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CENTER FOR ECONOMIC FORECASTING & DEVELOPMENT


To “V” or not to “V” ...

The Covid Recession: Where Next?
September 15, 2020

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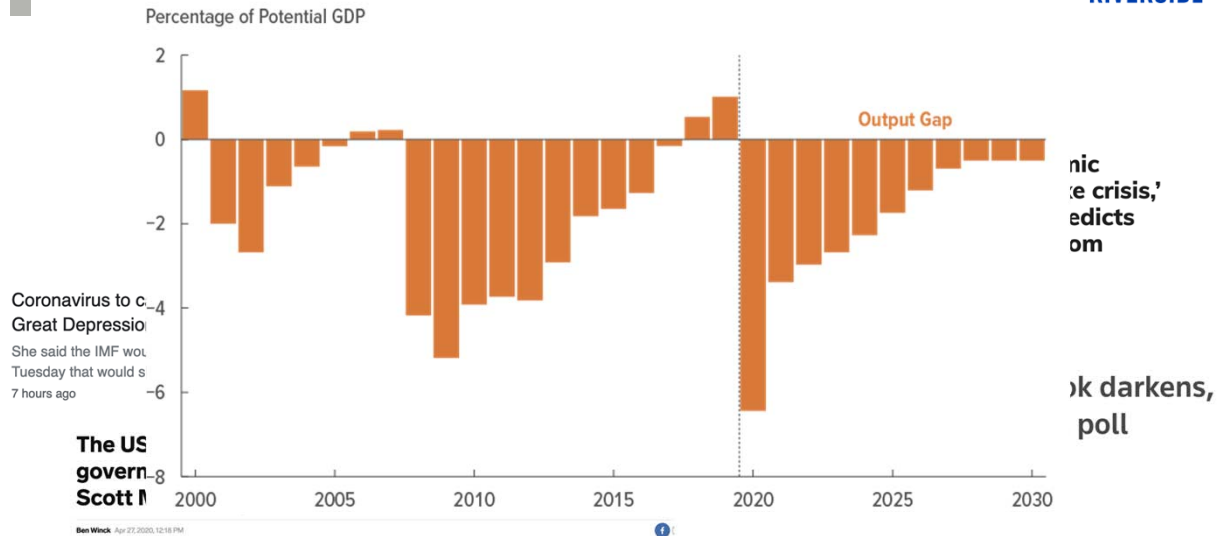
The Pandemic Recession

- Covid-19: Tracking the Disease
 - Over 22 million cases globally, 780,000 deaths
 - US roughly one quarter of all cases, deaths
 - Ultimately US will experience ~200,000 additional deaths this year (typical year ~ 3 million)
- The Pandemic Recession
 - 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 still in double digits
- The big question: where from here?
 - The “U” or “V” or “whatever” debate
 - Driver 1: the path of the virus itself
 - Driver 2: The economic response to the presence of the virus
 - Driver 3: Damage to the economy from pandemic driven closures

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How Bad?



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The Great Recession vs today

