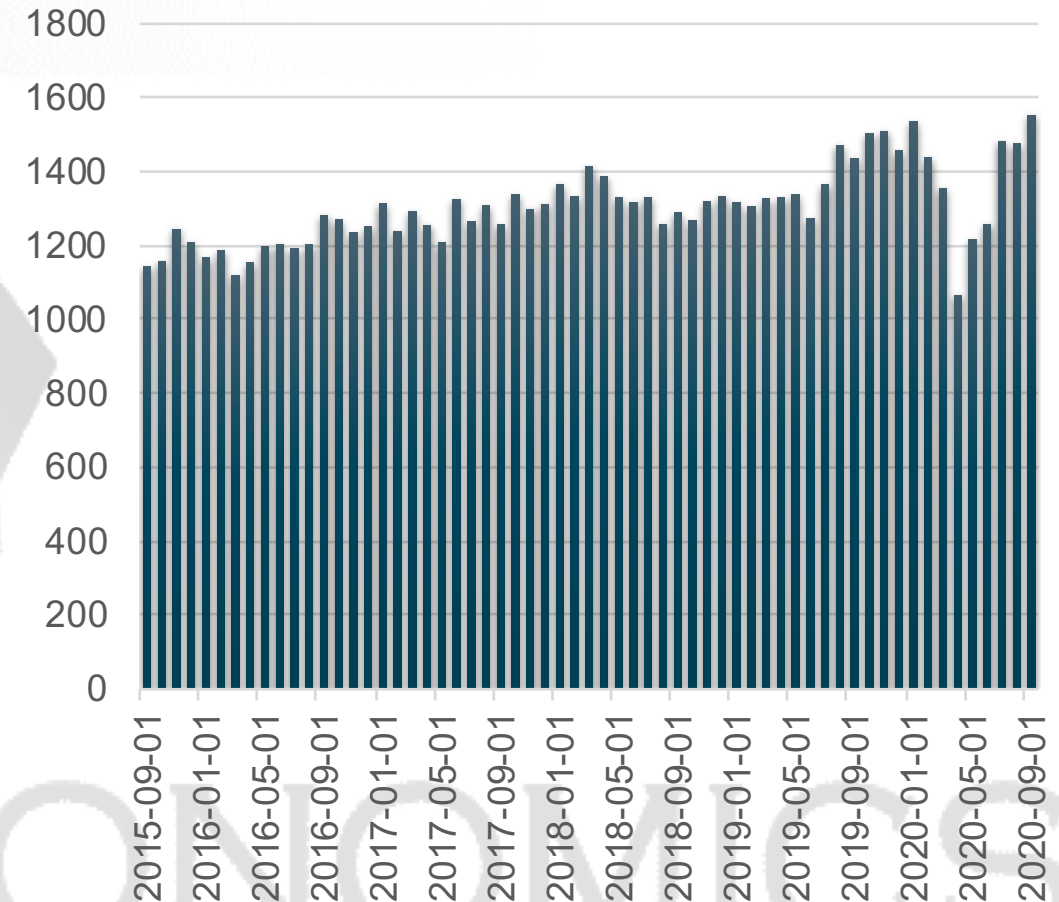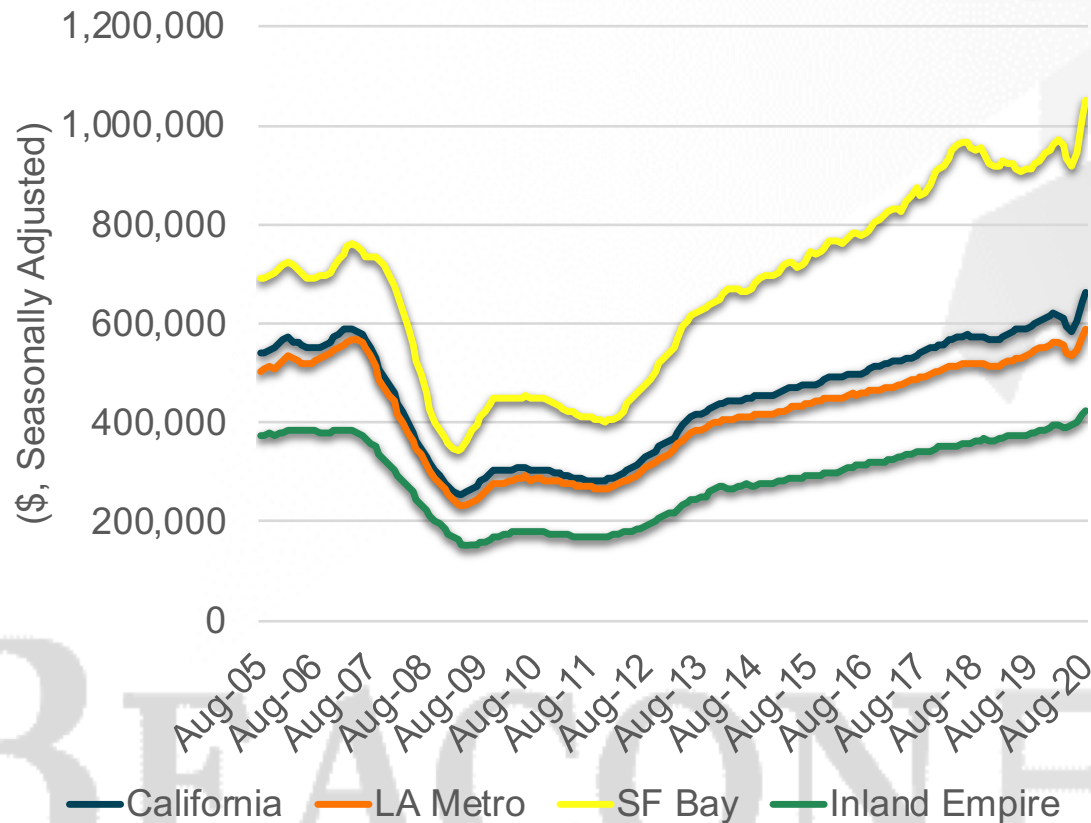
State Sales

Home Sales

Months Supply of Inventory

California Real Estate

Median Prices of Existing Single Family Homes

Region	Median SF Home Prices		Home Sales 1-Yr % Change
	Aug-20	1-Yr % Change	
California	$706,900	14.5	14.6
SF Bay Area	$1,068,000	18.7	10.8
Inland Empire	$435,000	14.5	9.0
Los Angeles Metro	$615,000	12.8	4.4

Multi-Family?

San Francisco	Q1-20	Q2-20		Orange County	Q1-20	Q2-20	
A	4002	3853	-3.7%	A	2319	2299	-0.9%
A	4.6	4.8	0.2	A	4.6	4.6	0
BC	2453	2385	-2.8%	BC	1773	1765	-0.5%
BC	3.9	3.8	-0.1	BC	2.8	2.8	0
San Diego	Q1-20	Q2-20		Los Angeles	Q1-20	Q2-20	
A	2304	2299	-0.2%	A	2733	2705	-1.0%
A	5.5	5.6	0.1	A	6.3	6.4	0.1
BC	1569	1562	-0.4%	BC	1730	1713	-1.0%
BC	2.4	2.4	0	BC	2.6	2.7	0.1
Phoenix	Q1-20	Q2-20		Inland Empire	Q1-20	Q2-20	
A	1369	1361	-0.6%	A	1650	1667	1.0%
A	5.2	5.1	-0.1	A	4.8	5.3	0.5
BC	894	892	-0.2%	BC	1272	1279	0.6%
BC	3.8	3.8	0	BC	2.5	2.5	0

Credit issues?

Bank DQ Rates to Q2

— Residential   — Commercial   — Consumer   — C&I
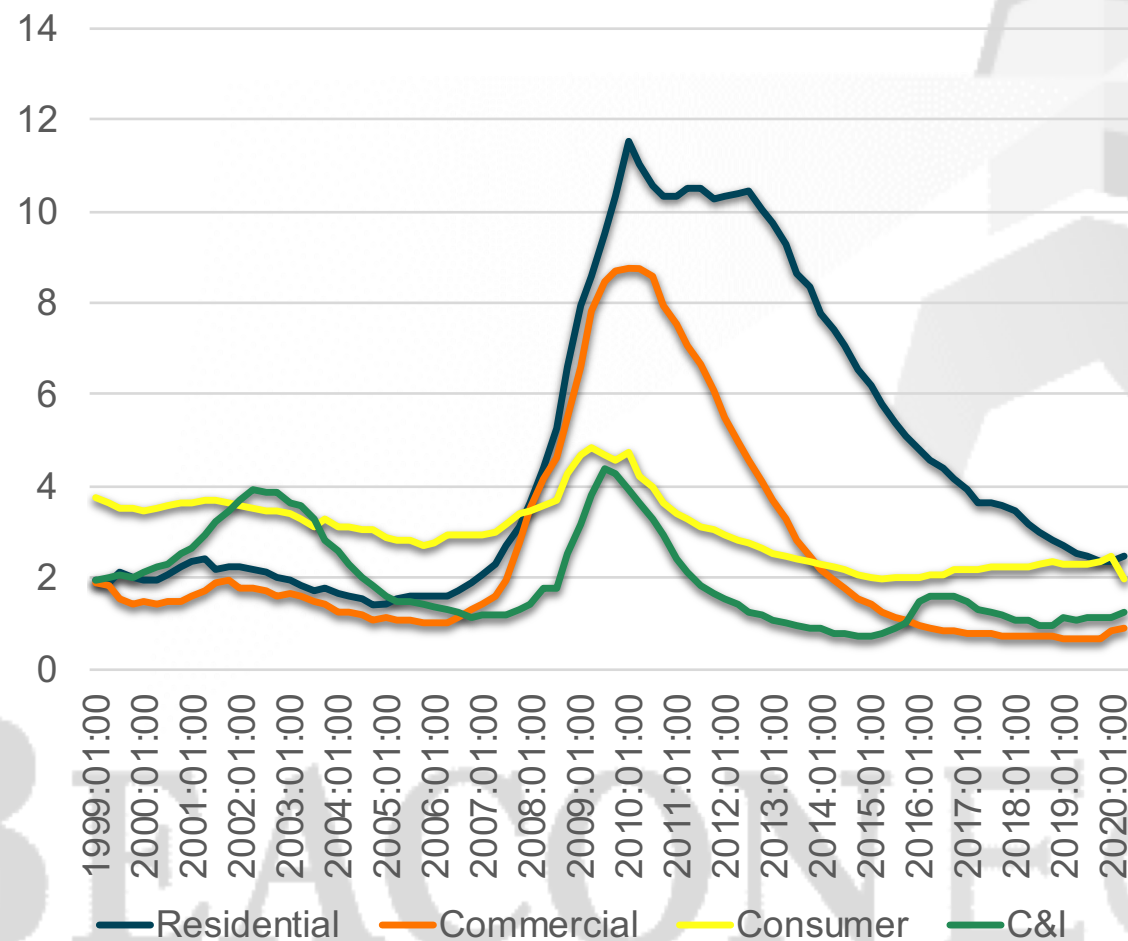
Financial Volatility

CRE Lending – U.S.

Banks Tightening Standards for CRE Loans
Net Percent of Banks

- Nonfarm Nonresidential: Q2 @ 77.5%
- Multifamily Residential: Q2 @ 64.3%
- Construction & Land Development: Q2 @ 80.9%

