



To “V” or not to “V”...

The Covid-19 Recession: Where Next?

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The Pandemic Recession



- The Pandemic Recession

- A unique business cycle, driven by consumer fear / health mandates
- Lessons of past cycles are not applicable
- Q4 19 to Q2 20 ~11% decline in real GDP (Great recession 6% decline over 6 quarters)

- Path to recovery: “U” or “V” or “whatever” debate

- Most in the “U” camp—long, slow recovery, CBO—full recovery not until 2027
- Beacon: in the “V” camp—rapid movement back to normality with little LR damage

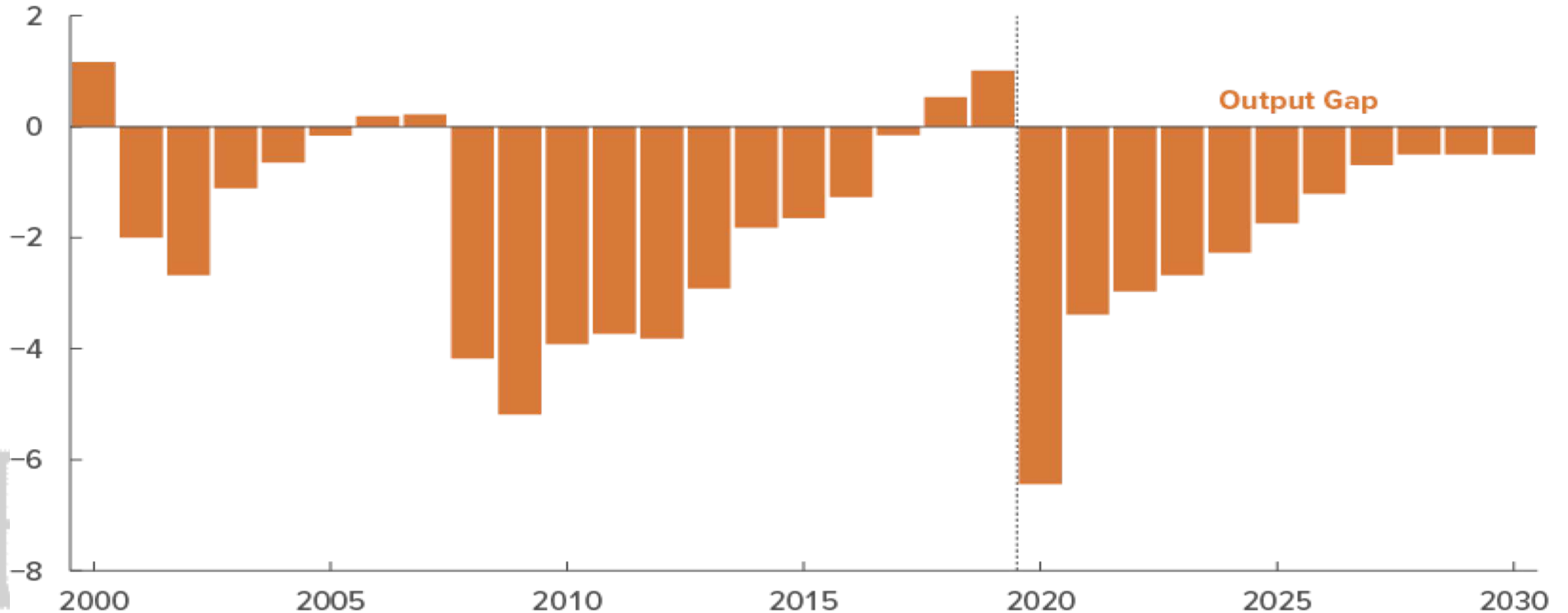
- Our Outlook

- The recession ended in April, well into recovery mode now
- Stages: Learning to live with Covid-19, Getting Covid-19 under control, Return to normalcy
- The real risks: inflation and higher interest rates driven by excessive intervention

Miserabilism and the Pandemic

CBO Forecast: Gap between actual and potential US output

Percentage of Potential GDP



The Great Recession vs Today

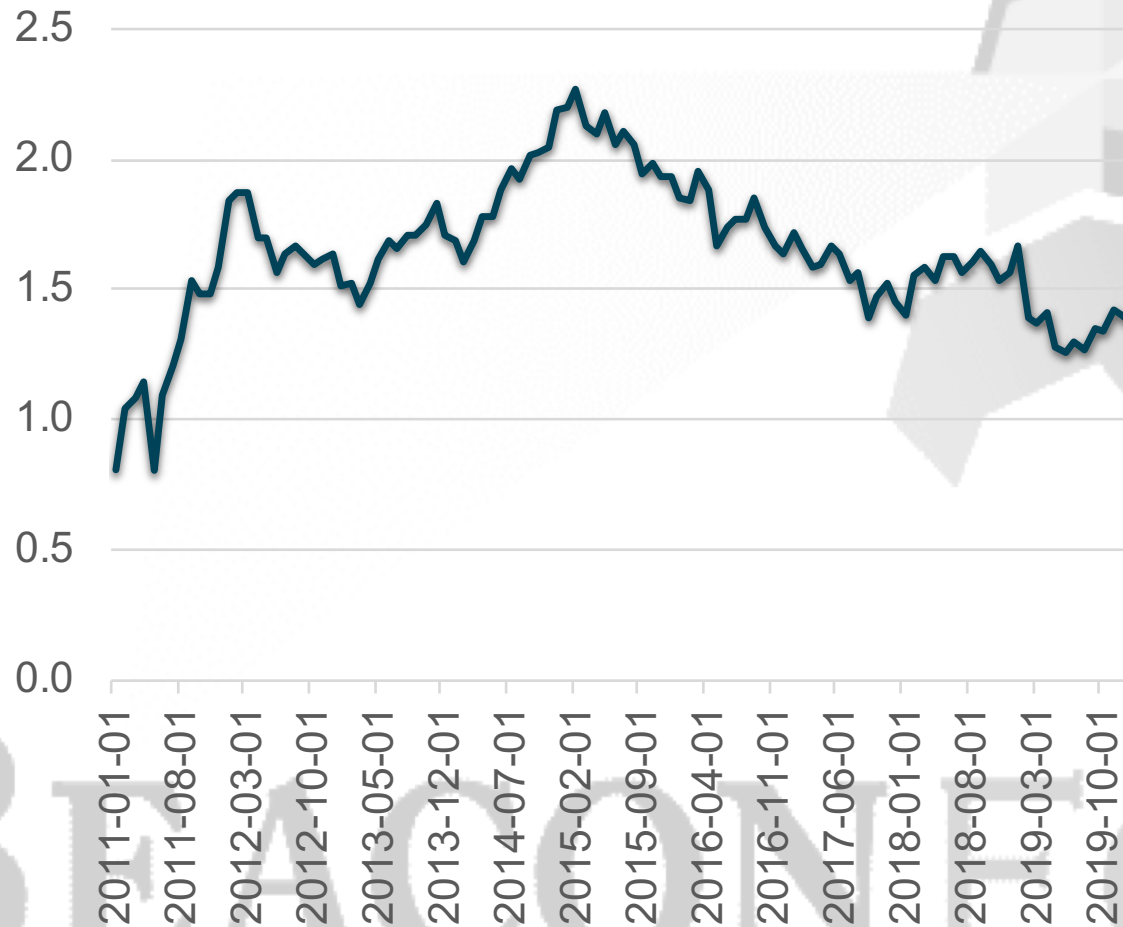


- Subprime Lending Bubble
 - \$15 trillion in borrowing 01-07
 - Collapse of lending standards
- Caused massive imbalances in economy
 - Housing and consumer spending bubbles
 - Record low savings, massive trade deficit, consumer debt levels
- 8 years to recovery
 - Truly lost jobs, rebuilding incomes, 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