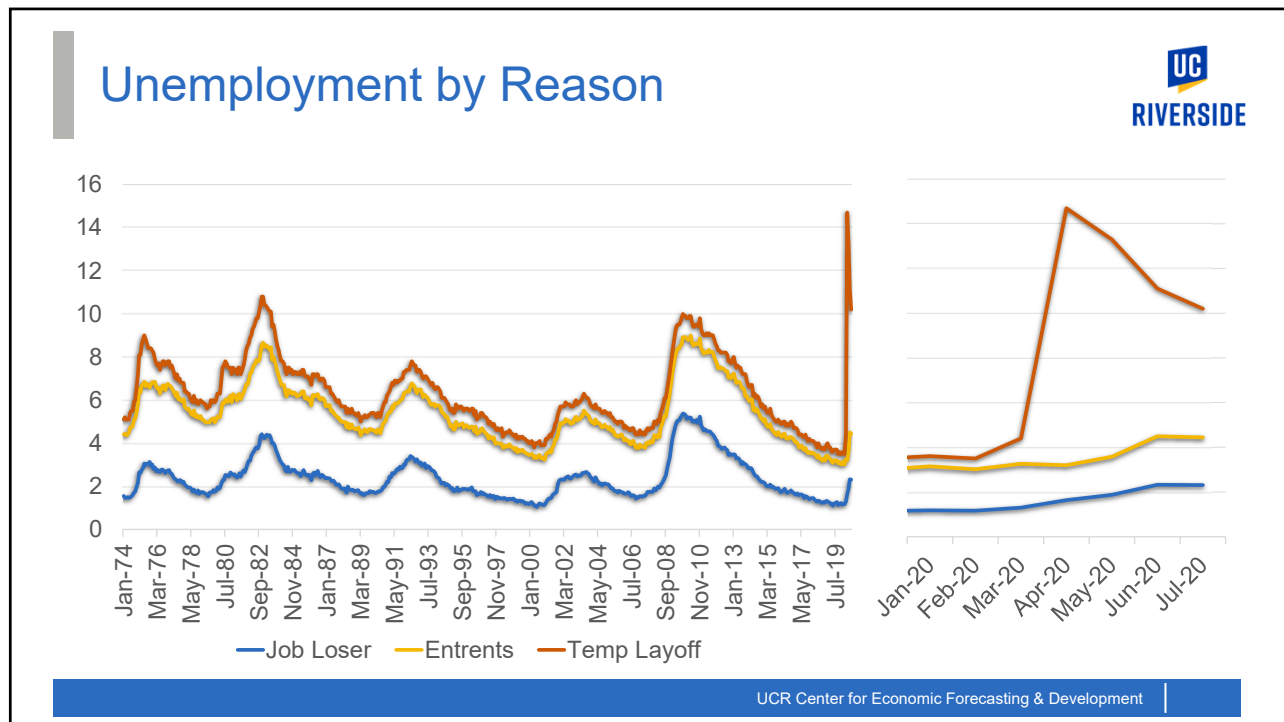


- Subprime Lending Bubble
 - \$15 trillion in borrowing 01-07
 - Collapse of lending standards
- Caused massive imbalances in economy
 - Housing and consumer spending bubbles
 - Record low savings, massive trade deficit, consumer debt levels
- 8 years to recovery
 - Truly lost jobs, rebuilding incomes, careers
 - Flow-Stock problems (housing, cars)
 - Balance sheet issues
 - Financial markets near collapse
- 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?



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Economic Outlook: How we have shifted

- **April 2020: Call the “V”**
 - Economy is resilient: can withstand a large shock without long-run damage
 - The US has moved past the peak of cases, with good public policy we should have it under control by Q3
 - Recovery can take place by end of year
- **June 2020**
 - “U” camp caught off guard by May jobs surprise
 - Spending numbers verify jobs
 - Warning sign: new cases no longer falling, wider “V”?
- **July 2020: Good / Bad News**
 - The recession is over, we are already on the path to recovery
 - Massive government stimulus has supercharged potential demand
 - Little signs of long run damage to economy
 - The US did not have good public policy, and the US experienced a second surge in cases
- **August 2020: Good News**
 - Silver lining #1: The new surge looks to have peaked
 - Silver lining #2: The new surge did not cause a double dip recession

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Where are we now?



	2019	2020	
		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

	2019	2020	
(PCE)		Q1	Q2
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

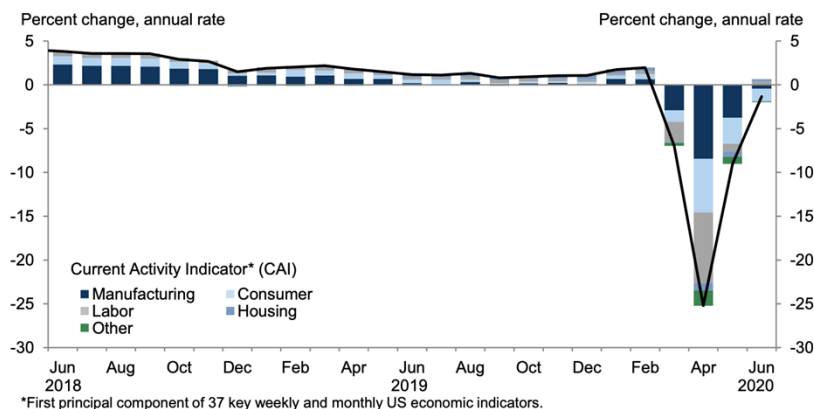
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The Rebound: Overall Activity



Our June Current Activity Indicator now stands at -1.3% (vs. -9.0% in May):



Cycle	Peak to Trough	Total
08-09	-5.8%	-27.2%
80-82	-7.5%	-15.0%
91	-2.8%	-10.2%
74-75	-4.2%	-7.5%
01	-0.9%	-5.7%
20	-2.6%	

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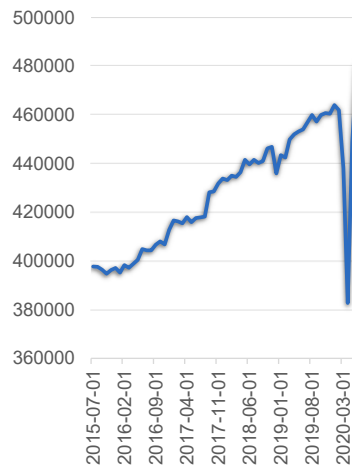
The Rebound: Spending



Auto / Light Truck Sales
SAAR to July



Retail Sales to July



Total Growth July-July	2.7
Nonstore retailers	24.7
Sporting goods, hobby, musical	17.8
Building material & garden eq &	14.8
Food & beverage stores	11.1
Grocery stores	10.6
Motor vehicle & parts dealers	6.1
Auto & other motor veh d	5.8
Miscellaneous store retailers	4.5
Health & personal care stores	3.2
Furniture & home furn stores	-0.7
Electronics & appliance stores	-2.8
General merchandise stores	-13.4
Gasoline stations	-15.6
Food services & drinking places	-18.9
Clothing & clothing accessories	-20.9

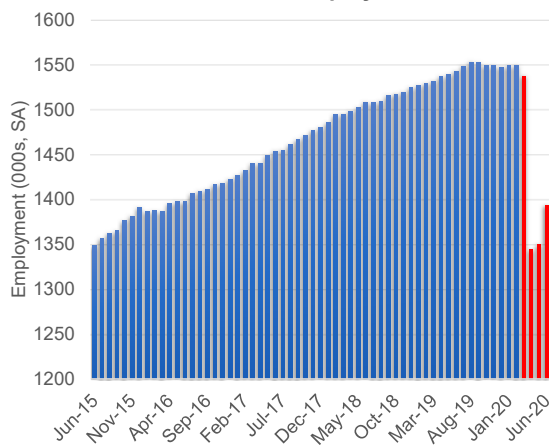
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Inland Empire Employment