CRE Lending
All Commercial Banks, Year-over-Year Percent Change

- Construction & Land Development: Q2 @ 6.7%
- Income Producing: Q1 @ 8.2%
- Multifamily Residential Real Estate: Q2 @ 10.3%
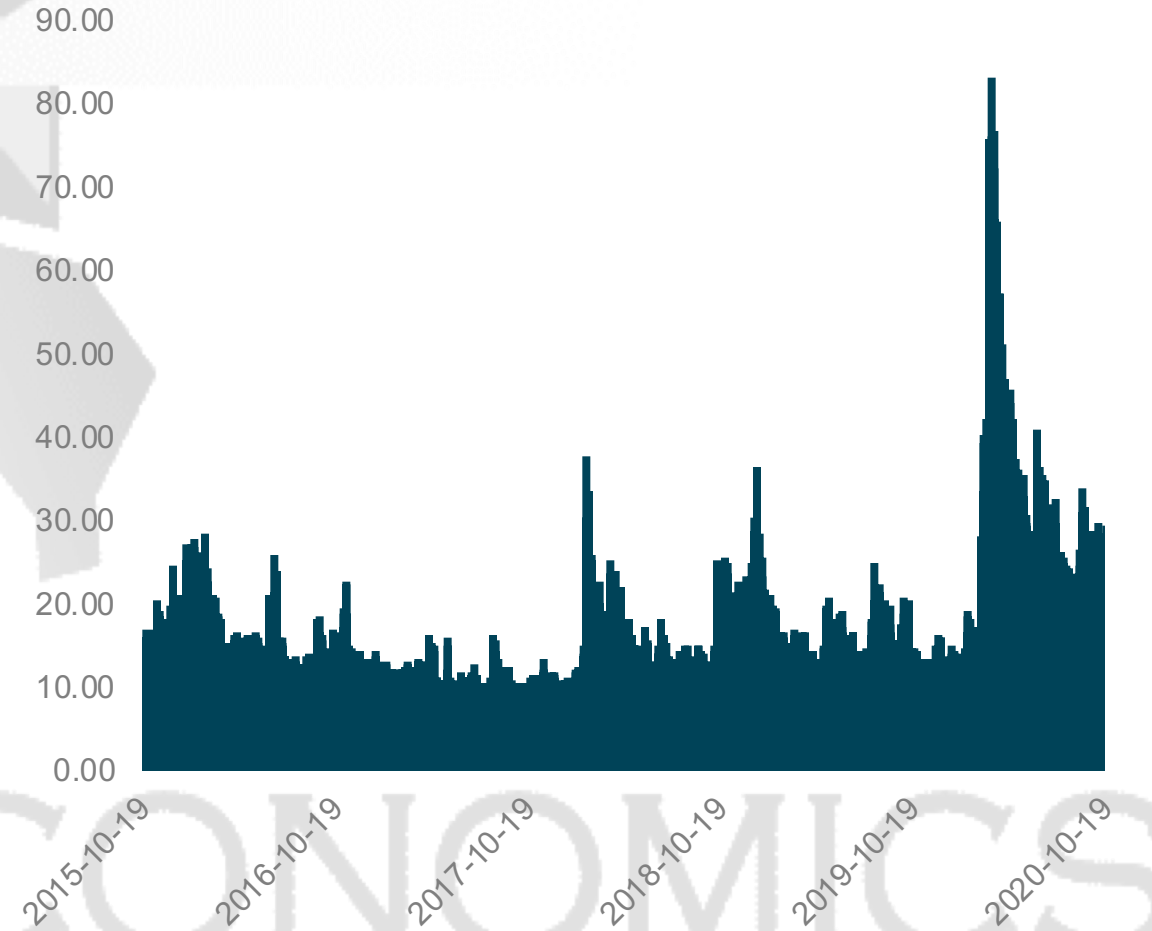
Beacon Economics
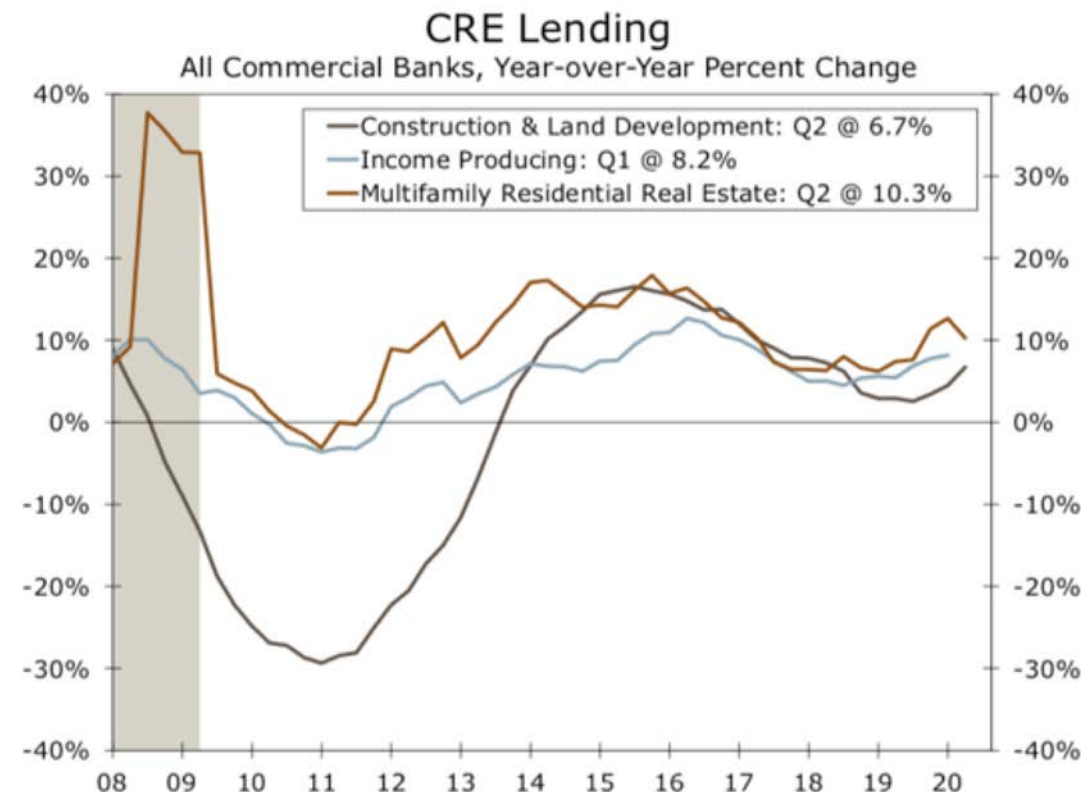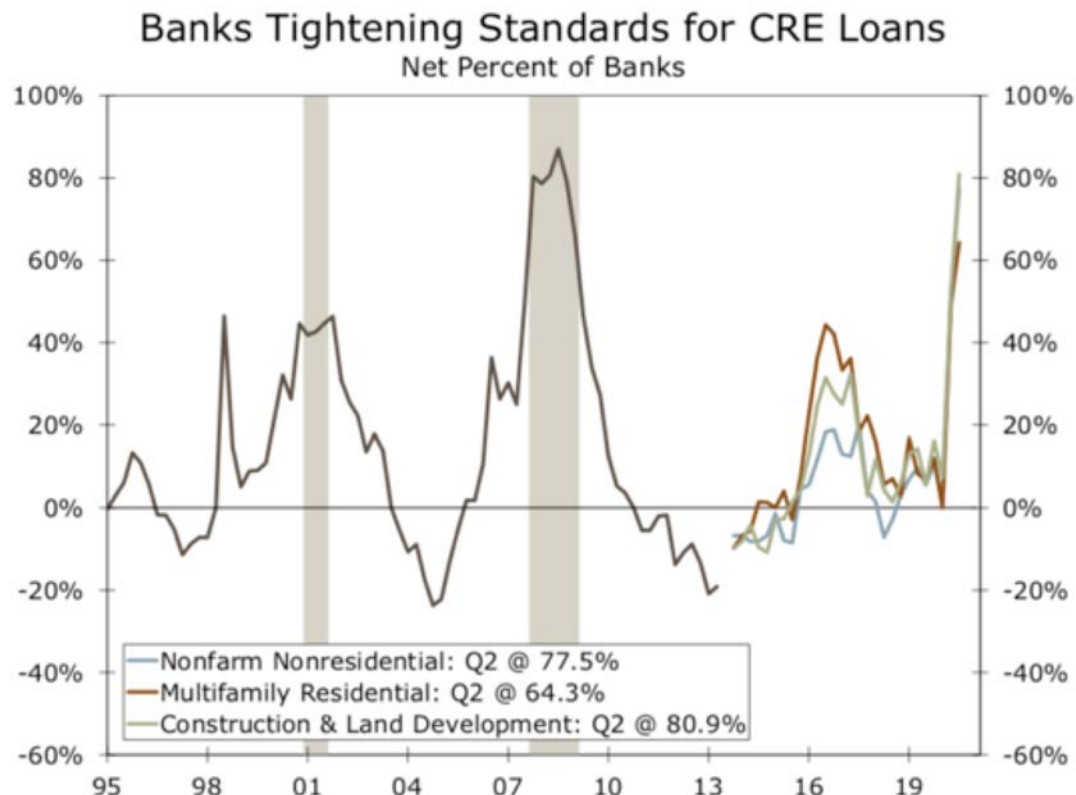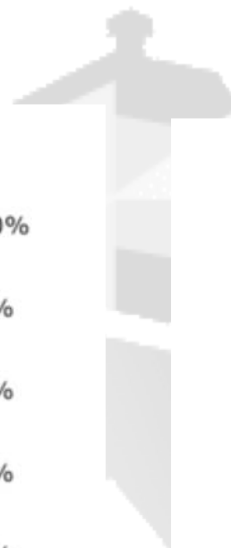
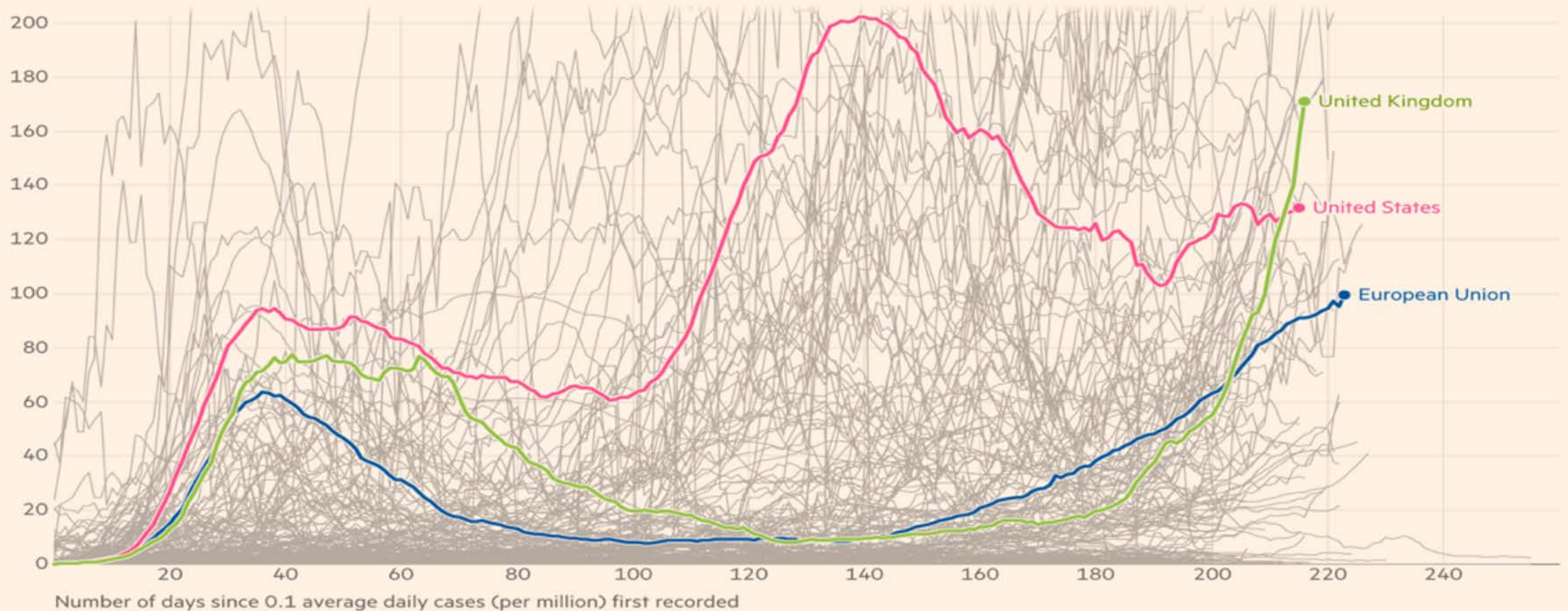# Trade Flows

Imports and Exports
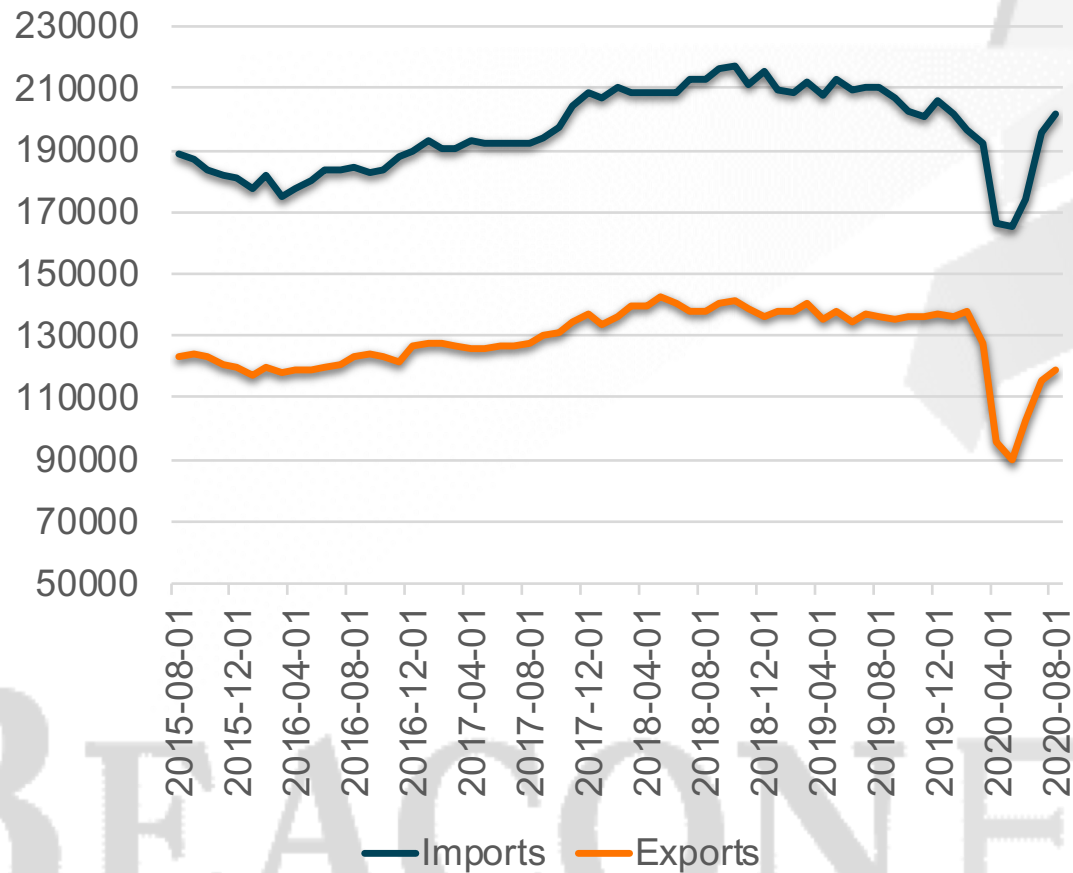
Real Value Dollar

The Second Surge Impact…

New confirmed cases of Covid-19 in European Union, United States and United Kingdom

Seven-day rolling average of new cases (per million), by number of days since 0.1 average daily cases (per million) first recorded
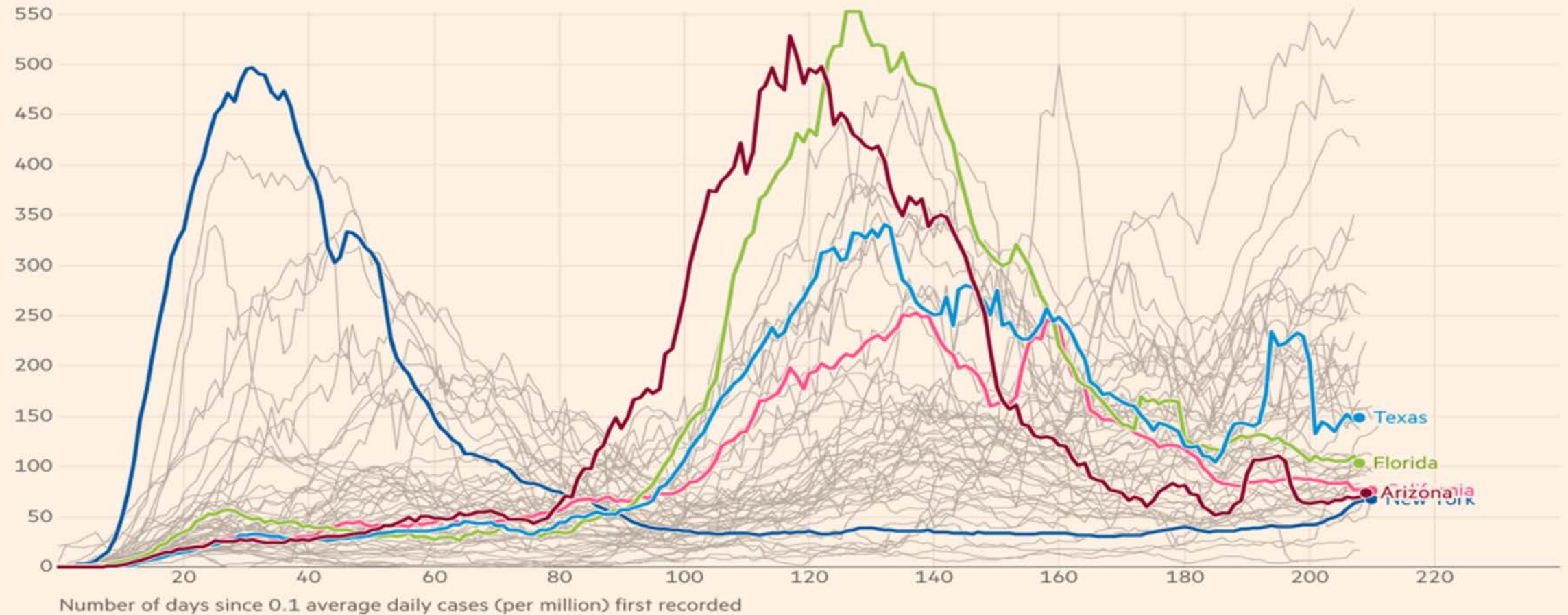
Number of days since 0.1 average daily cases (per million) first recorded