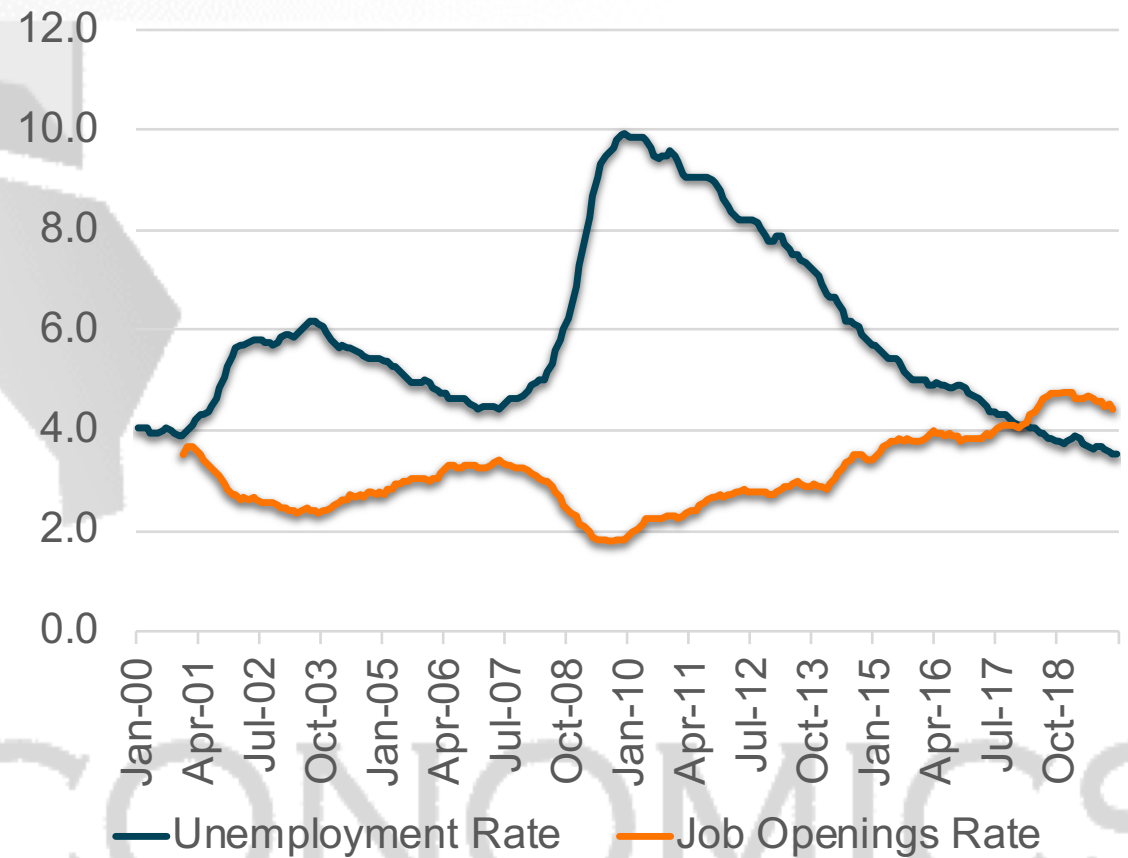
Labor Markets



Payroll Job Growth (Y-o-Y)



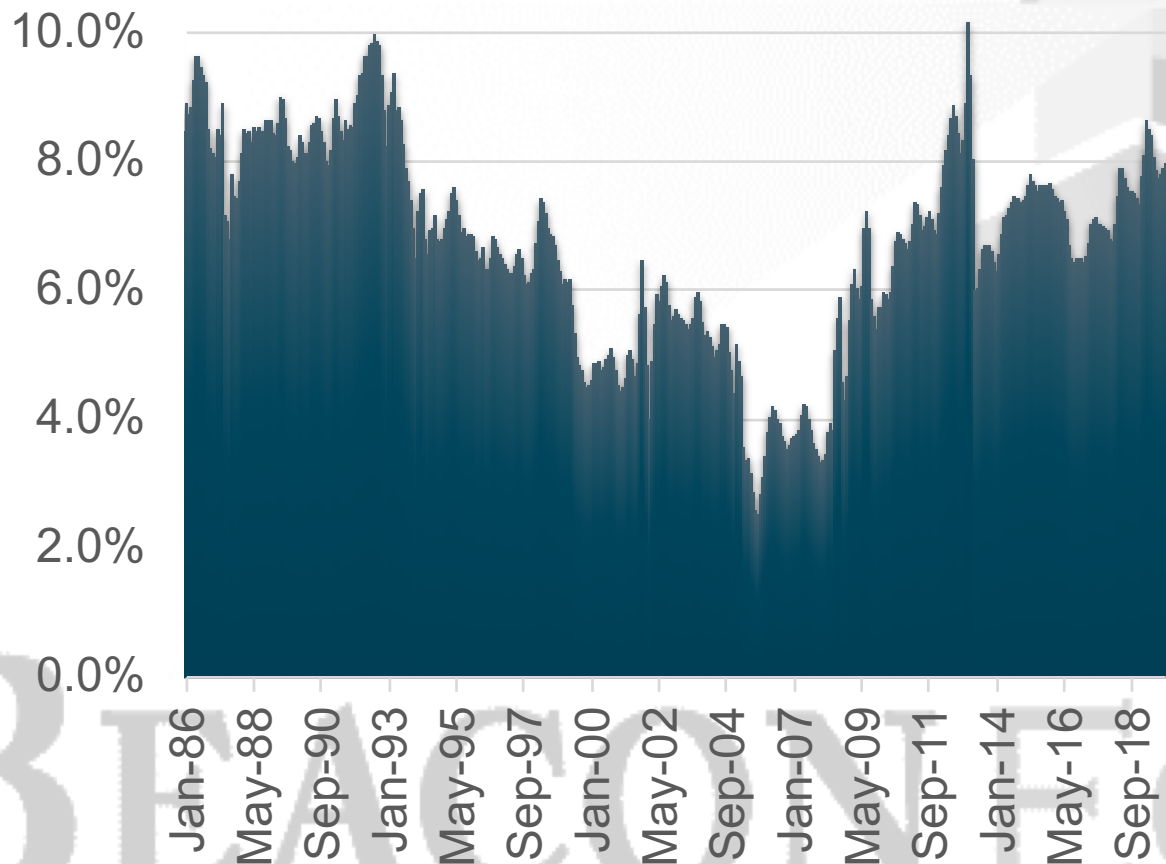
Unemployment and Job Openings (Rates)