Total Nonfarm Employment

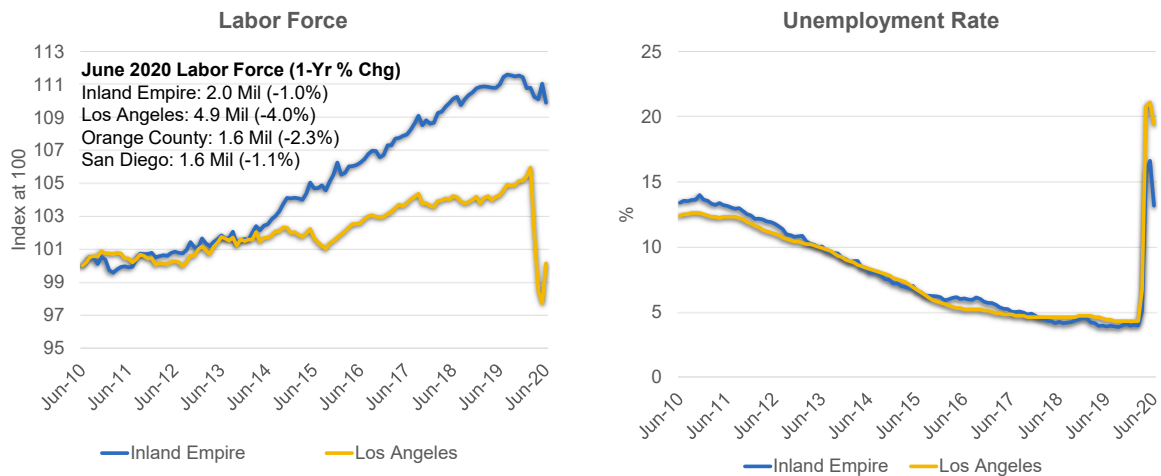


Industry	June 2020 Emp (000s)	Feb to June Change		CA % Chg Feb-Jun
		%	Absolute (000s)	
Total Nonfarm	1,394	-10.0	-156	-11.0
Hospitality	118	-31.6	-55	-30.8
Information	9	-16.4	-2	-12.9
Retail Trade	159	-12.4	-23	-11.6
Manufacturing	90	-8.8	-9	-7.4
Admin Support	97	-8.8	-9	-11.5
Edu/Health	239	-6.4	-16	-7.0
Construction	102	-6.2	-7	-5.4
Government	243	-6.1	-16	-8.6
Wholesale Trade	64	-4.3	-3	-6.5
Prof/Sci/Tech	39	-3.9	-2	-4.8
Finance	42	-3.5	-2	-2.4
Logistics	144	-3.1	-5	-6.4
Management	9	-0.2	0	-4.6

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Labor Market



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Real Estate?



As many as 30% of Americans with home loans — about **15 million** households — could stop paying if the U.S. economy remains closed through the summer or beyond, according to an estimate by **Mark Zandi**, chief economist for Moody's Analytics.

Apr 2, 2020

Forecasting an economic tsunami as foreclosures rise and mortgages sink underwater

As household incomes decline due to unprecedented job losses, mortgage payments will be difficult or impossible for millions of people.

By Rachel Bratt Updated April 16, 2020, 3:00 a.m.



Home prices rose in June, but they'll likely fall in 2021: CoreLogic

By Paul Centopani August 04, 2020, 4:52 p.m. EDT 1 Min Read

Price appreciation jumped 4.9% annually in June and 1% month-over-month, according to



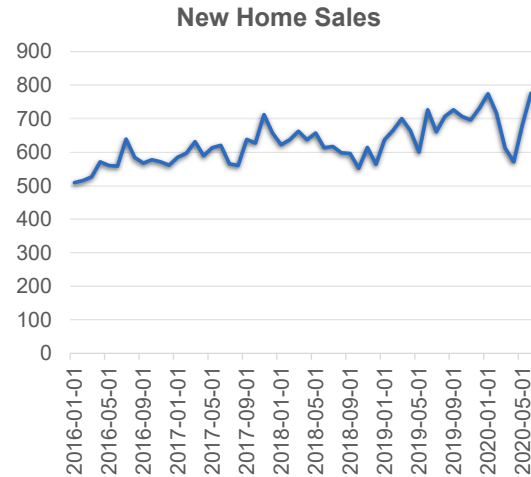
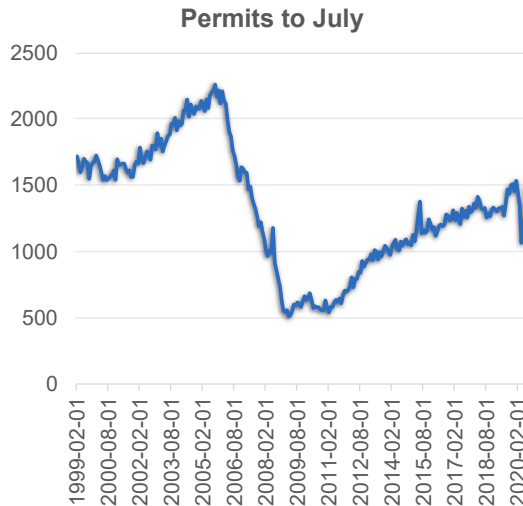
Carl Icahn Says Commercial Real Estate Market Will 'Blow Up'