The State Situation

New confirmed cases of Covid-19 in New York, California, Florida, Texas and Arizona

Seven-day rolling average of new cases (per million), by number of days since 0.1 average daily cases (per million) first recorded
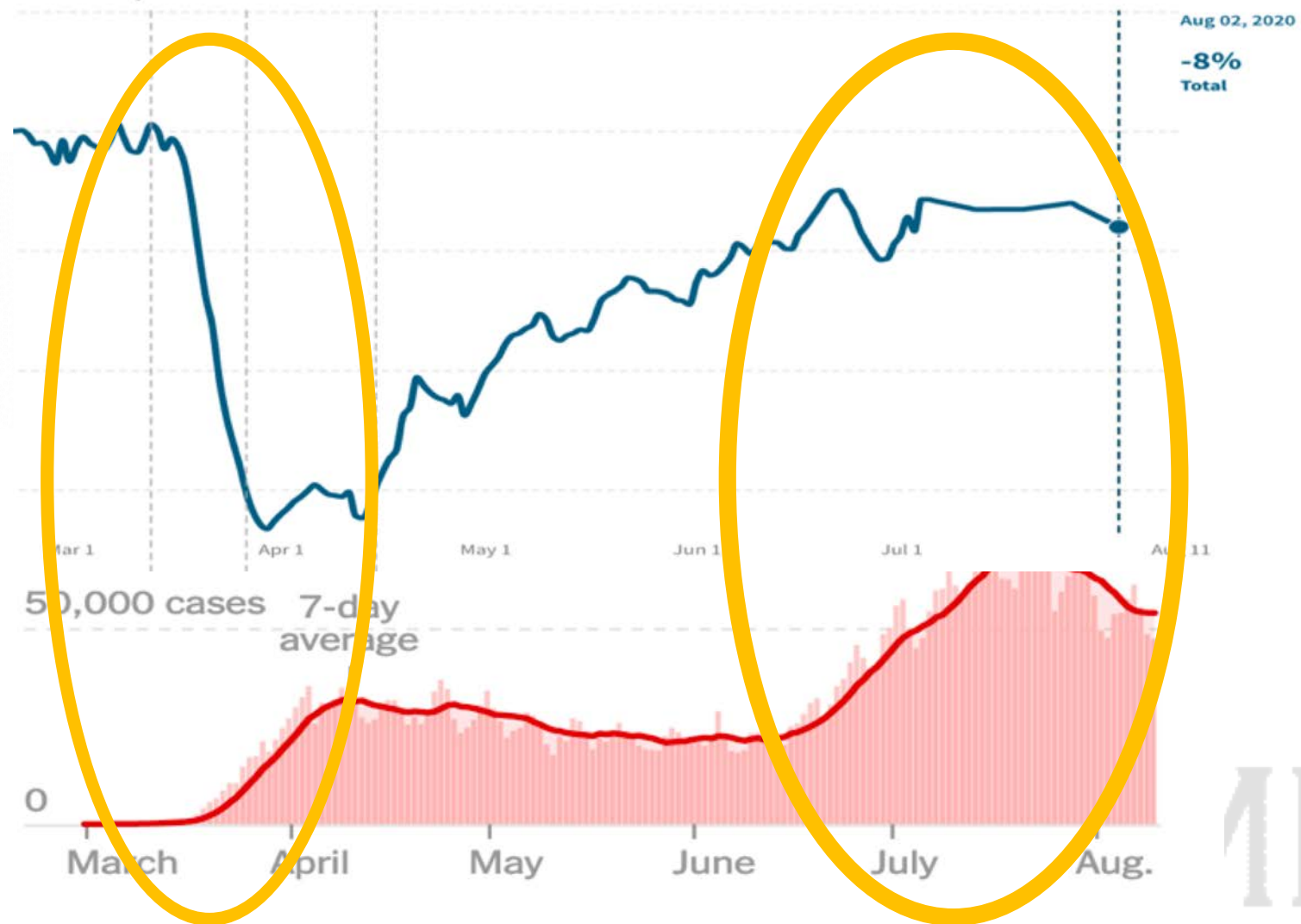
Number of days since 0.1 average daily cases (per million) first recorded

No New Recession

Consumer Spending (Opportunity Insights)

New Cases (New York Times)

Aug 02, 2020
-8%
Total

50,000 cases   7-day average

0

Mar 1   Apr 1   May 1   Jun 1   Jul 1   Aug 11

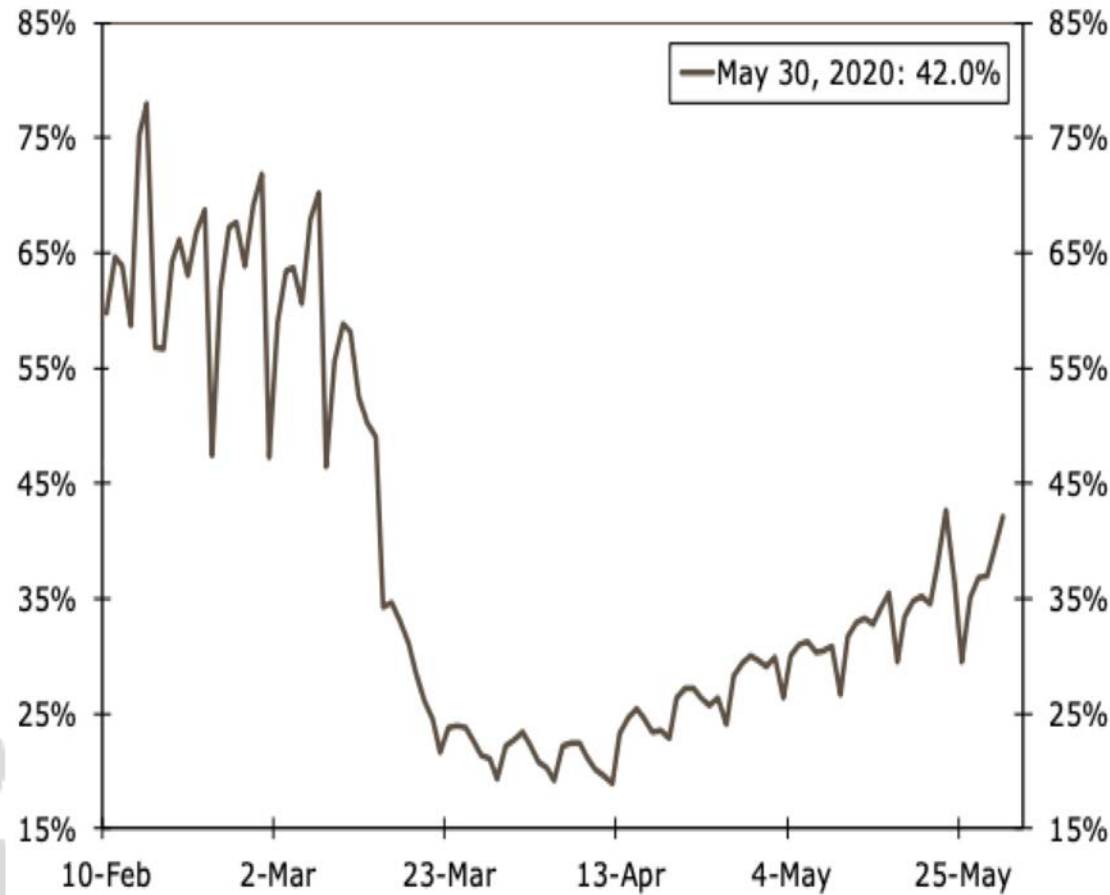March   April   May   June   July   Aug.

Impacted sectors

In **the United States**, as of September 19 2020, restaurant and hotel spending by all consumers decreased by **27.7%** compared to January 2020.
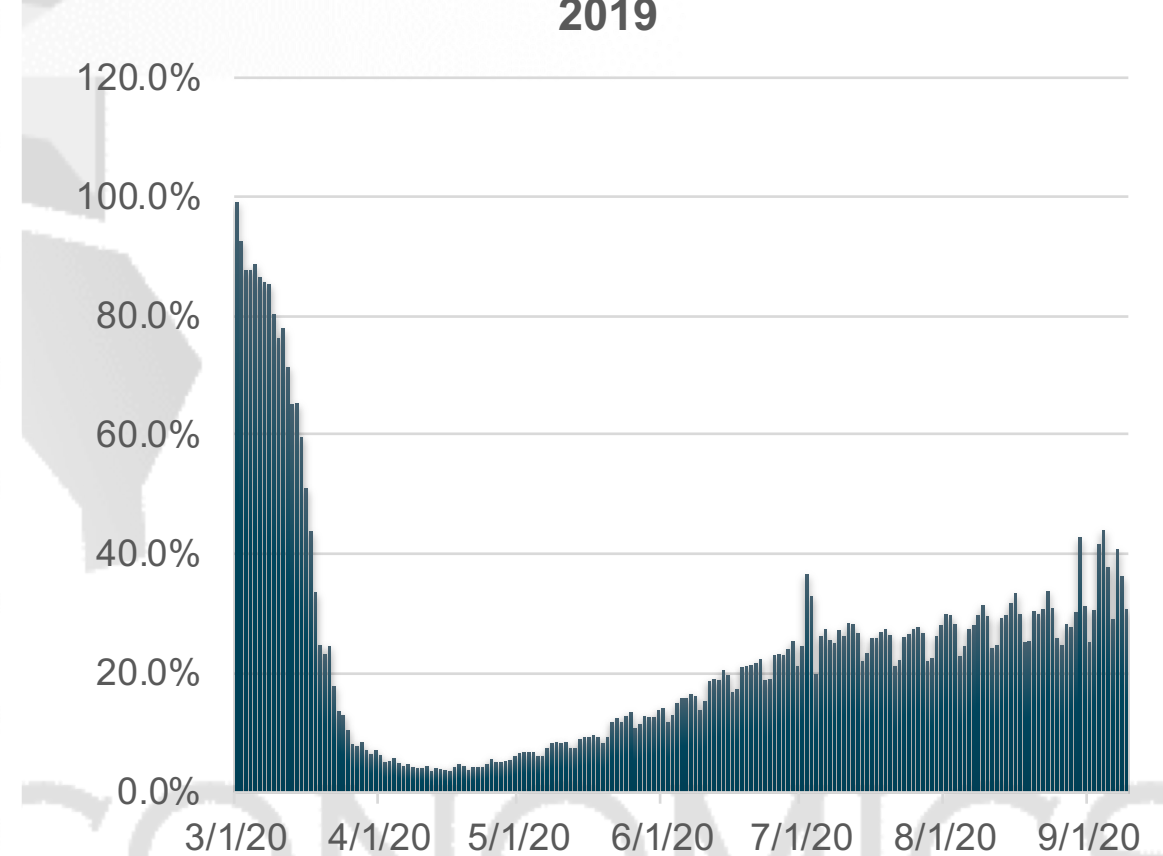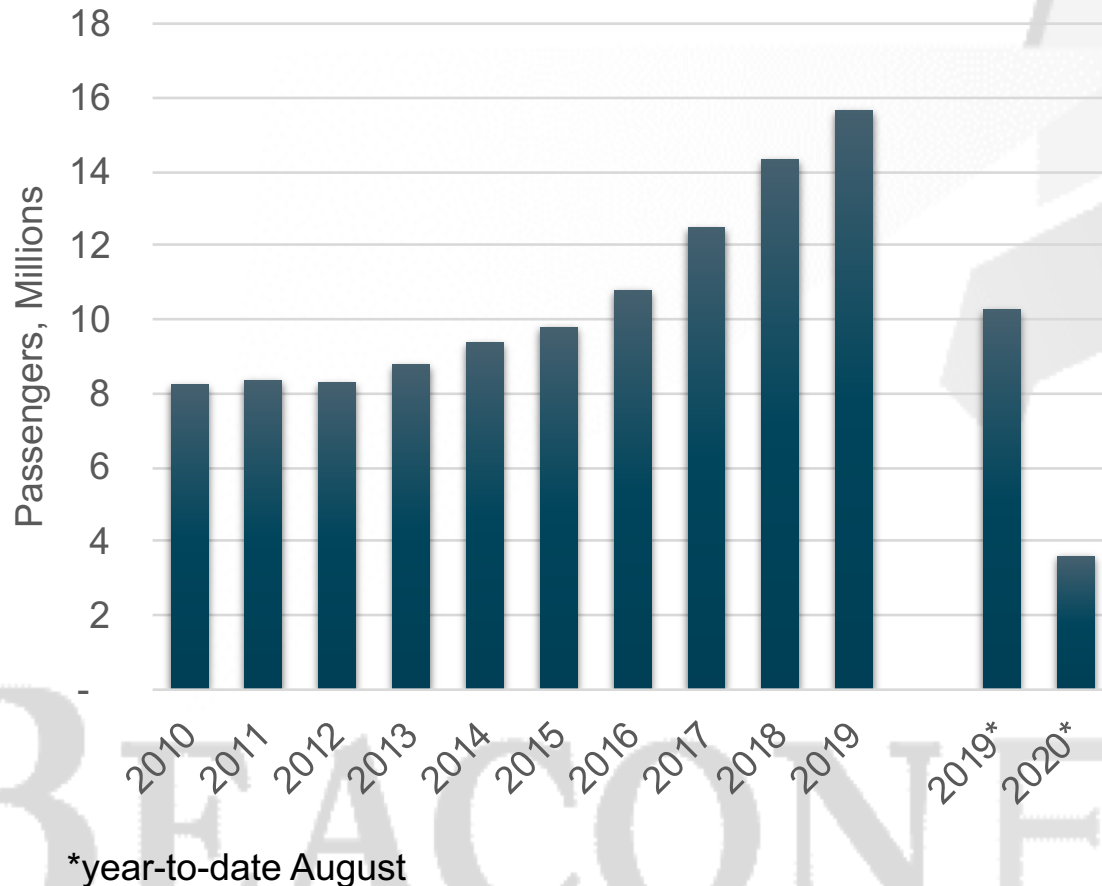
Sep 19, 2020