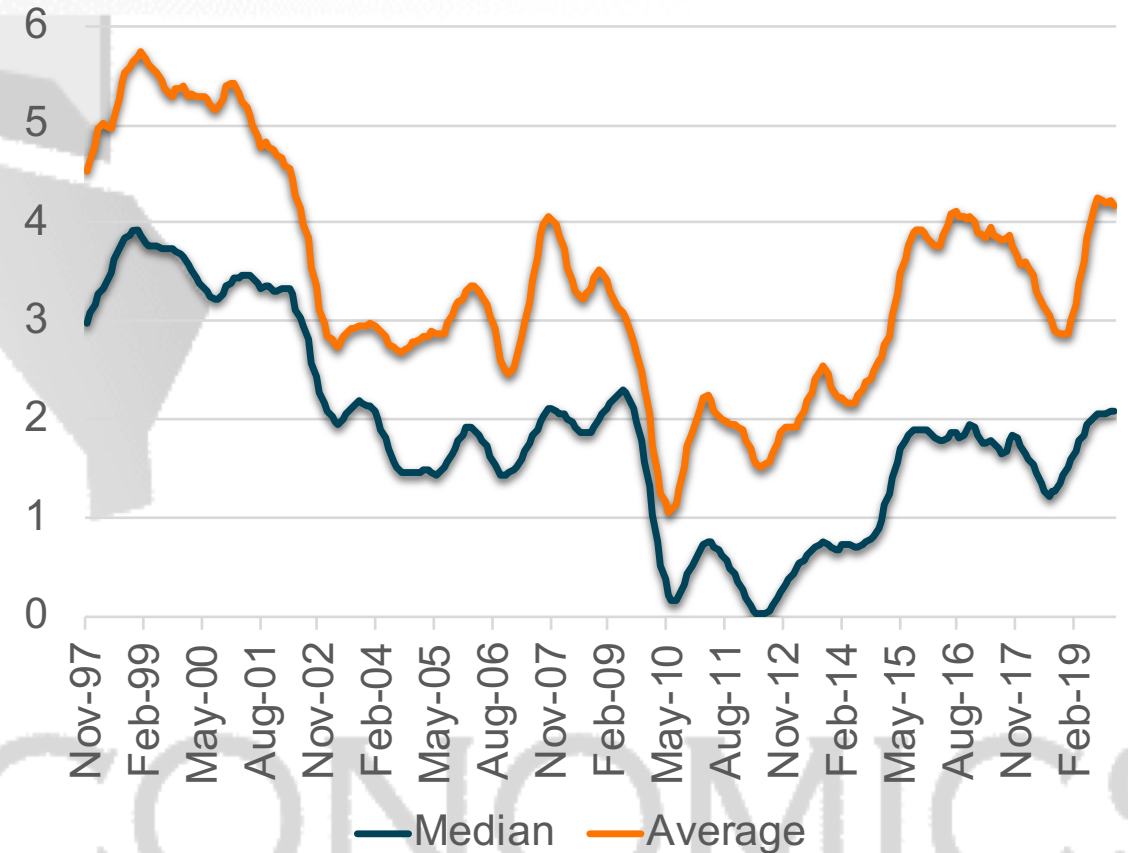
Consumer Incomes / Savings



Household Savings Rate



Real Wage Gains for US Workers Atlanta Fed Wage Tracker



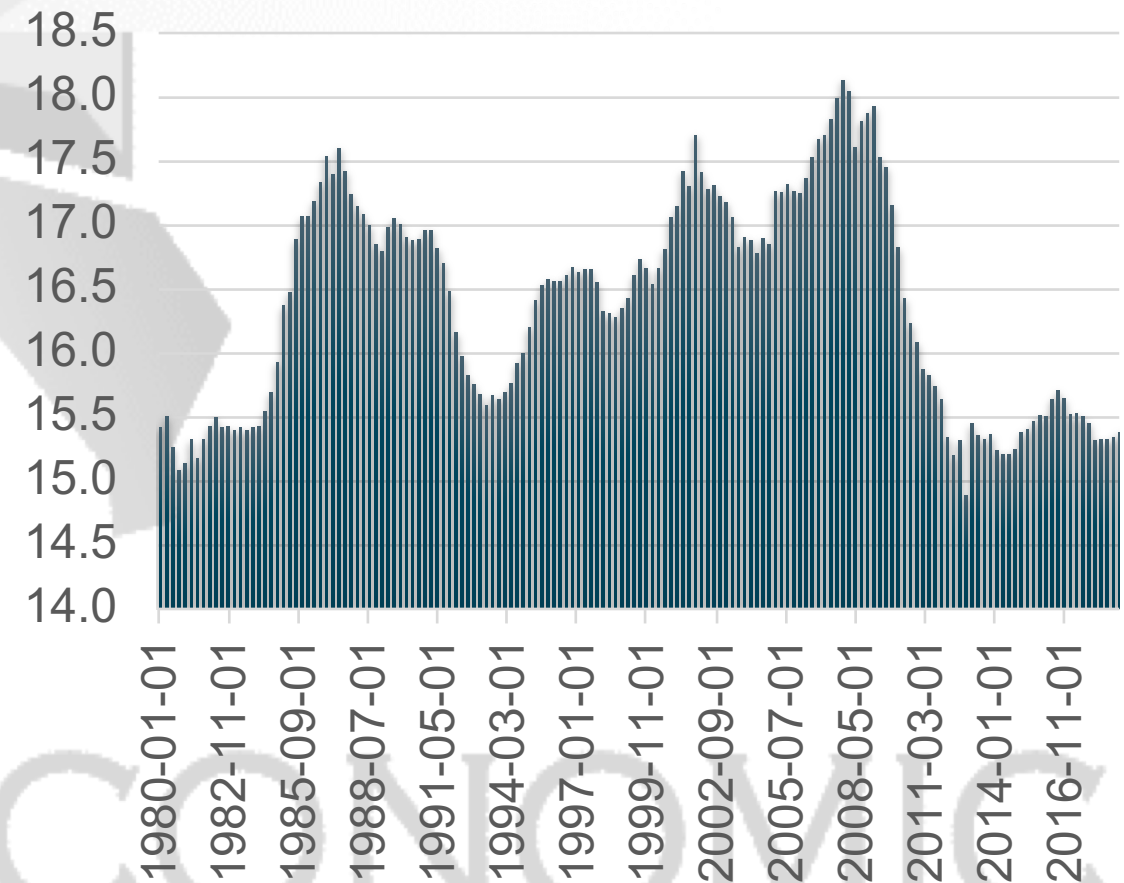
Consumer Debt Problems?