March 16, 2020 | Dean Boerner, Bisnow San Francisco

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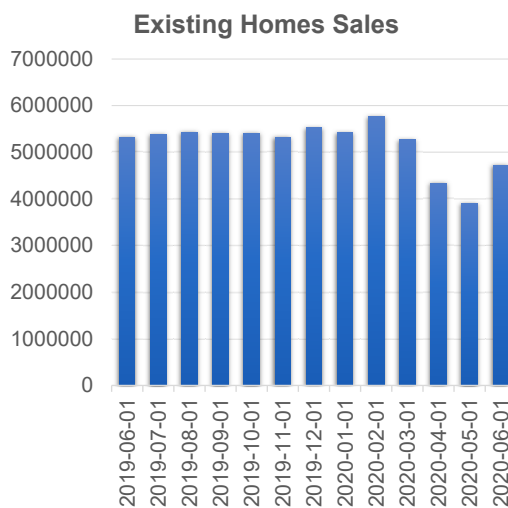
Housing Permits



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Housing



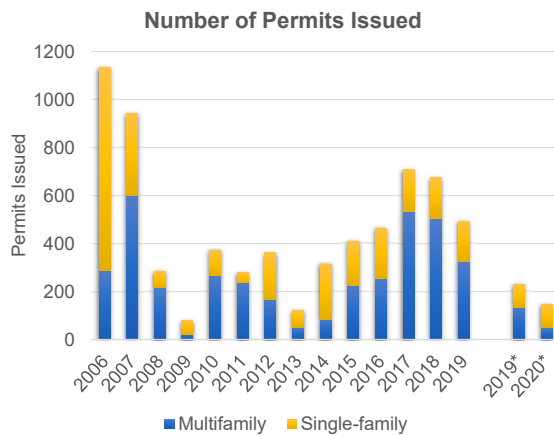
Case Shiller HPI (SA)

	2019	2020 Ann%
U.S. National	3.9%	4.7%
Phoenix	6.9%	10.8%
Cleveland	4.0%	10.5%
Tampa	4.8%	8.7%
Minneapolis	3.7%	8.2%
Miami	2.9%	5.1%
Charlotte	4.8%	5.1%
San Diego	5.1%	5.1%
Las Vegas	3.2%	4.8%
Boston	4.5%	4.3%
Los Angeles	3.4%	4.2%
Seattle	5.1%	3.9%
Denver	3.7%	3.9%
Chicago	0.4%	3.3%
New York	0.9%	3.0%
DC	3.5%	2.7%
Atlanta	4.5%	2.0%
Portland	4.3%	2.0%
San Francisco	3.1%	1.8%
Dallas	2.6%	0.9%

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City of Riverside Residential Permits



*year-to-date as of Q2

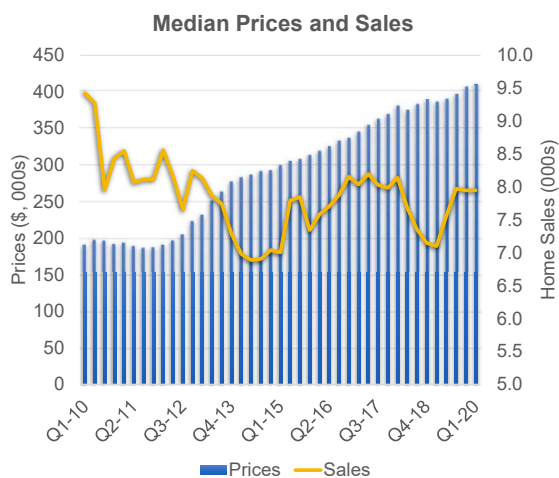
County	Single-family Permits		Multifamily Permits	
	YTD Q2-2020	1-YR Abs. Chg	YTD Q2-2020	1-YR Abs. Chg
Riverside	3,970	795	102	-1,077
Los Angeles	2,654	-117	6,702	-632
San Bernardino	1,521	-133	485	-309
Orange	1,287	-242	1,660	-1,117

Source: CIRB

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Home Prices and Sales



City	Median Prices (\$, 000s)		Home Sales	
	Q1-20	1-Yr % Chg	Q1-20	1-Yr % Chg
Riverside	454.0	13.5	713	9.2
Temecula	495.0	8.8	432	19.7
Moreno Valley	351.5	8.2	440	11.7
Perris	339.5	7.8	171	-8.6
Corona	547.3	7.3	513	-3.2
Murrieta	450.0	6.4	464	26.8

Source: CoreLogic

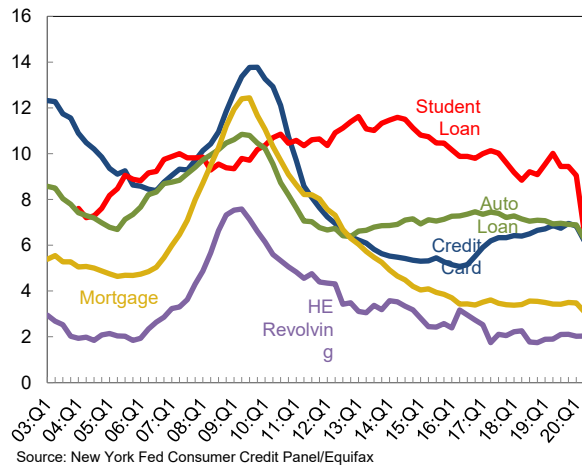
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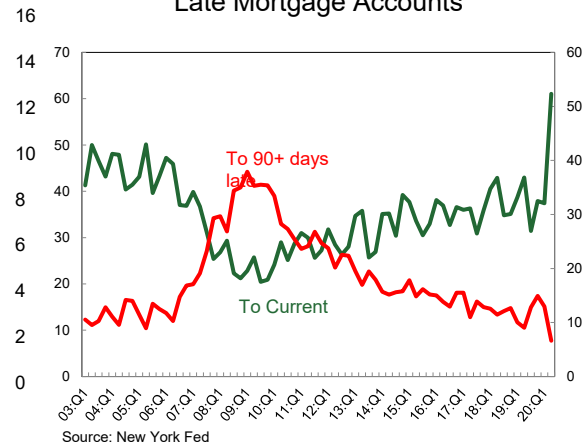
Financial problems?