-12.2%
Health Care

-27.7%
Restaurants & Hotels

-47.3%
Transportation

Travel Trends

Daily Hotel Occupancy

TSA Pass-Throughs Same Day 2020 / 2019

Tourism

San Jose Airport Passengers

*year-to-date August
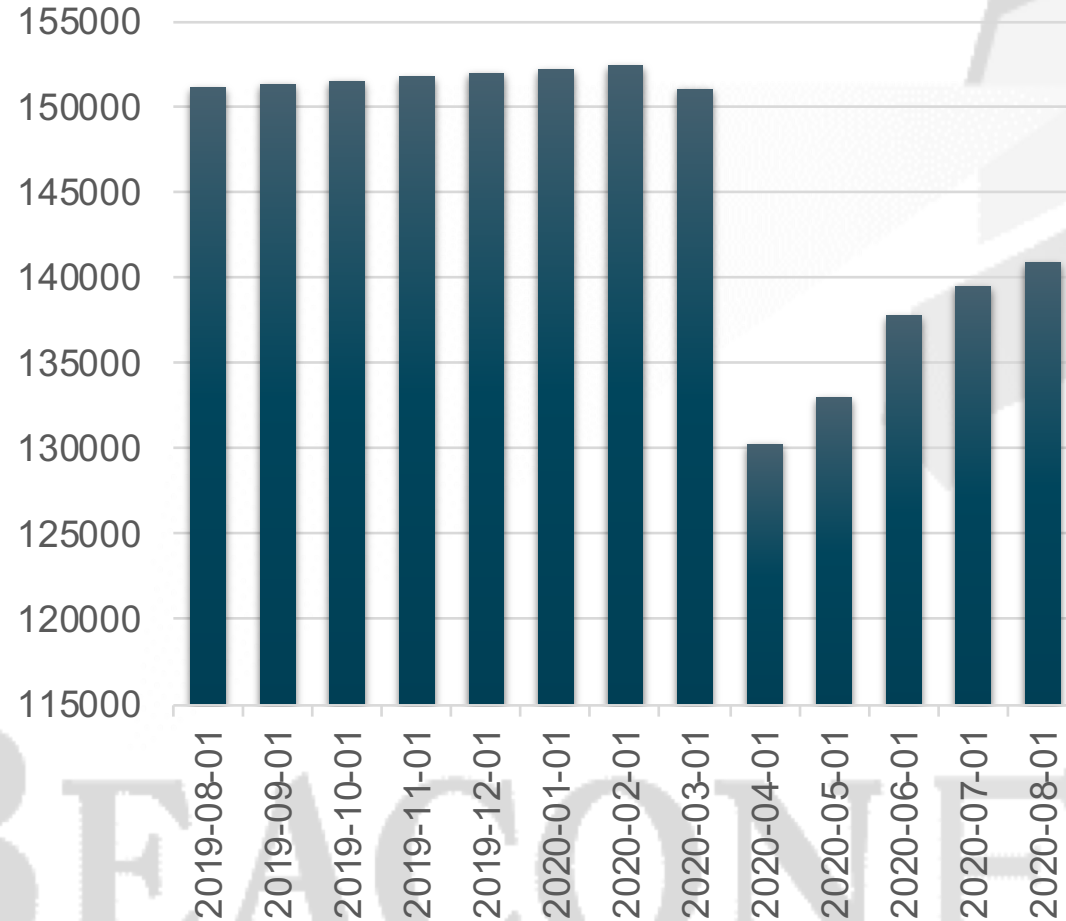
Region	Occupancy Rate		ADR	
	YTD Aug-20	1-Yr Chg	YTD Aug-20	1-Yr % Chg
California	49.6	-26.8	130.1	-21.7
Bay Area	44.7	-33.8	166.3	-24.4
LA County	50.3	-30.6	144.8	-20.9
San Diego	50.3	-28.9	134.5	-22.5
North Coast	54.9	-13.6	106.9	-7.5

Lagging indicators

US Payroll Jobs

California Payrolls	Feb-20	Aug-20	Feb to May	May to Aug	Feb to Aug
Civilian Labor Force	19,516	18,709	(933)	126	-4.1%
Civilian Employment	18,757	16,574	(3,217)	1,035	-11.6%
Total Nonfarm	17,605	15,874	(2,616)	886	-9.8%
Construction	897	839	(150)	92	-6.4%
Durable Goods	852	797	(74)	19	-6.4%
Nondurable Goods	464	422	(60)	19	-9.0%
Wholesale Trade	691	657	(66)	32	-4.9%
Retail Trade	1,655	1,509	(279)	133	-8.8%
Logistics	718	682	(59)	23	-5.0%
Information	588	511	(79)	2	-13.1%
Finance & Insurance	545	547	(2)	3	0.3%
Real Estate & Rental	306	290	(23)	7	-5.4%
Professional, Scientific	1,352	1,297	(84)	30	-4.0%
Management	253	240	(13)	1	-5.1%
Administrative	1,138	1,036	(162)	59	-9.0%
Educational	393	358	(42)	7	-9.0%
Health Care	2,461	2,327	(286)	152	-5.4%
Recreation	332	174	(157)	(1)	-47.5%
Accommodation & Food	1,724	1,224	(826)	327	-29.0%
Other Services	581	450	(173)	42	-22.5%
Government	2,632	2,492	(80)	(60)	-5.3%

Unemployment by Reason

Chart legend (left): Job Loser, Entrents, Temp Layoff

Chart legend (right): Temp Layoff, Unemployed
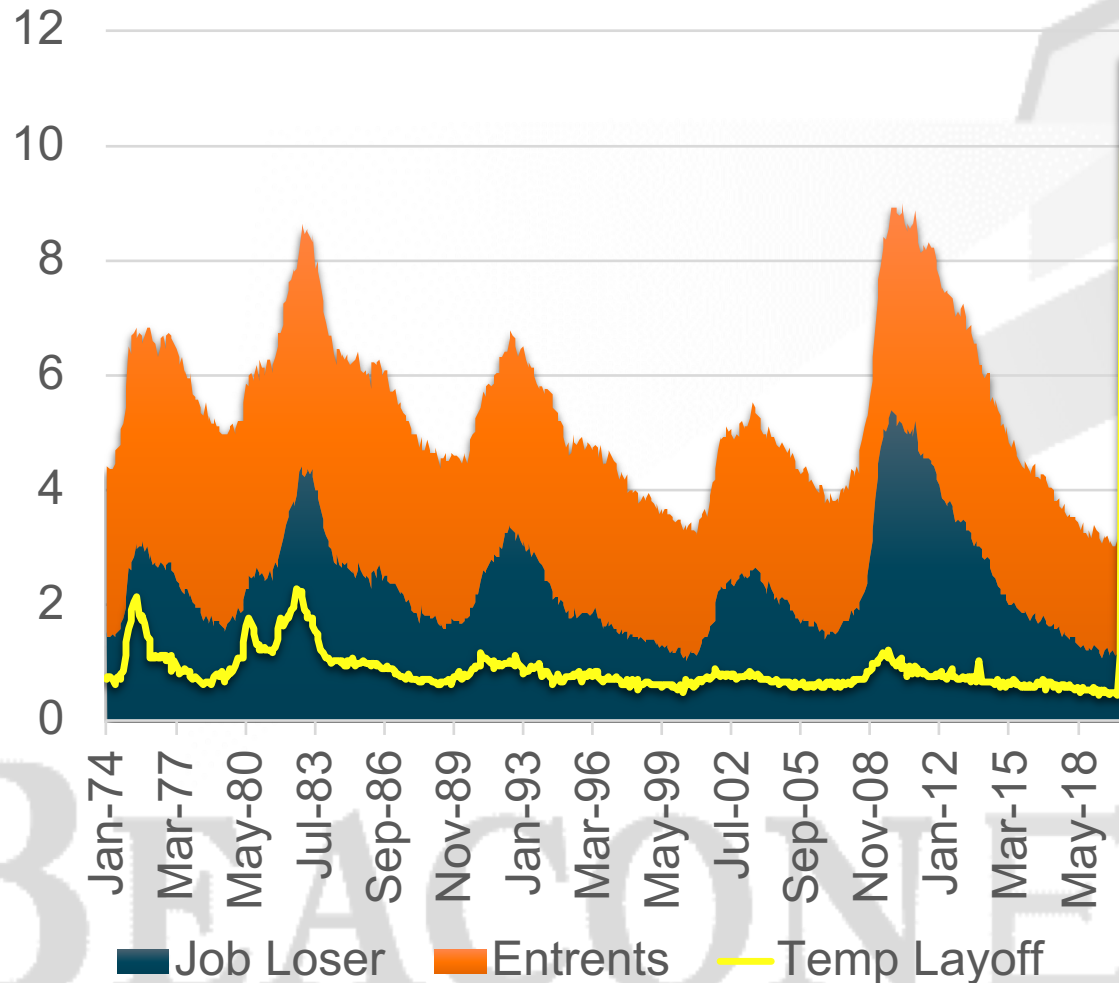
Chart title (right): Unemployment
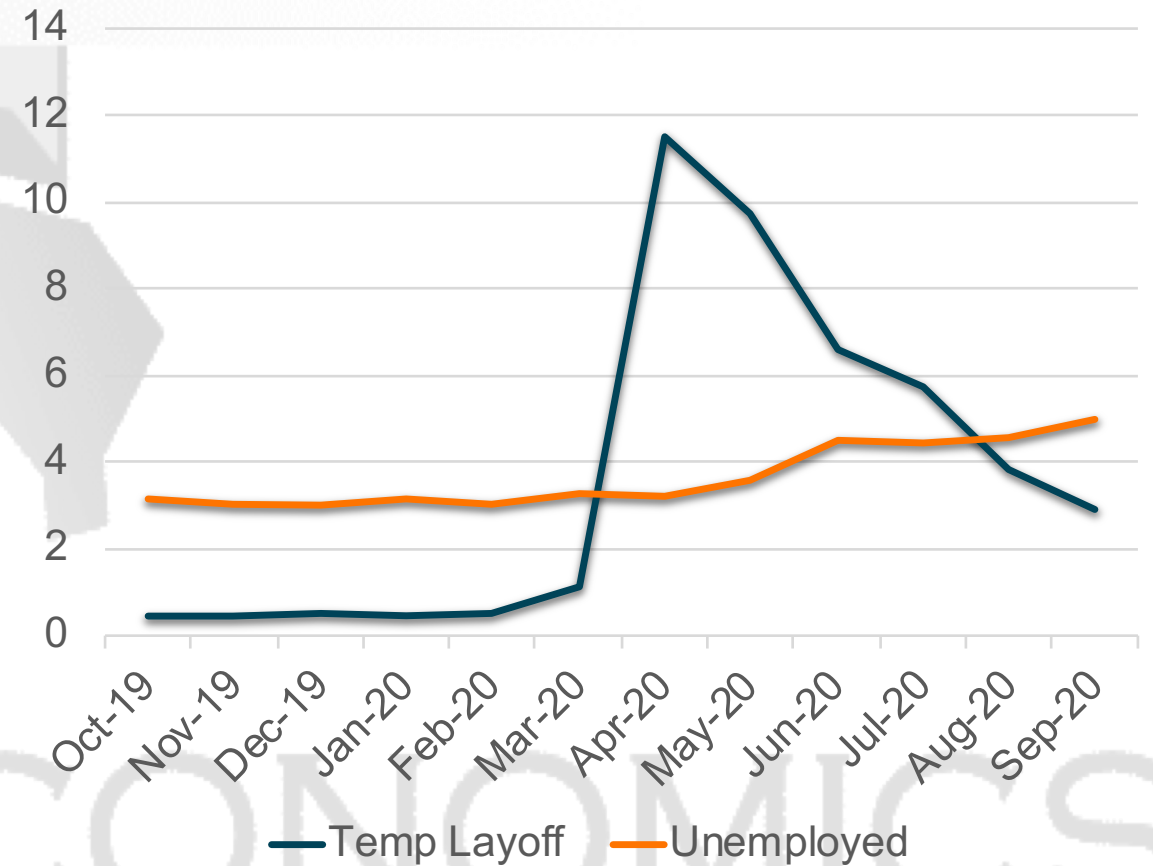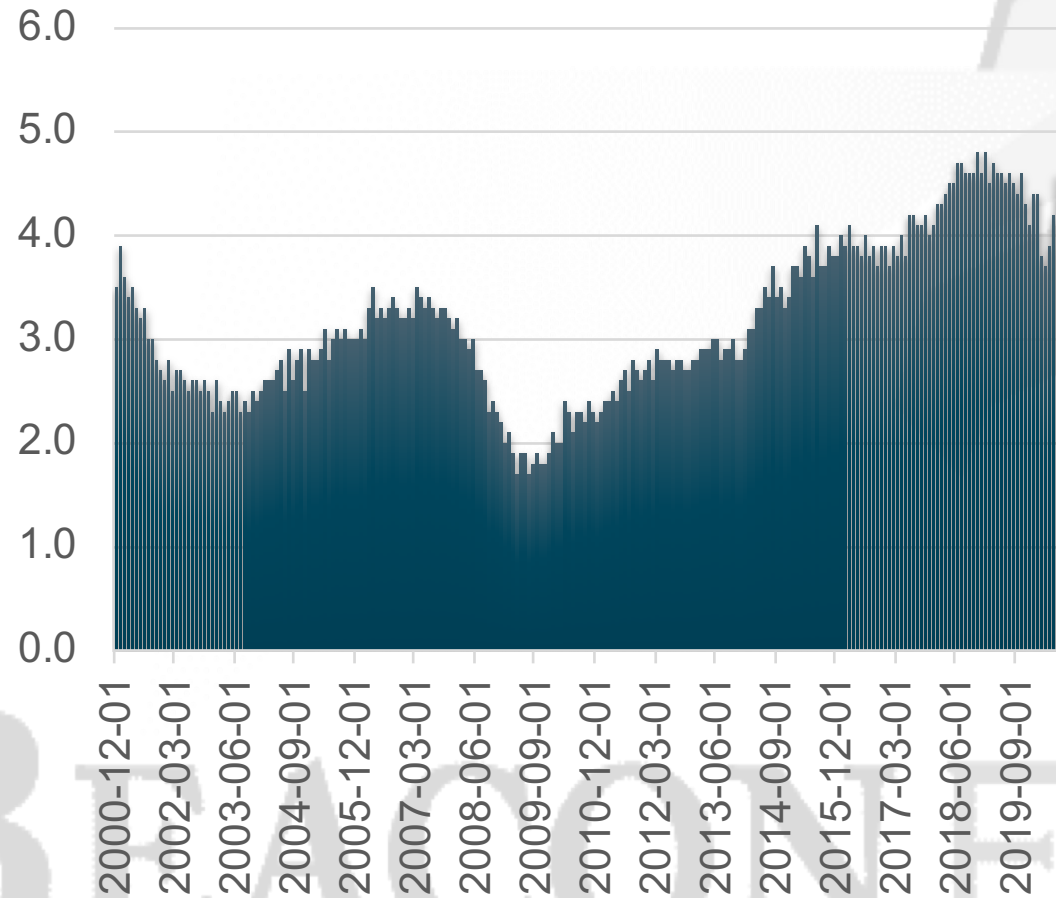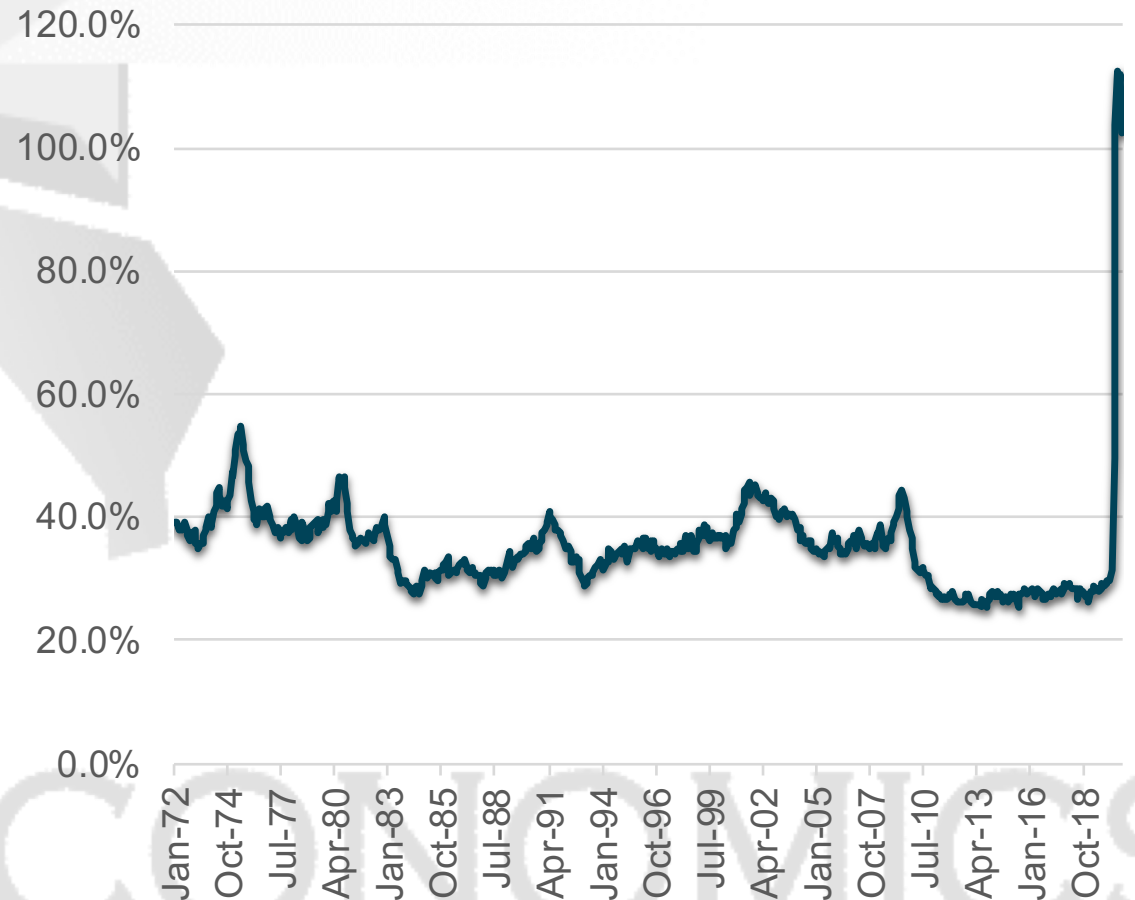
More Context