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

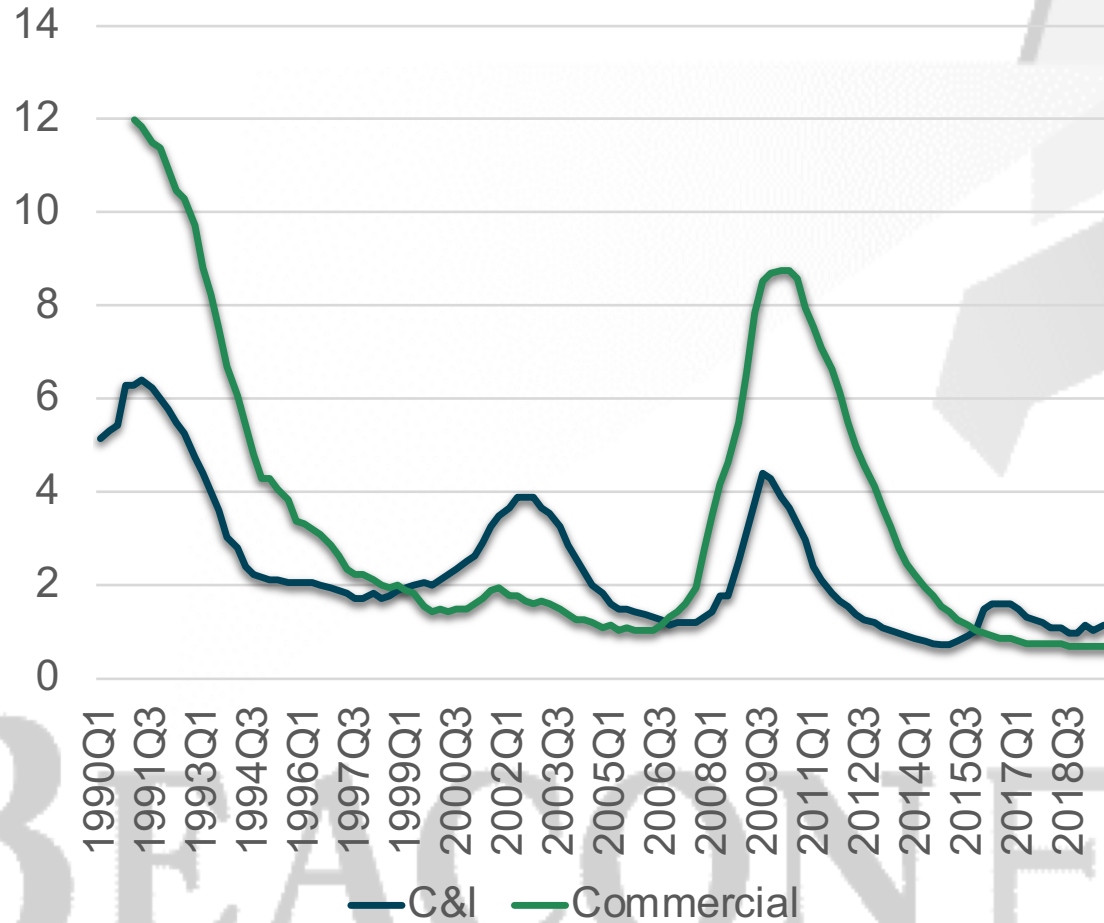
Financial Obligations % DPI



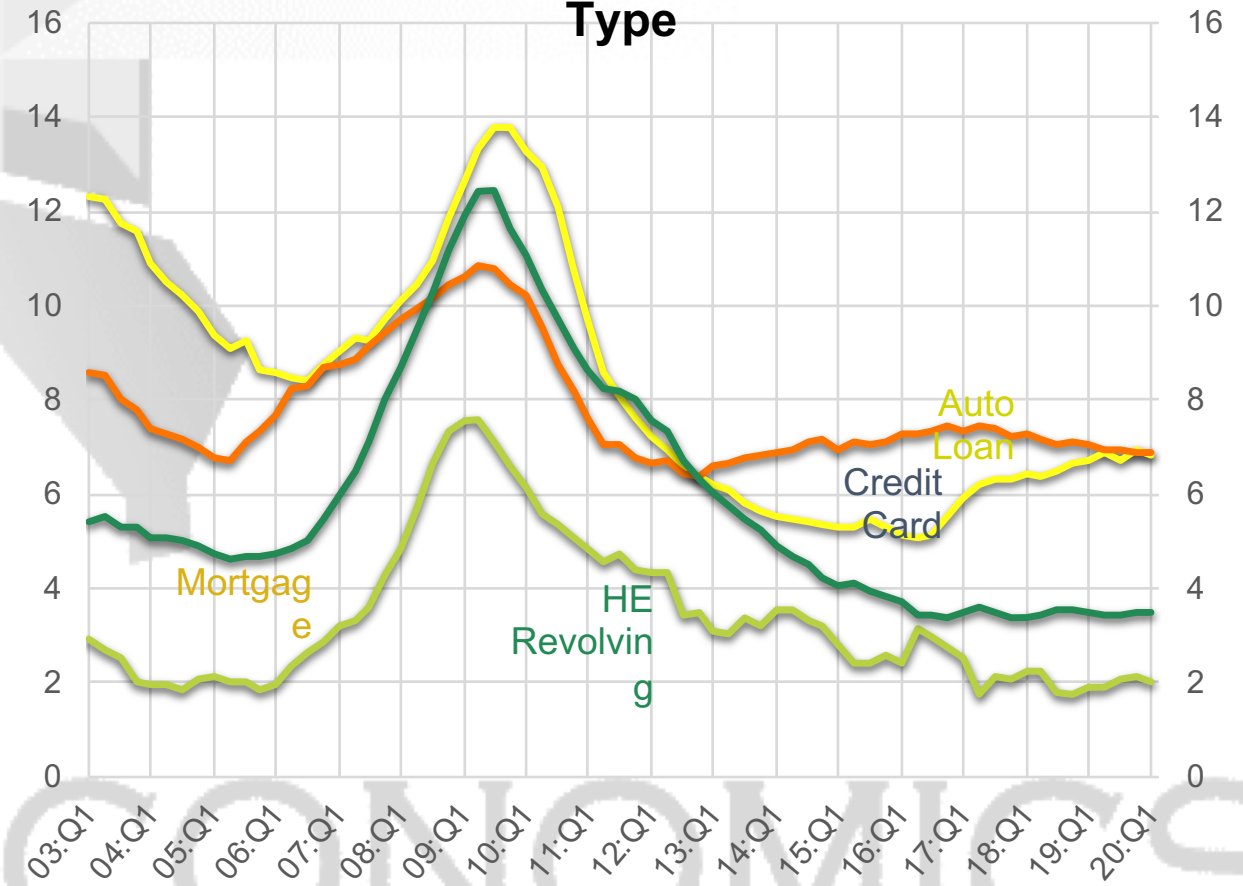