Delinquency (30+) by Loan Type



Quarterly Transition Rates for 30-60 Day Late Mortgage Accounts



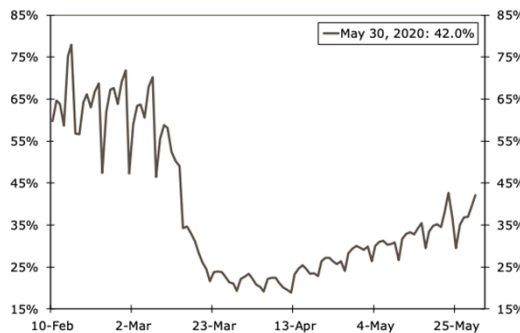
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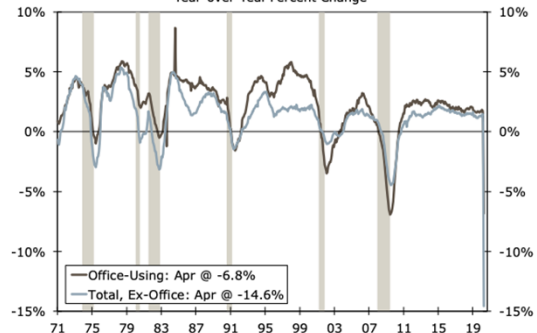
Occupancy Changes



Daily Hotel Occupancy



Office-Using Employment
Year-over-Year Percent Change



Source: Wells Fargo

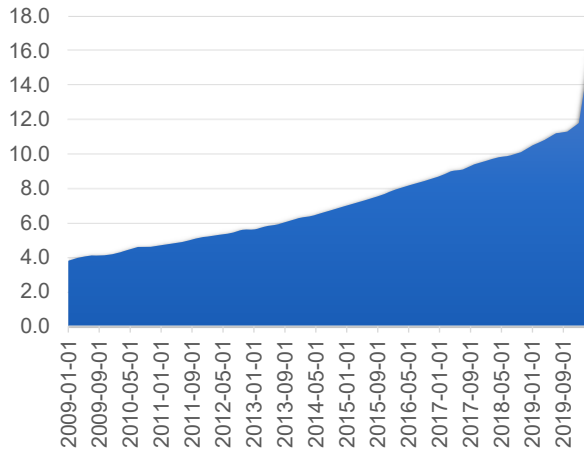
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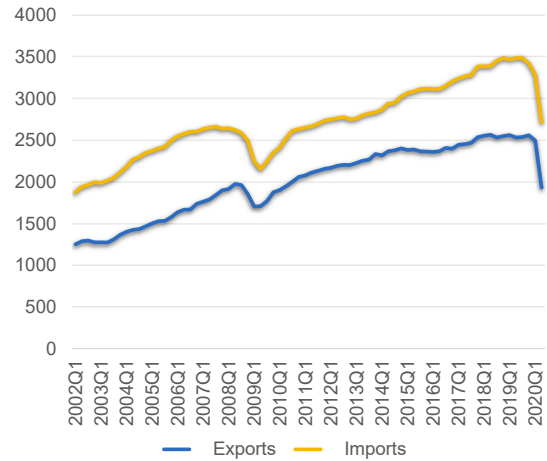
Industrial and Retail: Push and Pull



E-commerce share retail sales



Real Trade Flows



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Nonresidential Rents and Vacancies



Office	Cost of Rent (\$)		Vacancy Rate	
	Q2-2020	1-Year % Change	Q2-2020	1-Year Change
San Diego	34.2	3.3	16.1	0.4
Los Angeles	40.6	2.7	14.4	0.1
Inland Empire	23.3	1.3	16.6	-0.4
Orange County	34.9	1.1	16.9	0.4

Retail	Cost of Rent (\$)		Vacancy Rate	
	Q2-2020	1-Year % Change	Q2-2020	1-Year Change
Los Angeles	33.8	0.5	7.1	-0.1
San Diego	32.5	0.3	6.3	0.3
Orange County	34.3	0.2	5.5	-0.3
Inland Empire	23.2	-0.7	9.8	-0.1

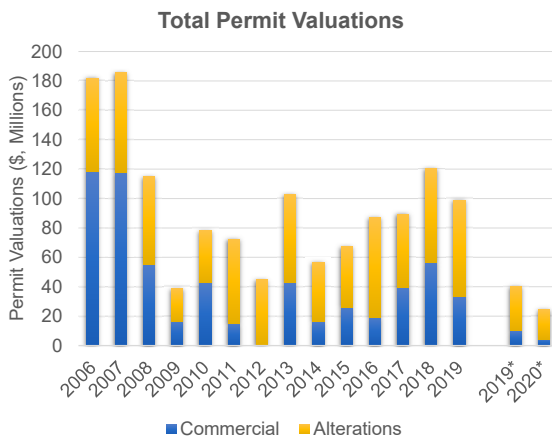
Industrial	Cost of Rent (\$)		Vacancy Rate	
	Q2-2020	1-Year % Change	Q2-2020	1-Year Change
San Diego	9.2	2.1	9.6	0.7
Inland Empire	5.8	1.6	10.5	1.9
Los Angeles	8.0	1.5	6.1	1.3
Orange County	7.6	0.5	7.9	0.5