Jobs Opening Rate

Ratio of Continued Claims to Unemployed

K-Shaped Recovery?

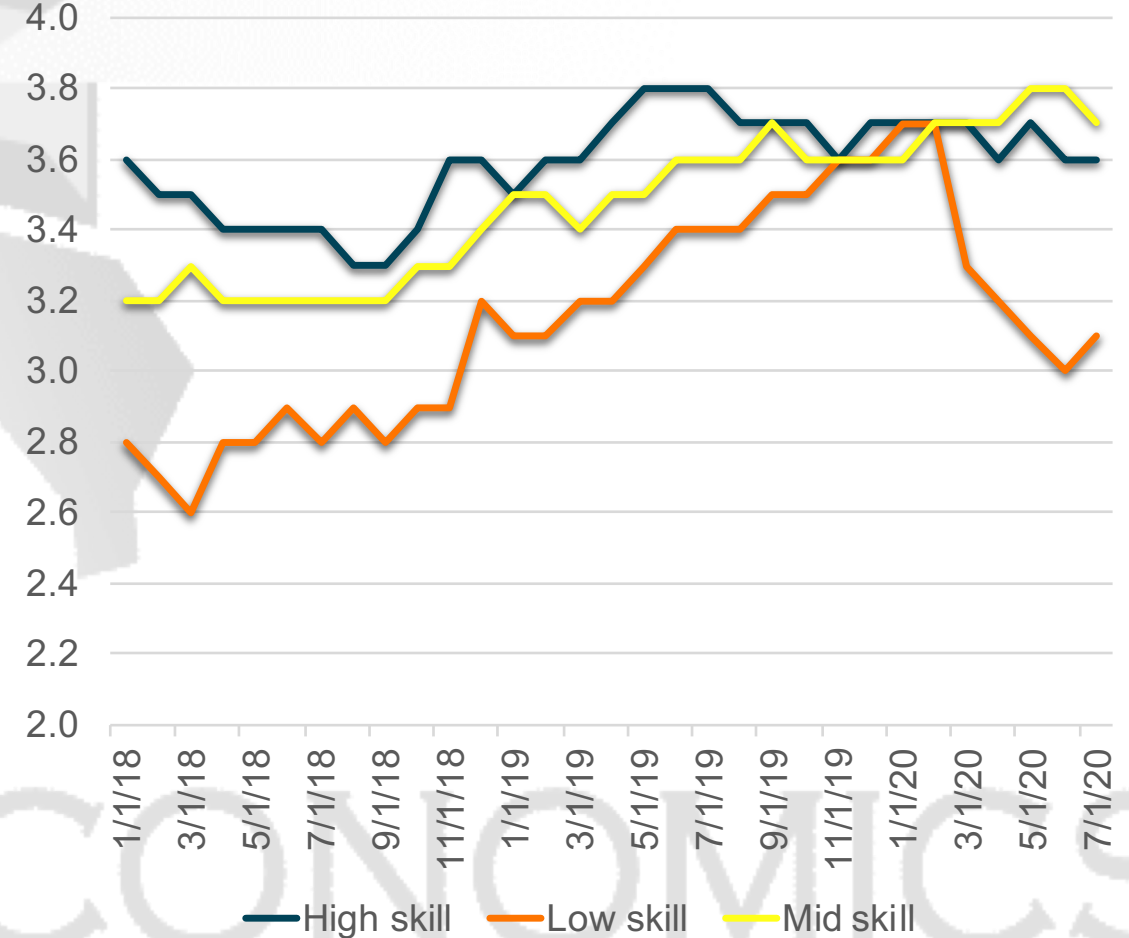

Unemployment by Education

Legend: < HS, B+
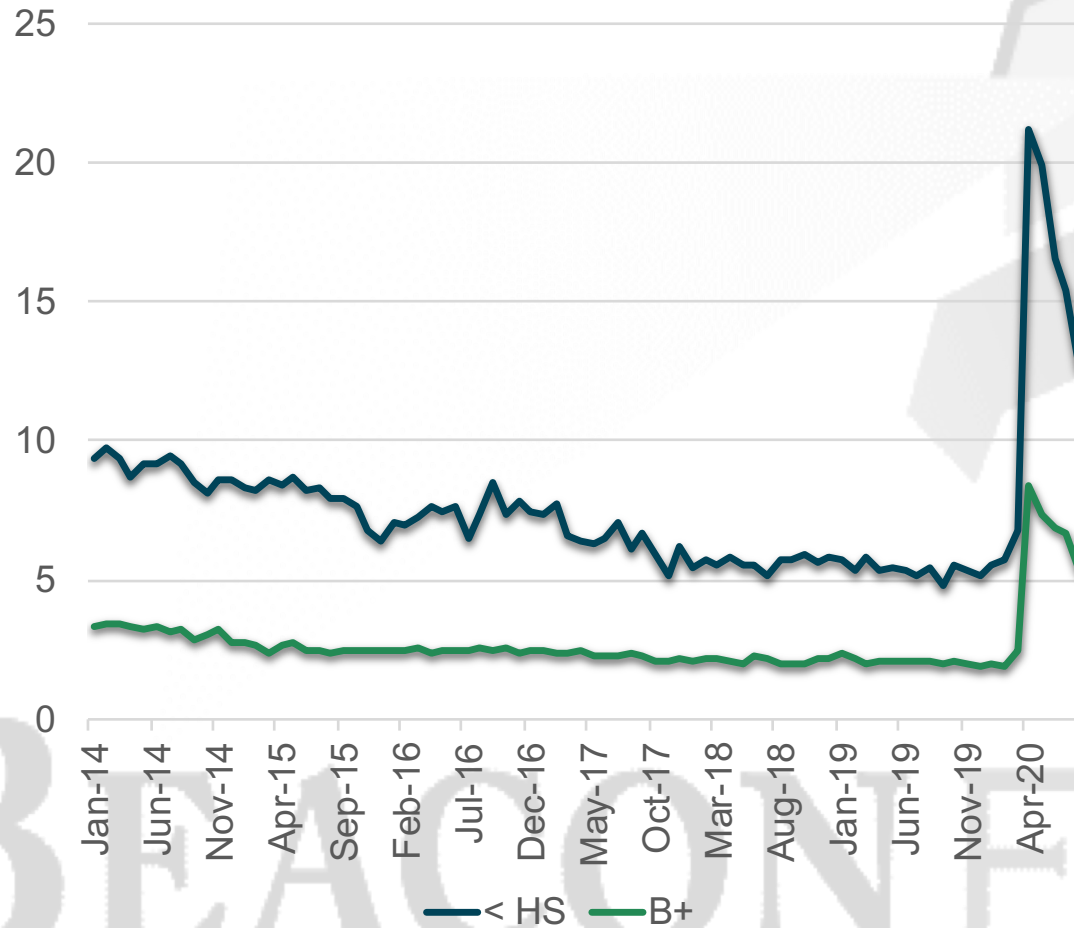
Wage Growth by Occupation

Legend: High skill, Low skill, Mid skill

A broader situation…

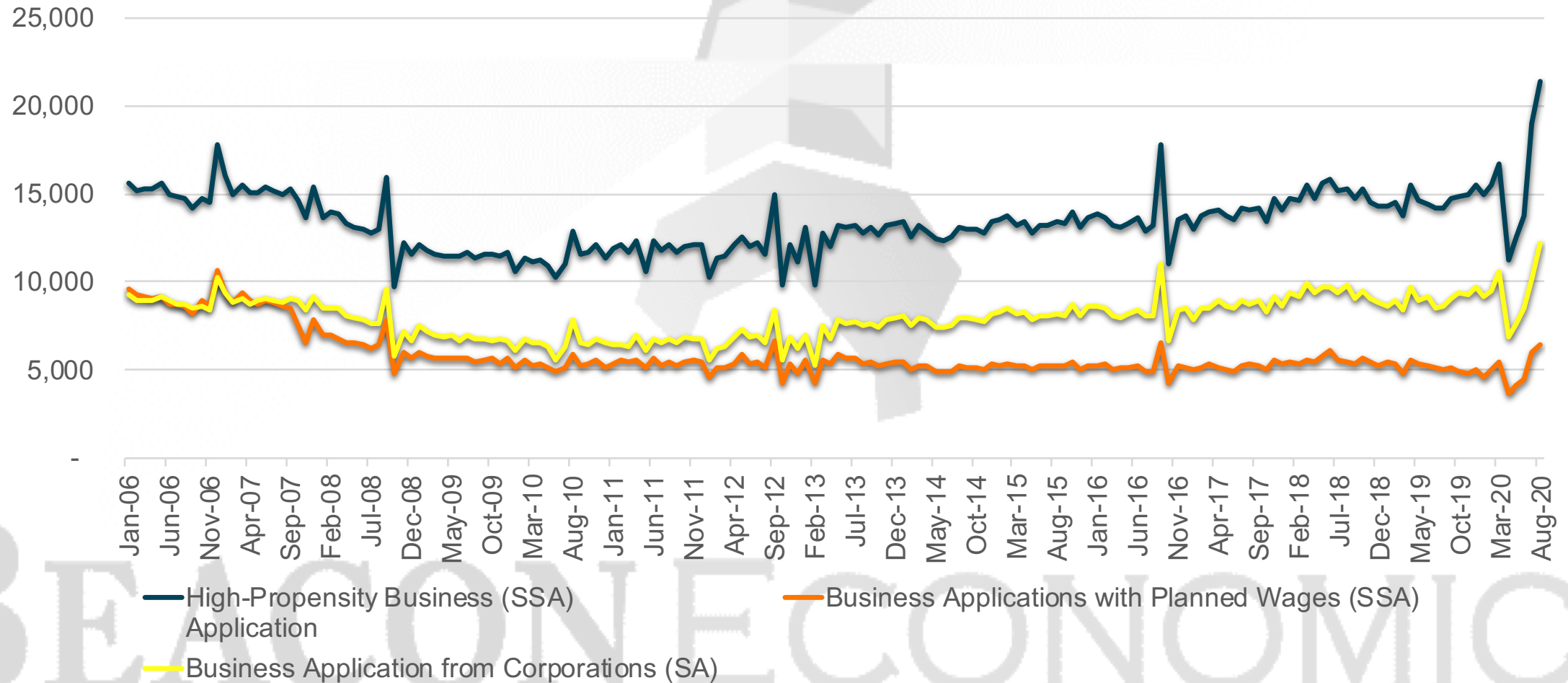In **the United States**, as of September 24 2020, total job postings decreased by **19.9%** compared to January 2020.