Business and Consumer Credit



Commercial Bank Dq Rates



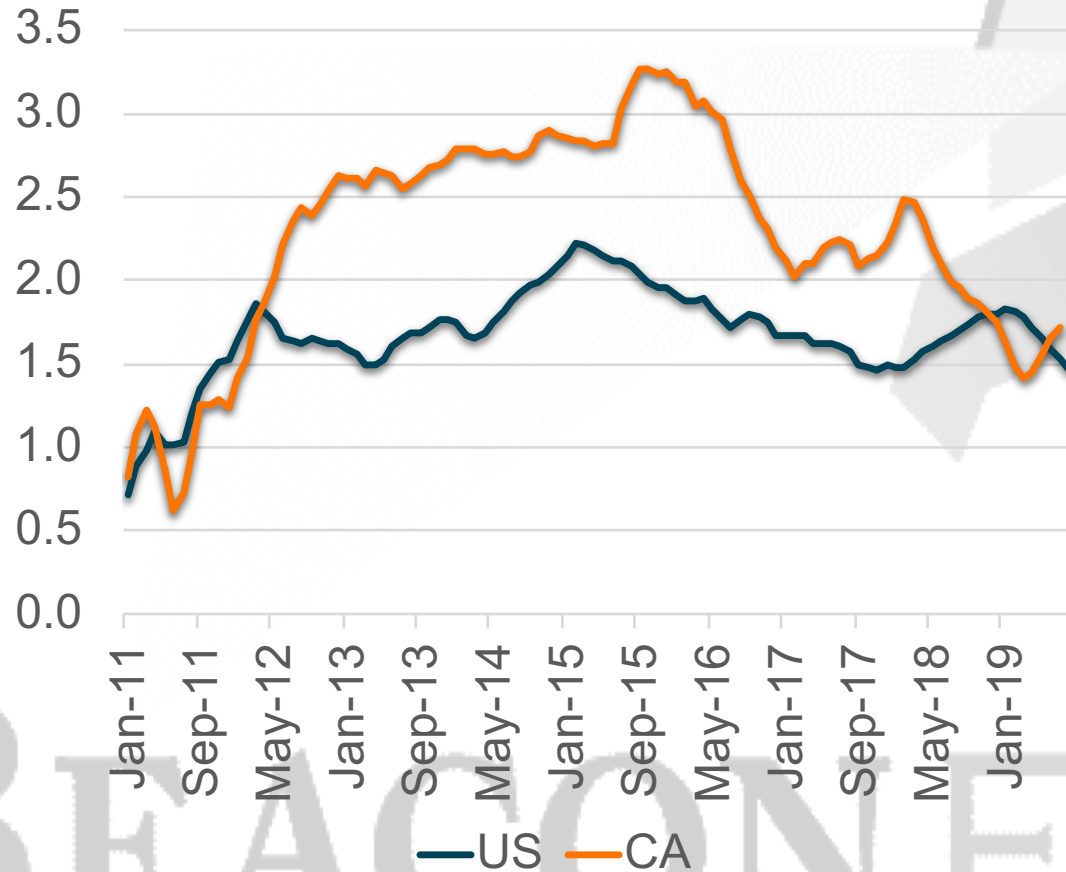
Transition into Delinquency (30+) by Loan Type