Source: REIS

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City of Riverside Commercial Permits



*year-to-date as of Q2

Permit Type	Year-to-date Q2-2020 (000s)	1-Year Abs. Change (000s)
Commercial	4,347.4	-5,635.7
Alterations	20,149.5	-10,233.3
Office	1,844.2	576.9

Source: CIRB

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Policy (Over)reaction



CARES Act: \$3.5 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

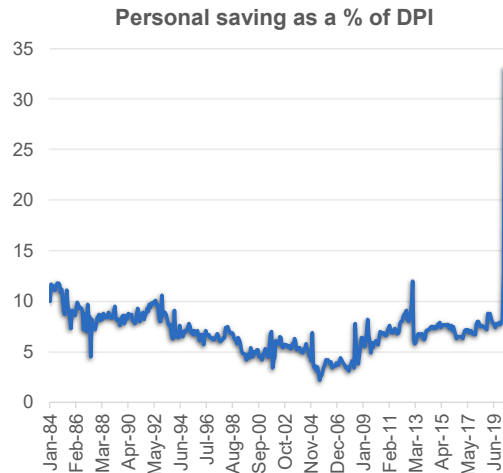
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The Balance between spending and incomes



	2020		
	Q4	Q1	Q2
Personal income	18,761	18,954	20,340
Compensation of employees	11,565	11,678	10,883
Proprietors' income	1,698	1,706	1,482
Government social benefits	3,109	3,190	5,609
Less: Personal current taxes	2,221	2,257	2,109
Equals: Disposable personal income	16,540	16,697	18,232
Less: Personal outlays	15,336	15,103	13,538
Personal consumption exp	14,759	14,546	13,018
Equals: Personal saving	1,204	1,594	4,694
Personal saving as a %DPI	7.3	9.5	25.7



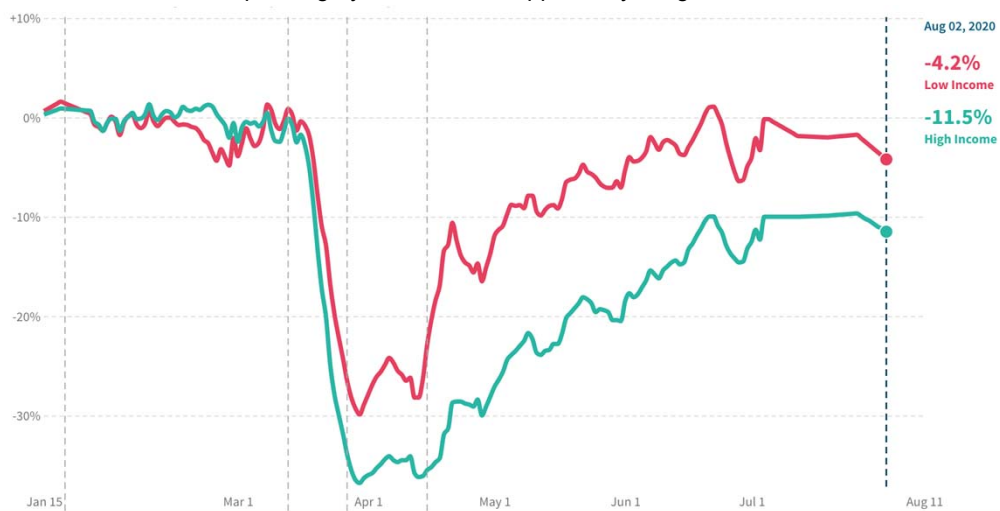
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Who is behind?



Spending by Income from Opportunity Insights



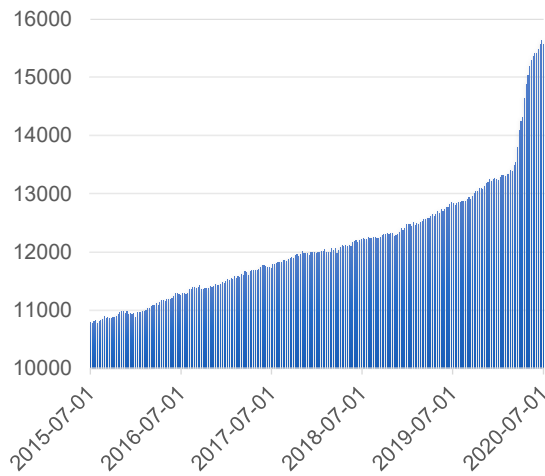
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The Banking Conundrum



Commercial Bank Deposits: Billions



	Feb to Aug	Aug-Feb	Feb-Aug
Bank credit	2.9%	2.6%	7.0%
Treasury and agency securities: Mortgage-backed securities (MBS)	4.5%	6.6%	9.4%
Treasury and agency securities: Non-MBS	10.1%	3.0%	24.6%
Loans and leases in bank credit	2.3%	1.9%	4.9%
Commercial and industrial loans	1.3%	-0.3%	19.3%
Real estate loans	2.0%	2.6%	1.2%
Real estate loans: Closed-end residential loans	2.9%	2.1%	0.7%
Real estate loans: Commercial real estate loans	2.3%	4.0%	2.5%
Real estate loans: Construction and land development	0.7%	2.0%	4.9%
Real estate loans: Secured by multifamily properties	4.3%	7.2%	3.2%
Real estate loans: Secured by nonfarm nonresidential properties	2.4%	3.9%	1.9%
Consumer loans	3.2%	2.5%	-5.0%