DOWNLOAD CHART

Week ending Sep 24, 2020
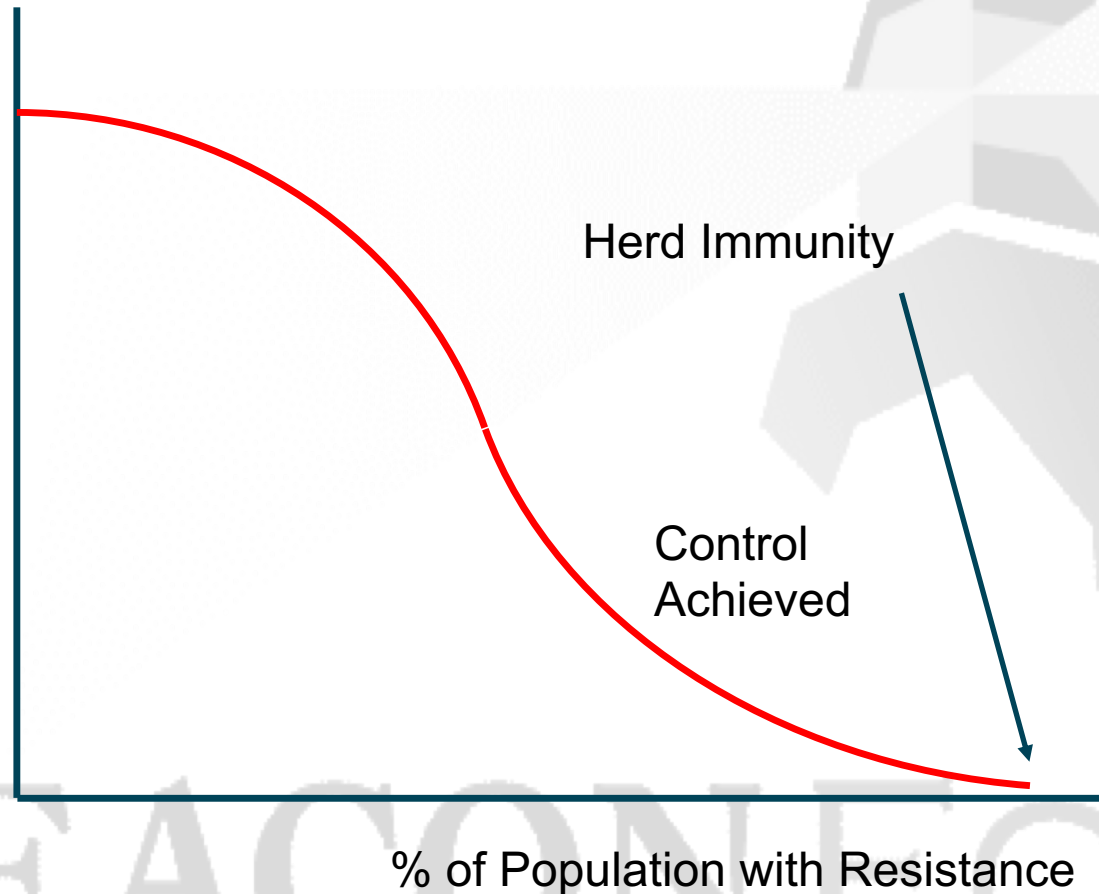
-3% Some

-19.9% All Job Postings

-35.8% Considerable

Small Business?

California Business Applications

- High-Propensity Business (SSA) Application
- Business Applications with Planned Wages (SSA)
- Business Application from Corporations (SA)

New surge vs second wave

Speed of outbreaks

Herd Immunity

Control Achieved

% of Population with Resistance

Government Efforts?
- Cost Benefit analysis needed
- Focus on personal behavior not economic activity
- Protect the population at highest risk

Covid Deaths	Total deaths	
All ages	198,809	% total
Under 1 year	22	0.00%
1–4 years	15	0.00%
5–14 years	35	0.00%
15–24 years	369	0.20%
25–34 years	1,541	0.80%
35–44 years	4,039	2.00%
45–54 years	10,627	5.30%
55–64 years	25,421	12.80%
65–74 years	42,950	21.60%
75–84 years	52,618	26.50%
85 years and over	61,172	30.80%

Policy (Over)reaction

CARES Act: $3 trillion in a $5.5 trillion quarter

- **Households**
  - $300 billion direct payments
  - $250 billion unemployment expansion
  - Potential benefits = median weekly income
- **Business**
  - $400-600 billion small business loans
  - $500 billion economic stabilization for airlines, national security important industries etc.
- **Local government support**
  - $350 billion, direct payments to governments, hospitals, airports, transit

- **The Fed**
  - Rate cuts
  - Full QE efforts
- **Other Efforts**
  - IRS, states: delaying tax payments
  - Local government moratorium on evictions
  - Large landlords providing rent deferral
  - Large public mortgage holders allowing owners to defer mortgages
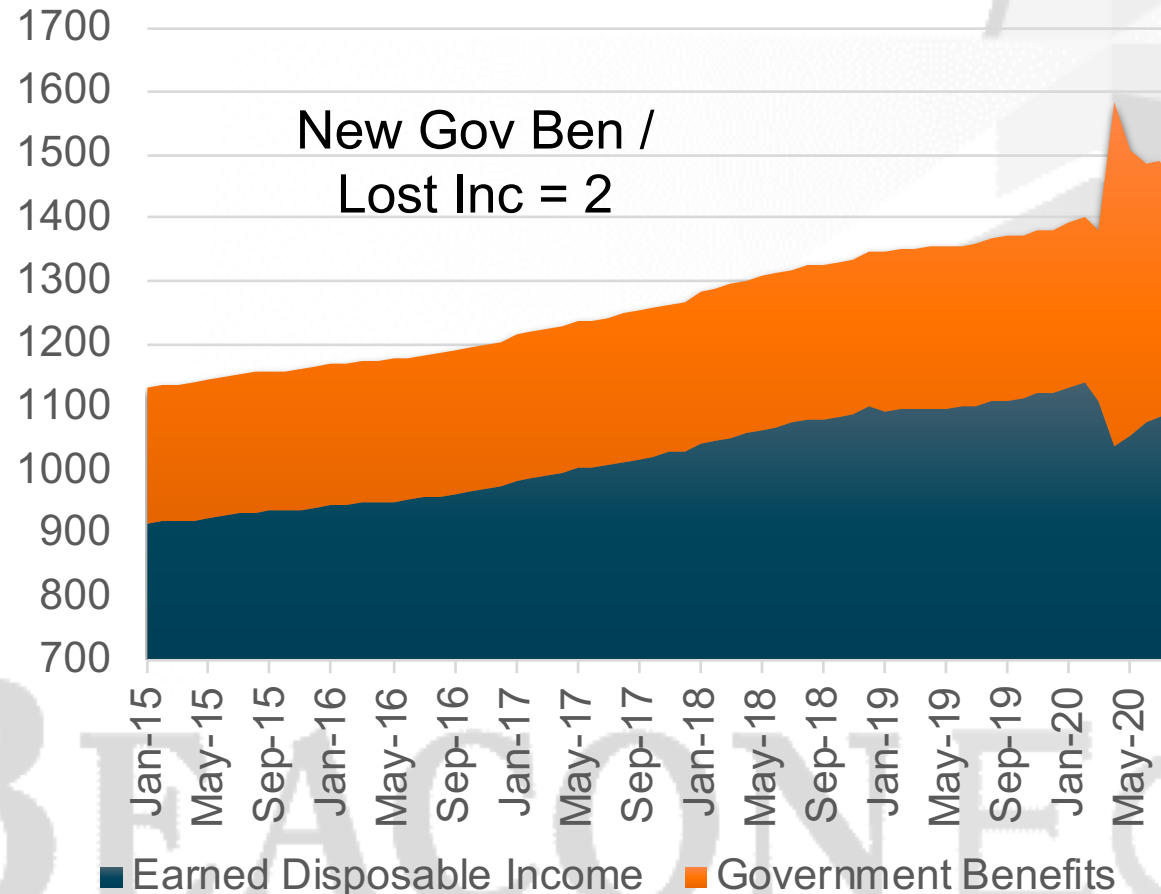 - Food programs expanding

The Balance between spending and incomes

Personal Income by Source SA

New Gov Ben /
Lost Inc = 2

Legend: Earned Disposable Income — Government Benefits

Personal saving as a percentage of disposable personal income

Who is Ahead / Behind?

In **the United States**, as of September 19 2020, total spending by all consumers decreased by **3.8%** compared to January 2020.
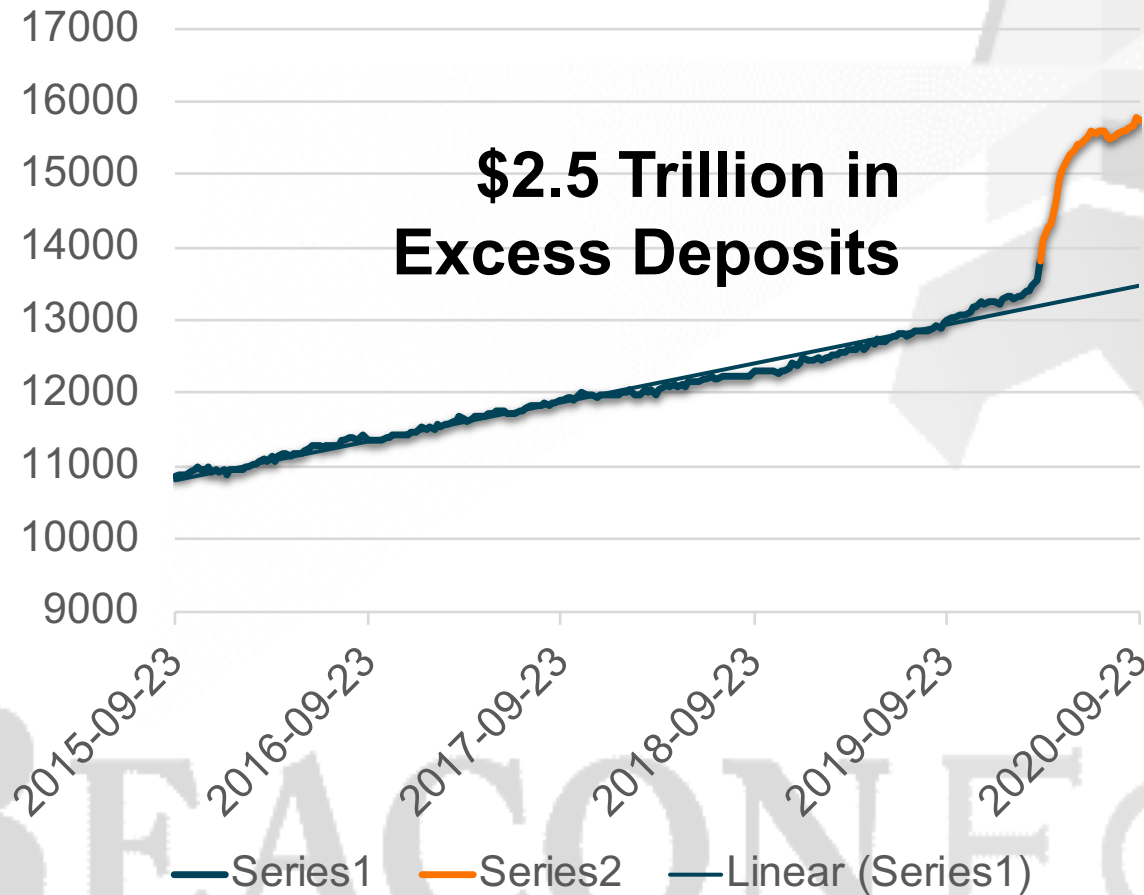
DOWNLOAD CHART