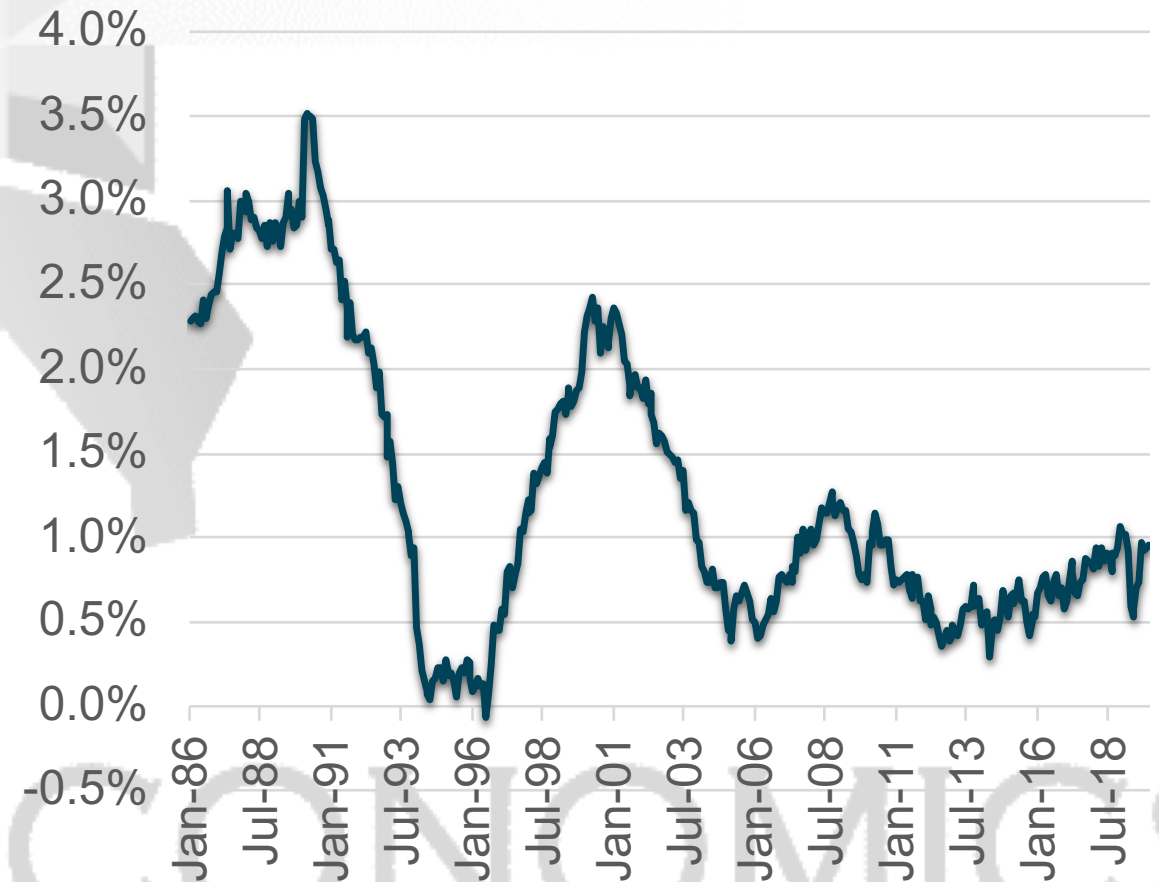
California Slowing Job Growth



Payroll Job Growth



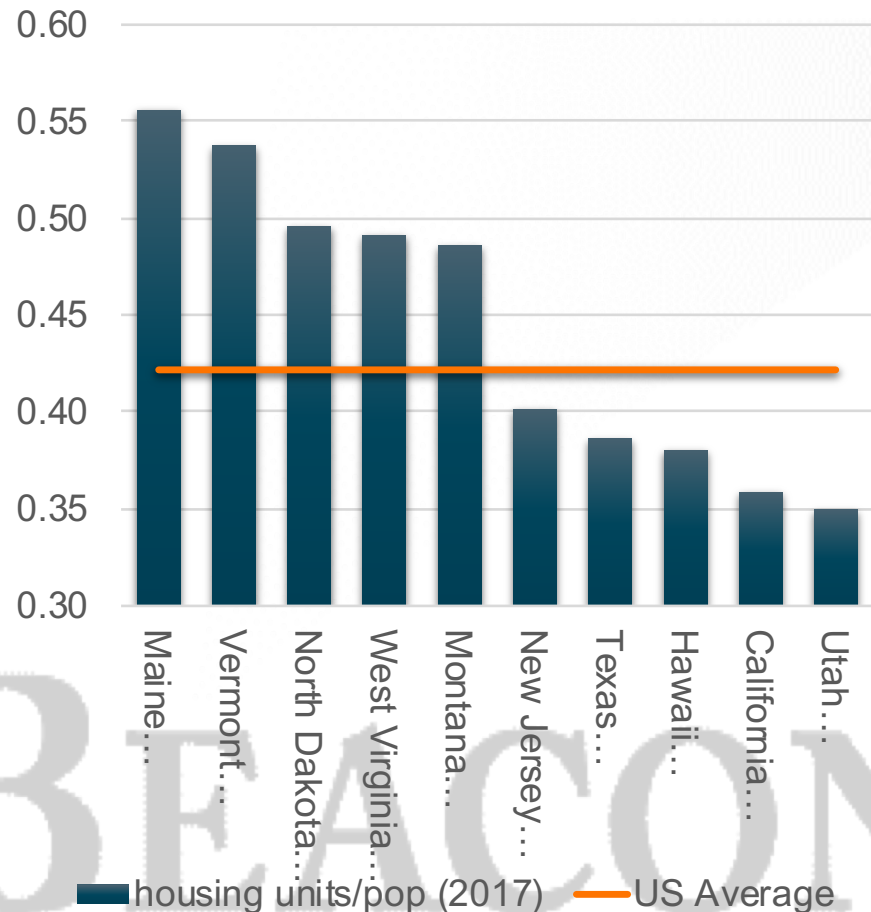
State Labor Force Growth



California SUPPLY Problems



Housing Units per Capita (2017) - Top 5 and Bottom 5 States)



2018 Share Overcrowded Housing

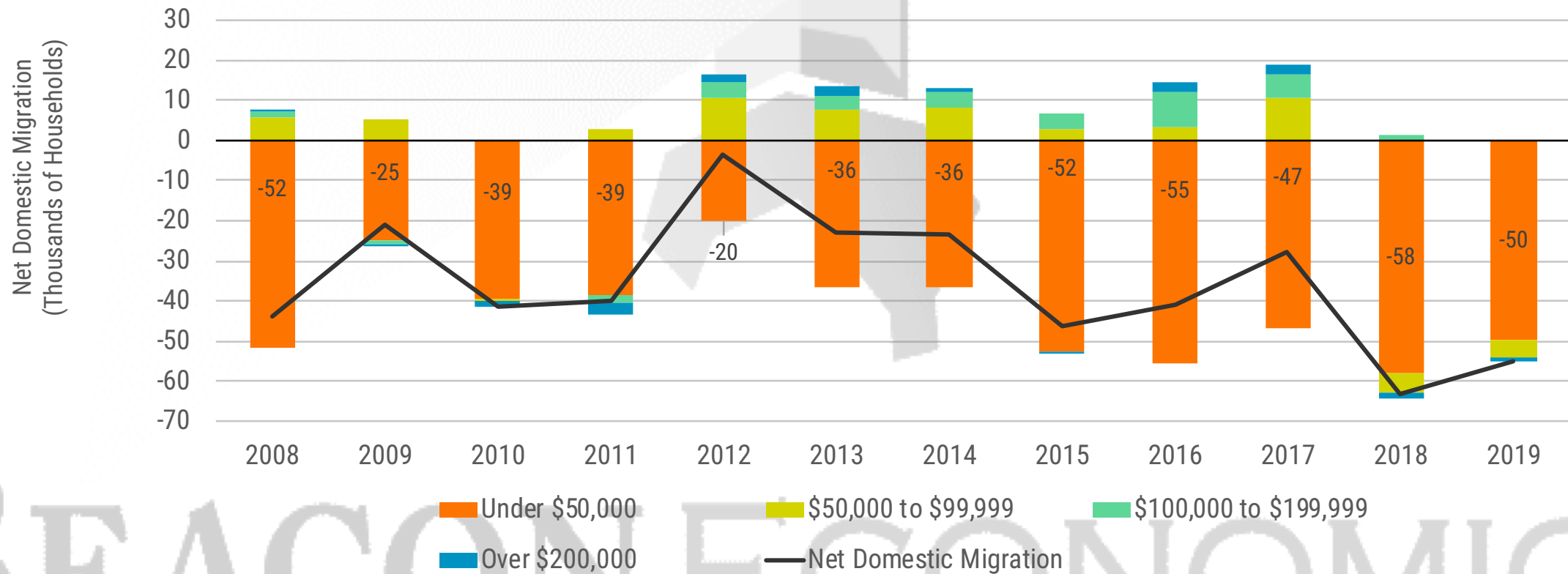
	Own	Rent
California	2.2%	13.4%
Hawaii	3.7%	11.9%
Alaska	3.3%	9.5%
New York	1.3%	8.4%
Utah	1.4%	8.2%
Arizona	1.6%	8.2%
Texas	1.9%	7.4%
New Jersey	0.8%	6.7%
Nevada	1.4%	6.2%
Washington	1.2%	6.1%
Oregon	1.5%	5.8%
Florida	1.1%	5.7%

2018 Housing Vacancy

51	California	8.3%
50	Washington	8.5%
49	Oregon	9.3%
48	Maryland	9.9%
47	Nebraska	9.9%
46	Mass	10.0%
45	Utah	10.1%
44	Ohio	10.3%
43	Colorado	10.3%
42	Connecticut	10.6%
41	DC	10.6%
40	New Jersey	11.0%