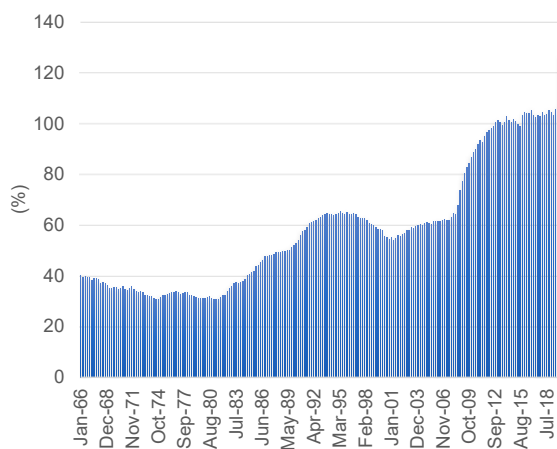
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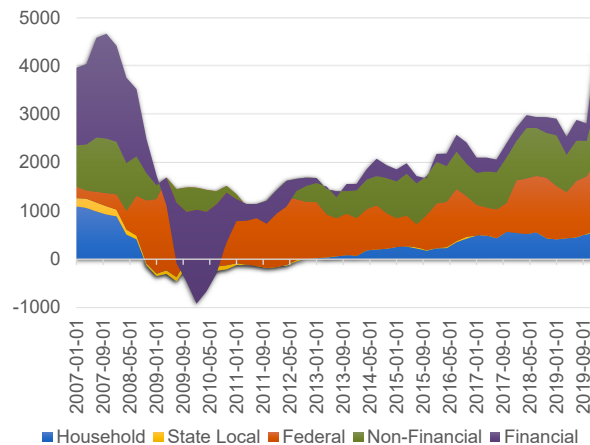
Government Debt



Gov Debt as % of GDP



Total Borrowing (Annual Billions)



Source: FRED

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The New Surge

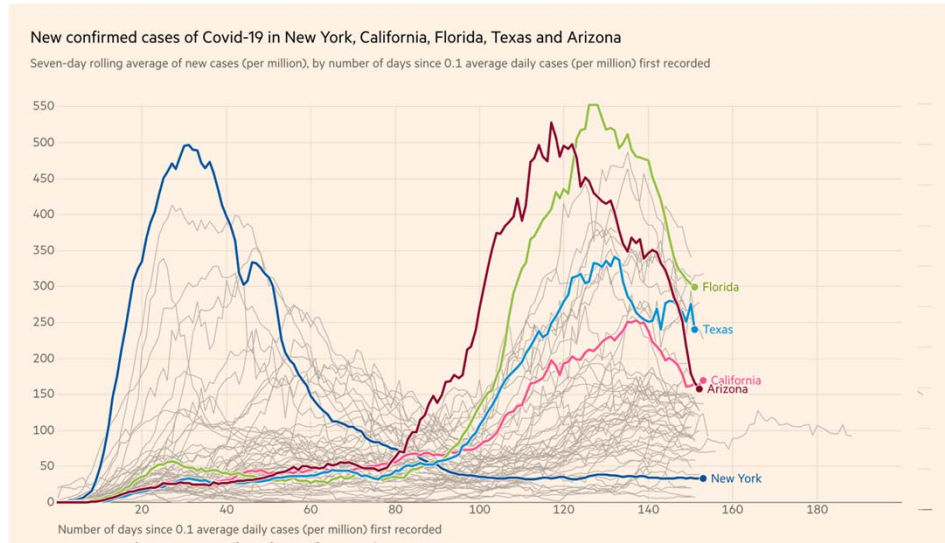


- New US Cases running 50,000 plus per day
 - This is not a second wave, only expansion of the first into new places
 - Government re-instituted some mandates
 - Little Economic Reaction this time
- Difference between market behavior and public health mandates
 - Consumer have reacted faster than government
 - Businesses are learning to mitigate
 - Broad health data shows far less serious outcomes of surge 2
 - NPV on closures suggest they may not have been worth it
- Q4 should see continued reopening of business
 - Number of new cases falling
 - Air travel / large events lagging
 - Some lagging behavioral issues
 - Full recovery not until 2021 now

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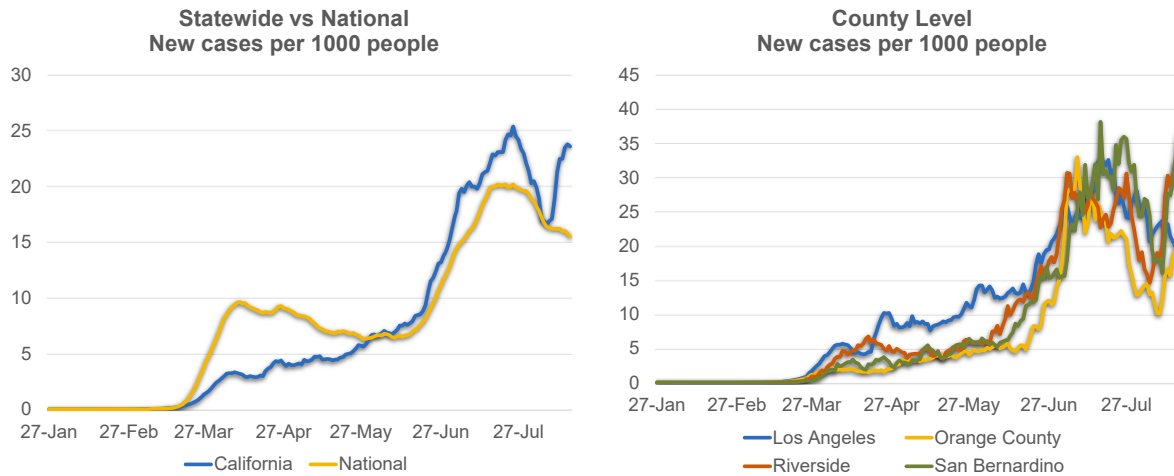
New Cases