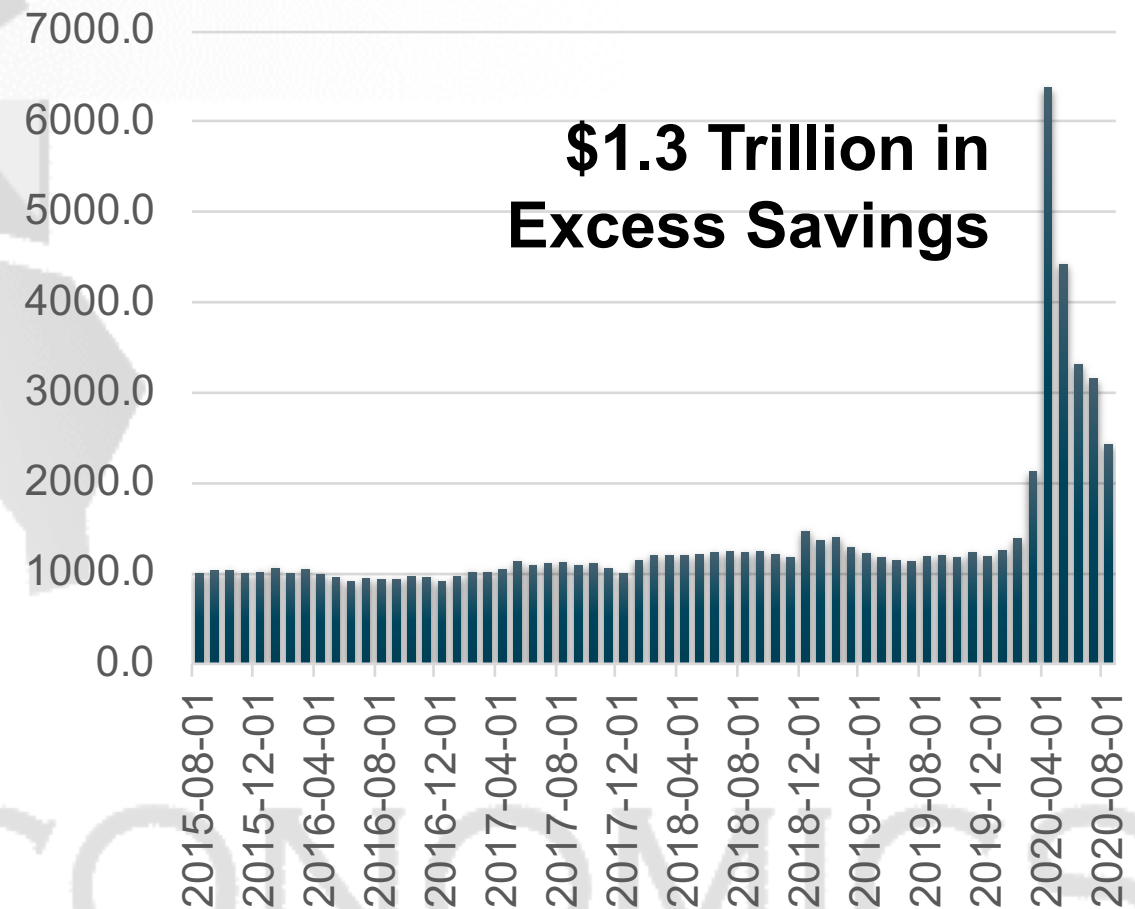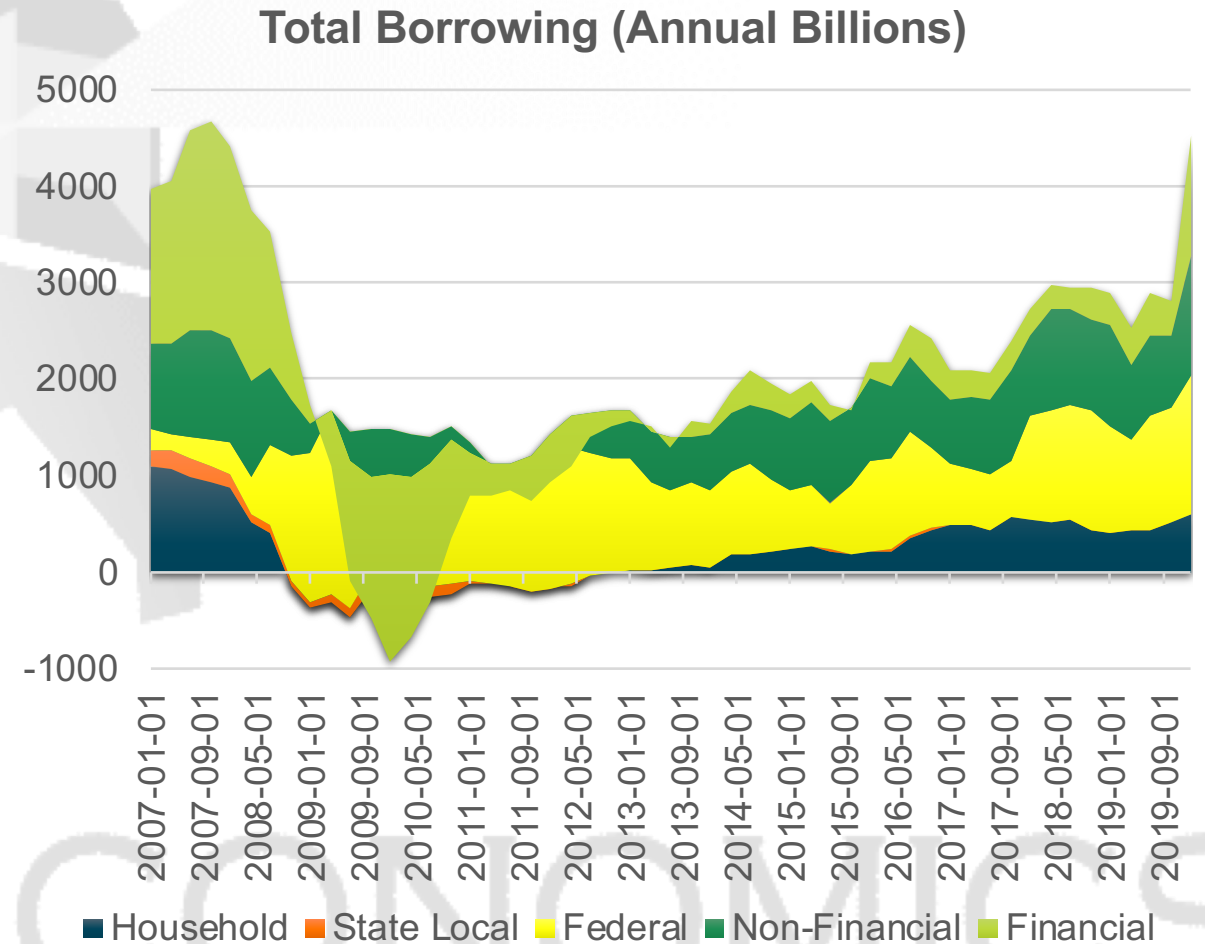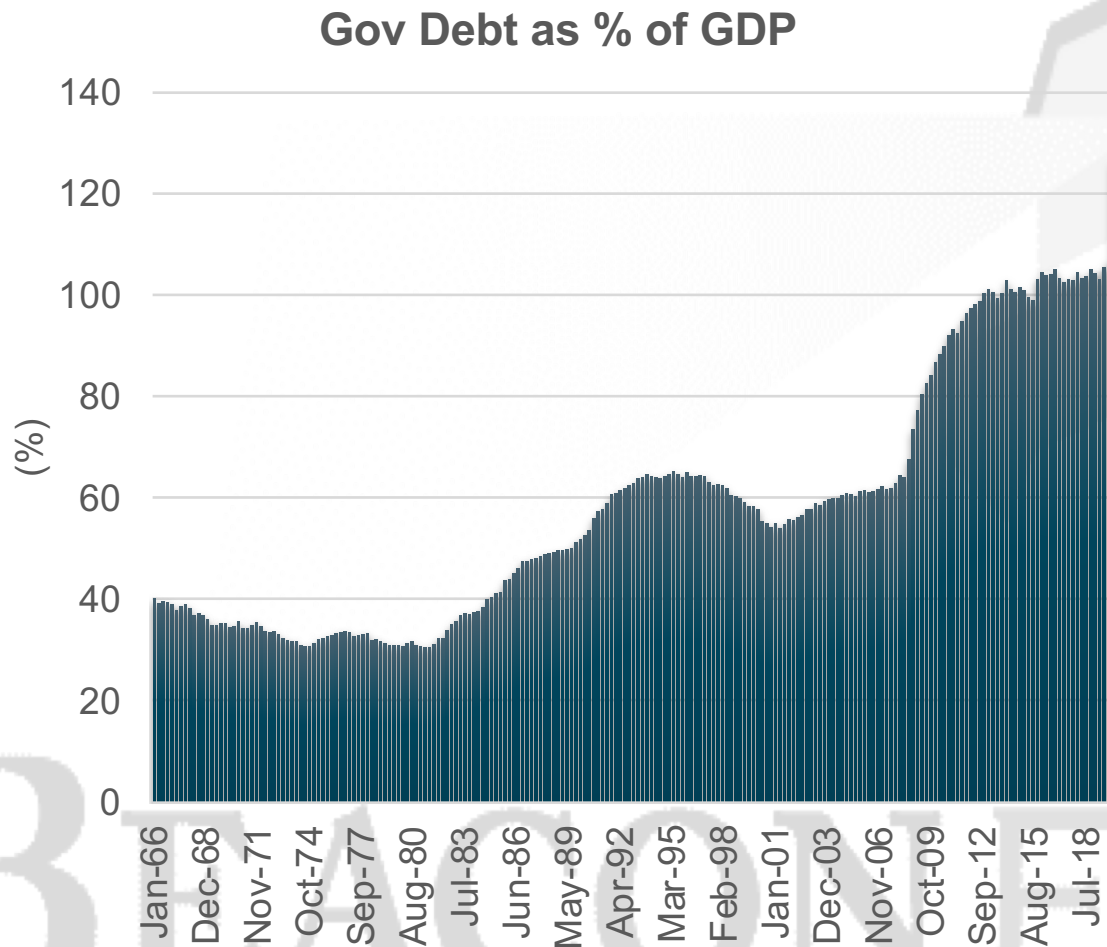Sep 19, 2020

+0.3%
Low Income

-3.8%
Total Spending

-7.1%
High Income

Beacon Economics

Dry Powder

Bank Deposits, Billions

$2.5 Trillion in Excess Deposits

Household Savings Billions SAAR

$1.3 Trillion in Excess Savings

Series1 Series2 Linear (Series1)

Government Debt

Gov Debt as % of GDP

Total Borrowing (Annual Billions)

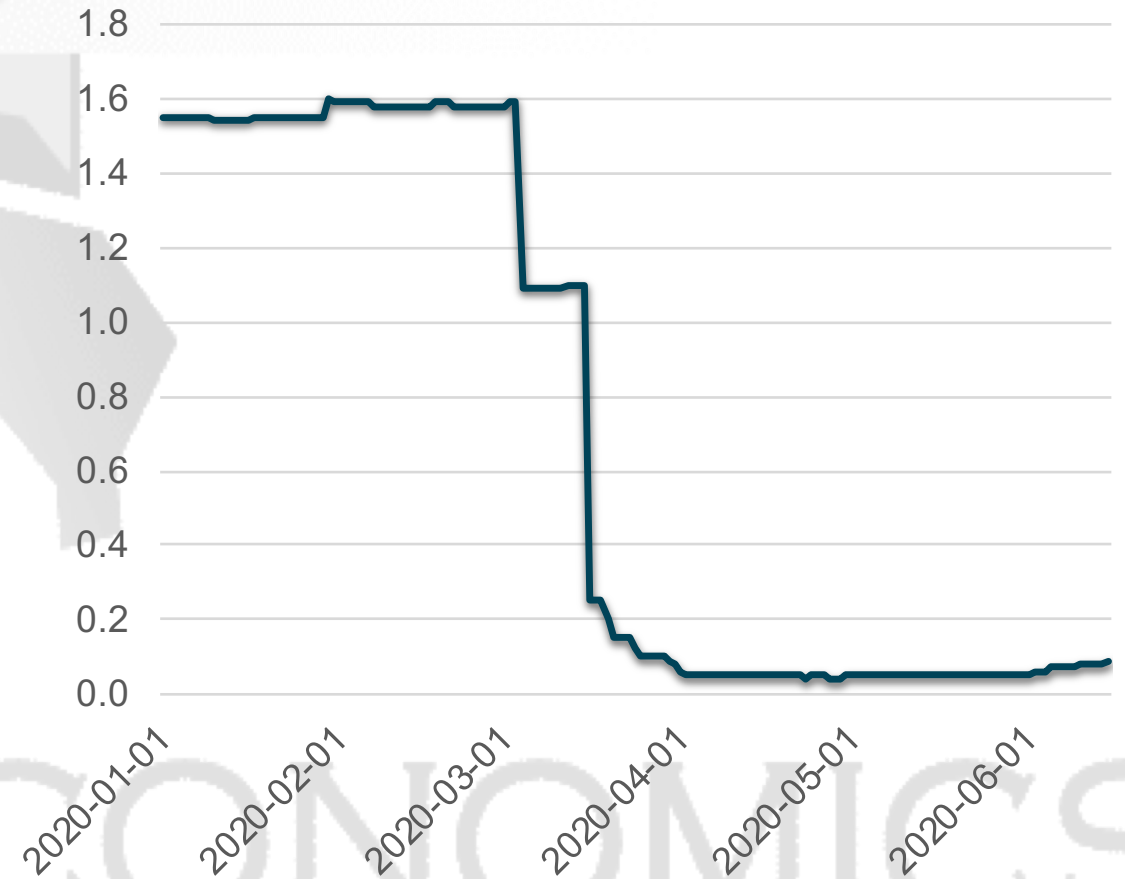Household   State Local   Federal   Non-Financial   Financial
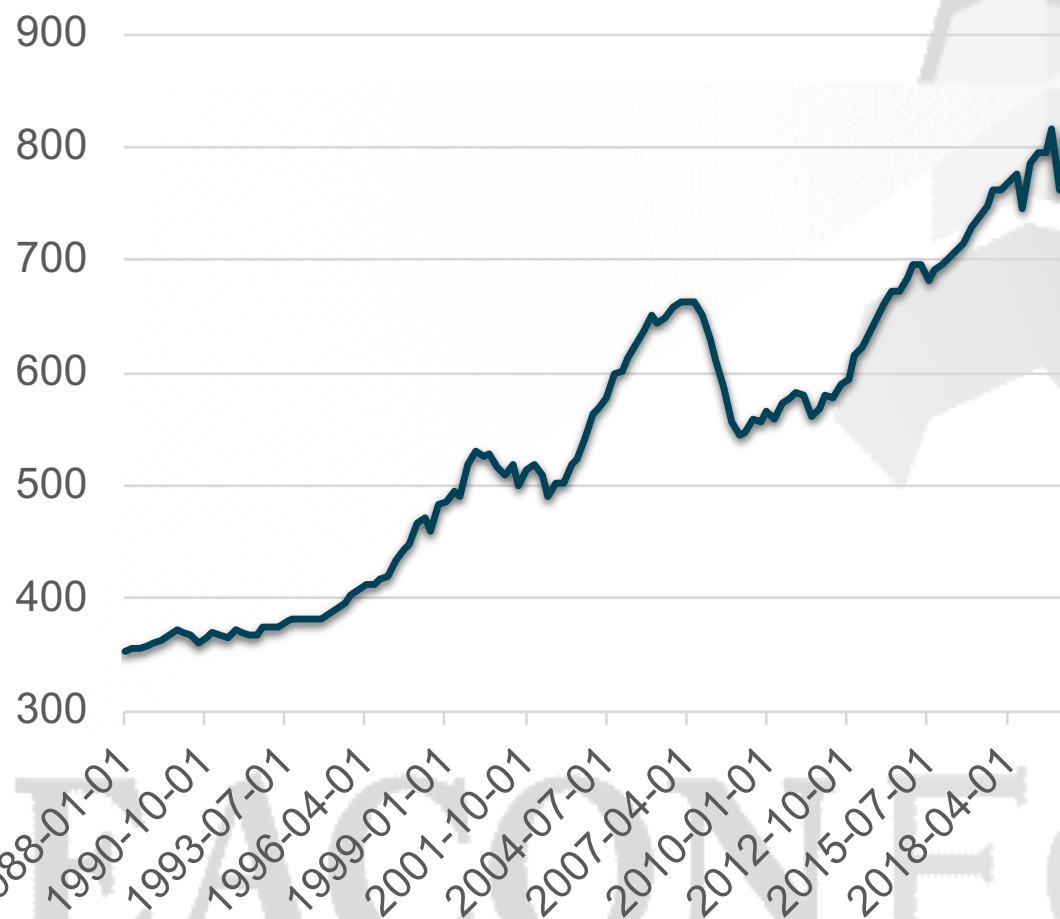
Federal Reserve Policy