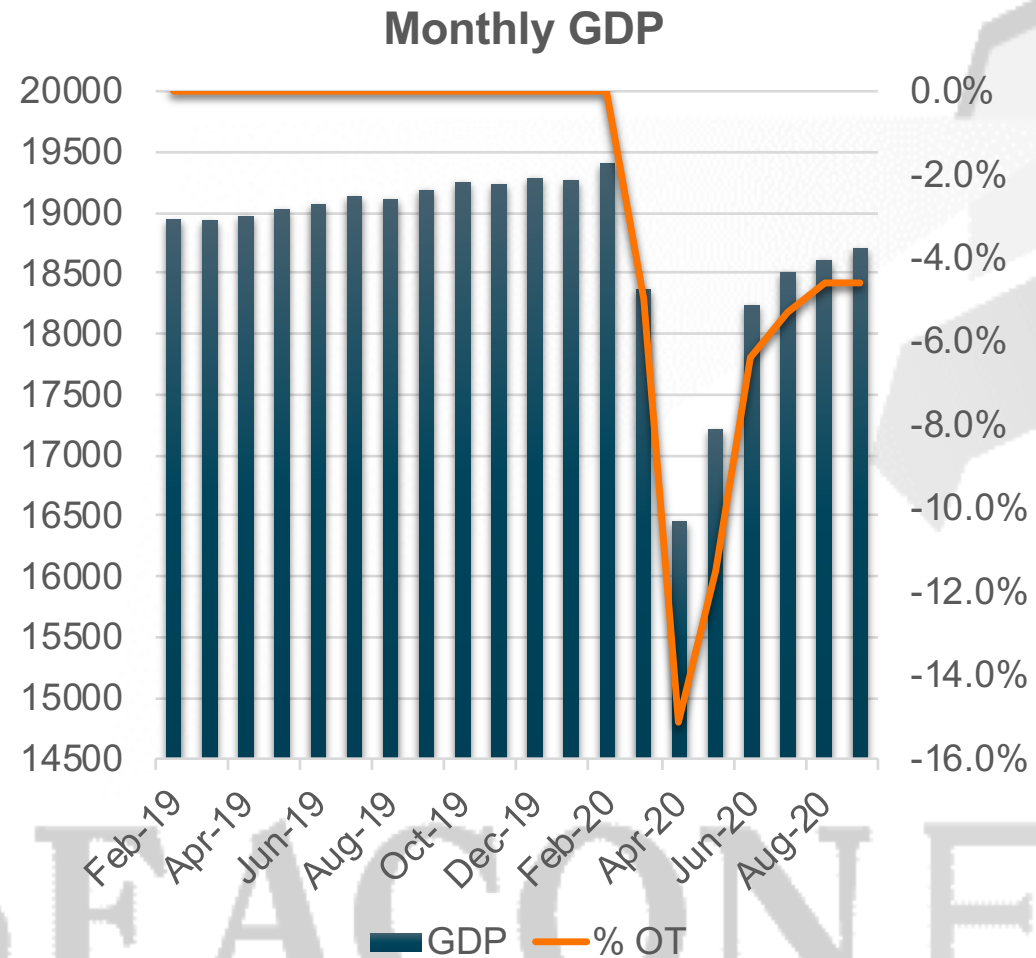
Net Domestic Migration

Net Domestic Migration (2008 to 2019): Low Income Households' California Exodus Continues



Note: Data label (thousands of households) displayed for households earning below \$50,000.

The Rebound: Overall Activity



	2020			
	Q1	Q2	Q3	
GDP	-5	-31.4	33.1	-3.5%
Consumption	-4.75	-24.01	25.27	-3.3%
Goods	0.03	-2.06	9.24	6.7%
Services	-4.78	-21.95	16.04	-7.7%
Fixed investment	-0.23	-5.27	4.96	-2.7%
Structures	-0.11	-1.11	-0.43	-14.0%
Equipment	-0.91	-2.03	3.34	-1.9%
Intellectual property	0.11	-0.53	-0.03	-2.6%
Residential	0.68	-1.6	2.09	5.1%
Change in inventories	-1.34	-3.5	6.62	
Net exports	1.13	0.62	-3.09	
Exports	-1.12	-9.51	4.9	-15.3%
Imports	2.25	10.13	-7.99	-7.1%
Government	0.22	0.77	-0.68	-0.2%
Federal	0.1	1.17	-0.39	2.6%
State and local	0.12	-0.4	-0.3	-1.9%