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COVID Cases

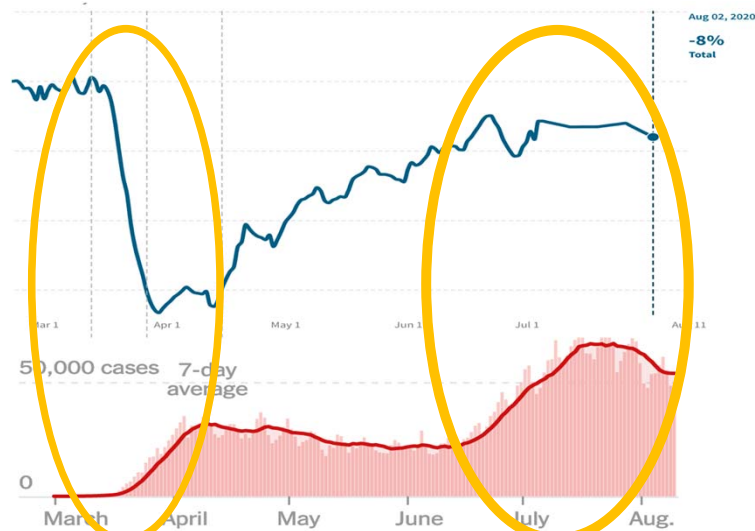


Source: Opportunity Insights/New York Times

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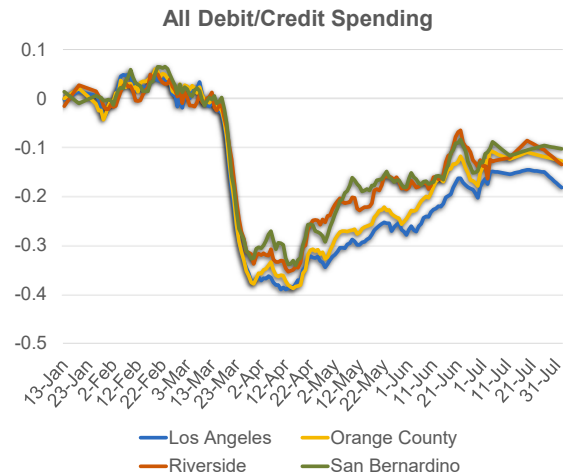
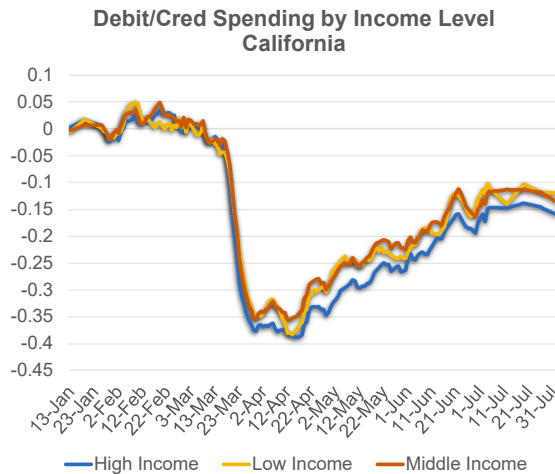
No New Recession



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Opportunity Insights

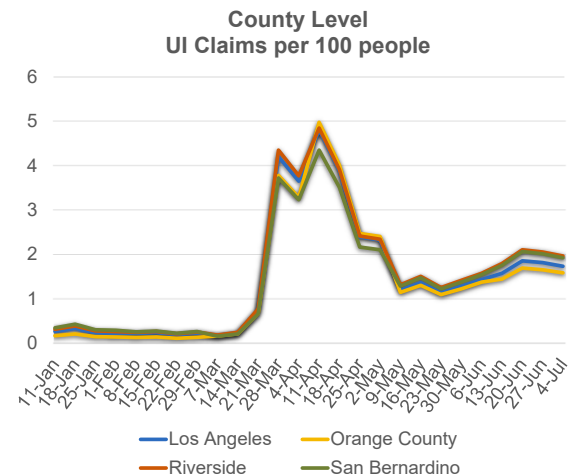
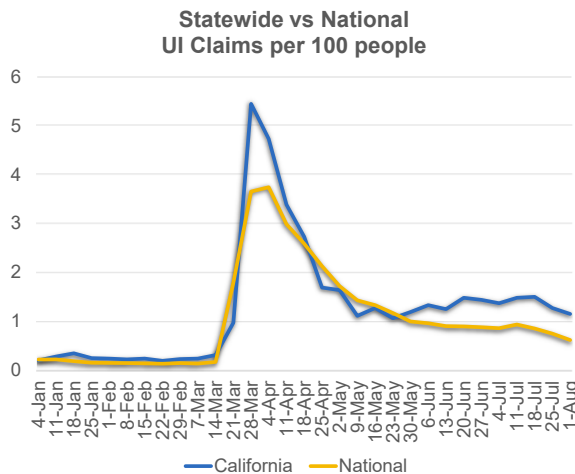


Source: Opportunity Insights/Affinity Solutions

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UI Claims



Source: Opportunity Insights/Department of Labor

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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, 26% 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 health outcomes
 - More targeted policies needed

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Thank You

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