Fed Balance Sheet
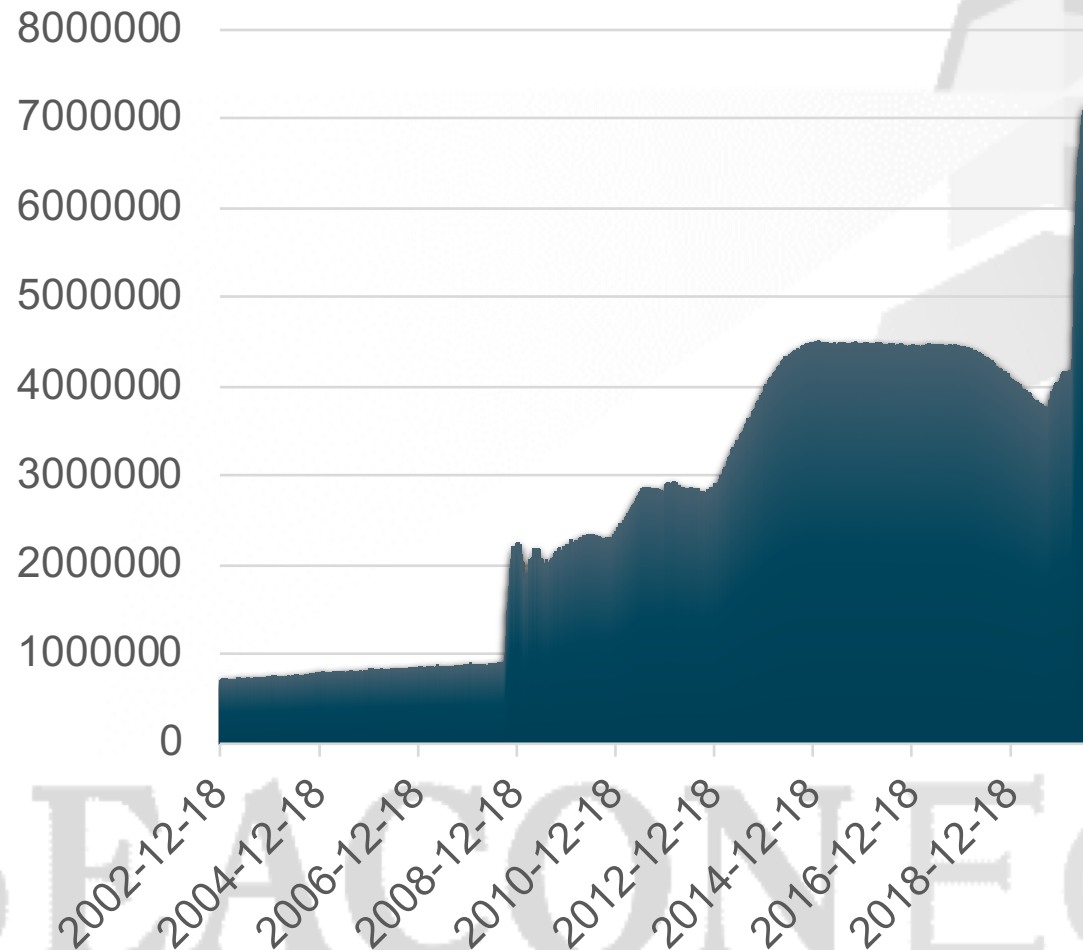
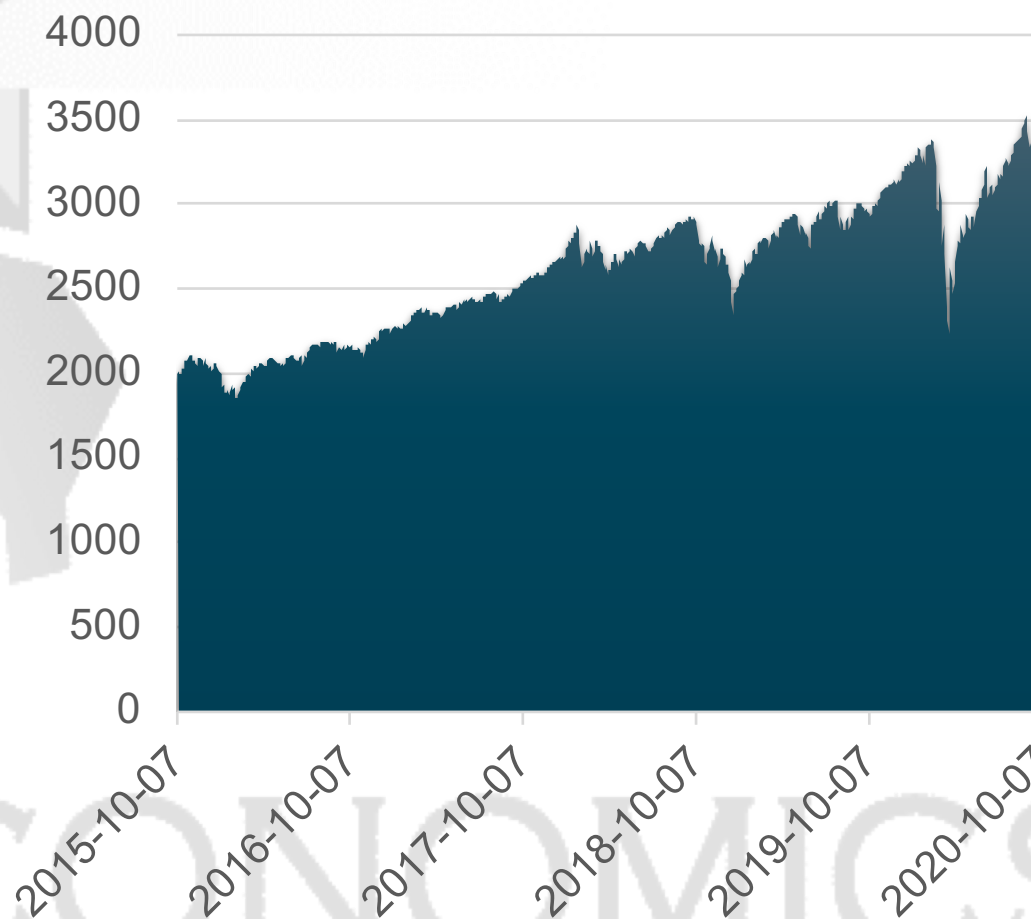**Effective Federal Funds Rate**

Financial Trends

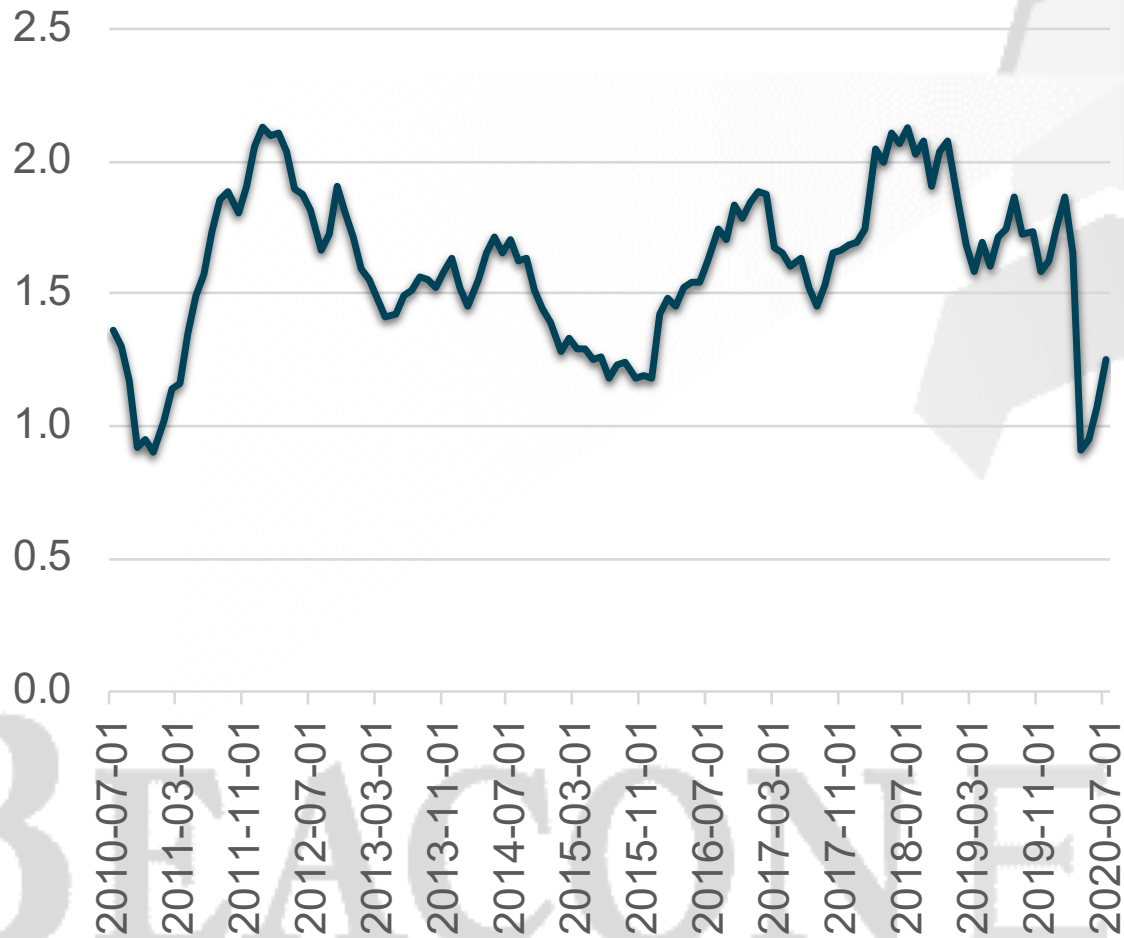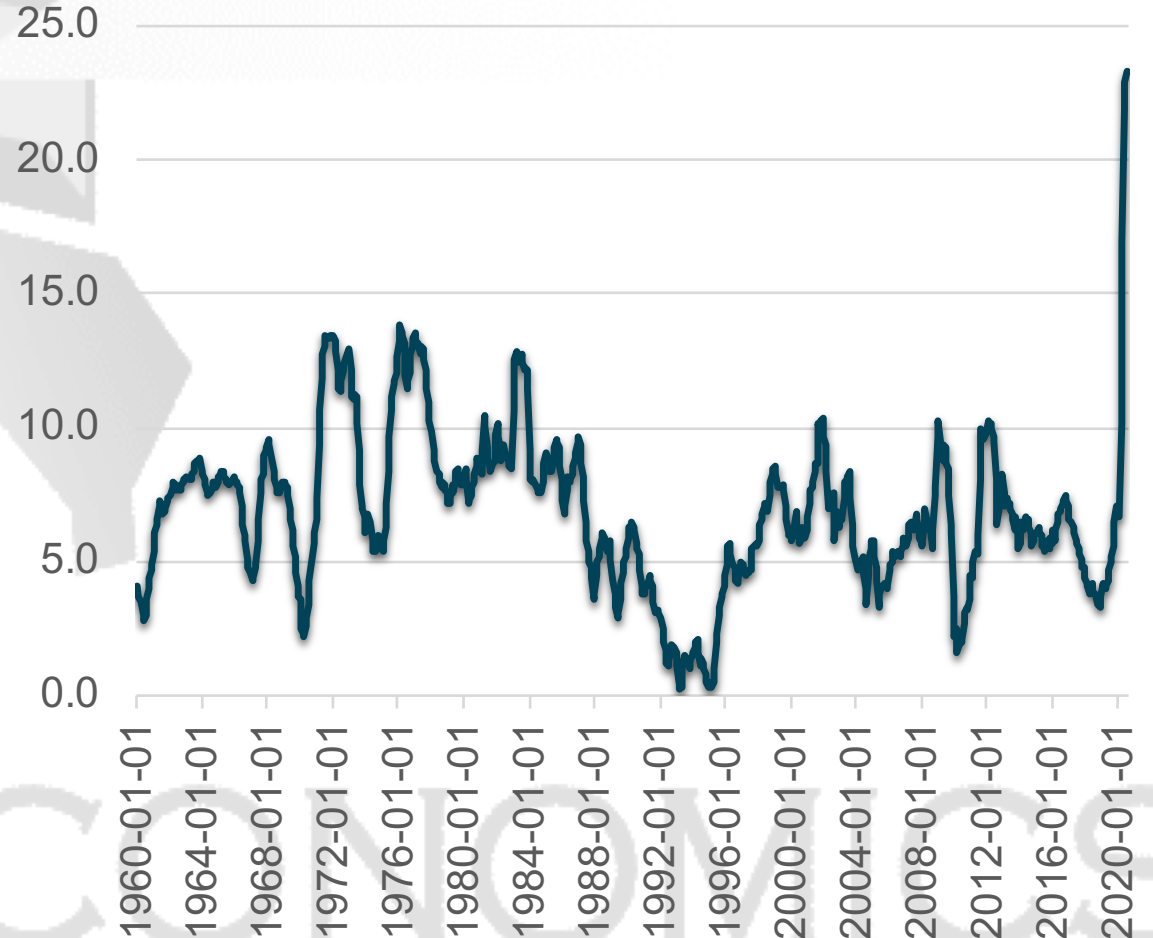## Real Average Household Wealth

S&P 500

Inflation Warning

Core PCE Inflation

Y-o-Y M2 Growth

Long Run Consumer / Business Behavior

Personal Behavior

- This is not a "new normal"
  - Polio, smallpox, plague, etc.
  - Spanish flu, MERS, SARS
  - Terrorism episodes
  - No permanent change in consumer behavior seen

- Some segments will lag
  - Older consumers
  - Global tourism

Business Issues

- Shakeout in stressed sectors
  - Oversupply of restaurants
  - Retail shifting to online

- Perhaps a good lesson?
  - More flexibility for remote work
  - Some long run impact on business travel
  - Office is not over, but…
  - Industrial: Local vs global transport

2020: The Long Run Still Matters

- It ain't good, but it ain't *that* bad..
  - The "V" is the only logical outcome
  - Speed of recovery dictated by pace at which virus gets under control again
  - Behavior, not policy at center of issue
- Baseline Forecast
  - -4.8% Q1, -32%Q2, 36% Q3, 8% Q4
  - Unemployment below 7% by year end
  - Moderate upticks in debt distress
  - Stock market—who knows
  - Little impact on long run real estate values
  - Retail / restaurants / tourism to lag

- Wildcards
  - True Second round of outbreaks / shutdowns
  - Global situation
  - How long until travel gets going
  - Government budgets
- The true enemy: Miserabilism
  - More bad policy driven by a basic lack of context
  - Health needs conflated with culture wars
  - Uncomfortable math: A lot of economic damage relative to positive health outcomes
  - More targeted policies needed

What can Beacon do for you?

Connect with us.

To view again or download this presentation and for further information, go to: **www.BeaconEcon.com**

Continue the conversation.

Contact **Dr. Chris Thornberg** directly at **chris@beaconecon.com** or **310.571.3399**

Let's discuss your goals and needs.

Beacon has **6 Practice Areas** covering a range of services and products.

Our 6 Practice Areas

Housing, Land Use, & Real Estate Advisory

Sustainable Growth and Development

Economic & Revenue Forecasting

Economic, Fiscal and Social Impact Analysis

Regional and Sub-Regional Analysis

Litigation and Testimony

Portfolio Spotlight

Regional and Sub-Regional Analysis

Beacon conducts analysis at an international, national, state, county, and city level -- and even down to the zip code, pending data availability. We analyze data on **Employment, Industry, Real Estate, and Consumption**.

Past Clients:
- City and County of Los Angeles
- City and County of Riverside
- East Bay Economic Dev. Agency

Impact (Economic, Fiscal, Social) & EB5 Analysis

Beacon has evaluated the impact of entities **like universities, music festivals, infrastructure projects, and real estate development projects**. Beacon has also conducted impact analyses that combine more than one of the above like that of **L.A's Olympic bid**.

Past Clients:
- University of Southern California
- Metropolitan Water District
- LA 2024 Olympic Bid Committee

Sustainable Growth & Development

Beacon conducts industry and policy analysis on topics like **green innovation, tech and workforce development, and industry sector strategies**. Beacon has strong in-house expertise around **housing policy** and **economic development** support.

Past Clients:
- California Apartment Association
- Long Beach Downtown Dev. Corp.
- Santa Cruz Workforce Dev. Board

Housing, Land Use, & Real Estate Advisory

Economic & revenue forecasting

Litigation and testimony

Thank You

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