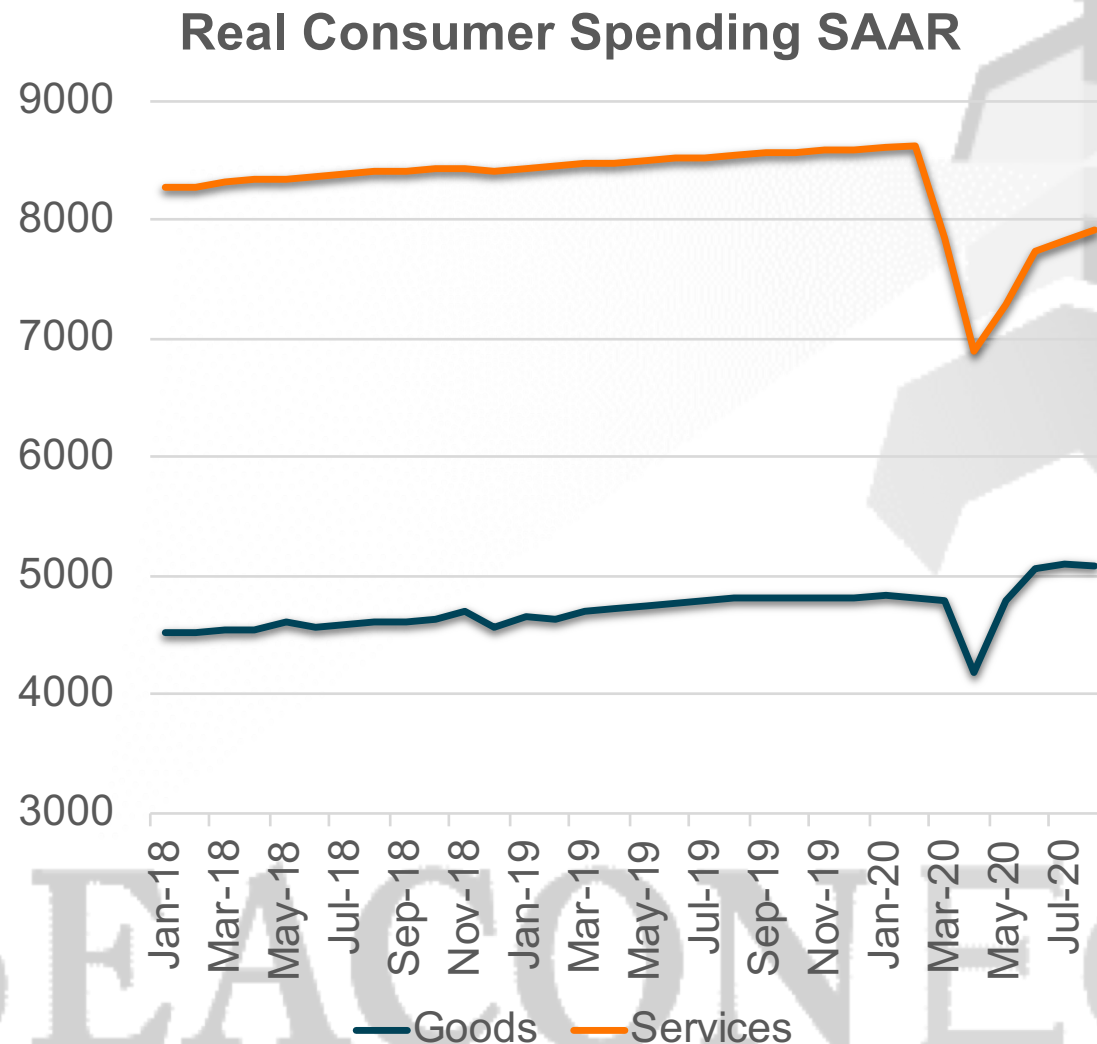
Stages of the Covid-19 Business Cycle



- 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-19 response: The federal debt / inflation



Consumers Leading the Way



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%

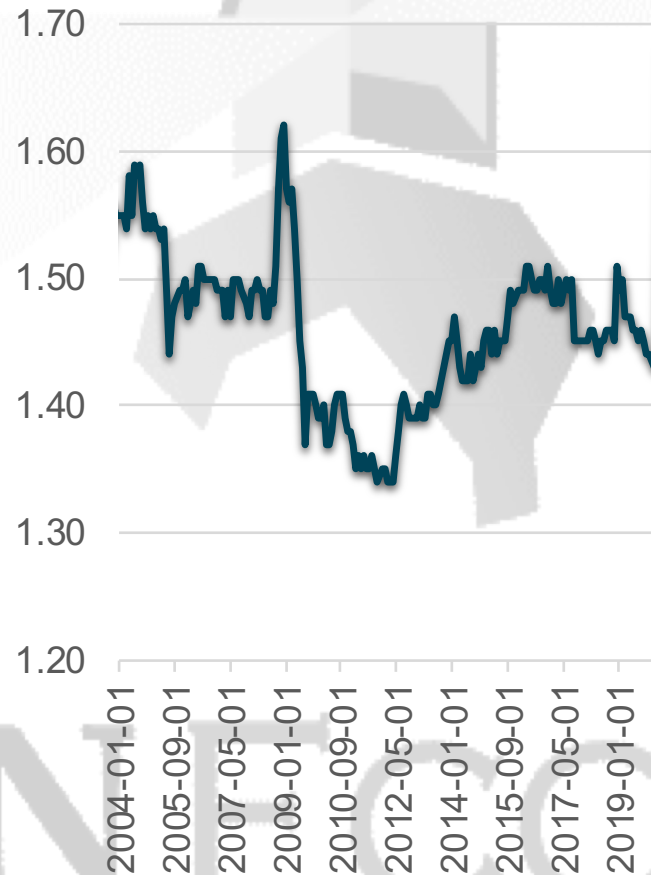
Leading Indicators



Manufacturing Inventory / Sales Ratio



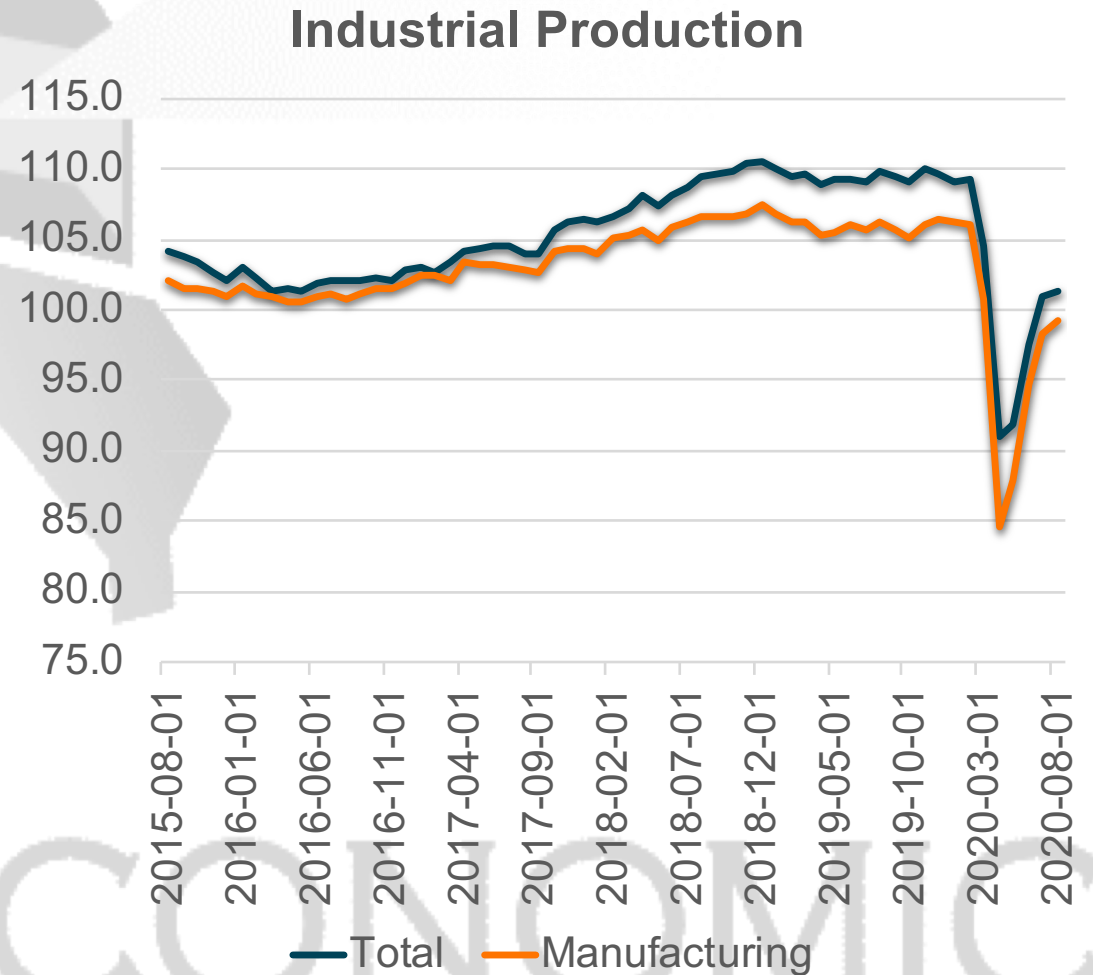
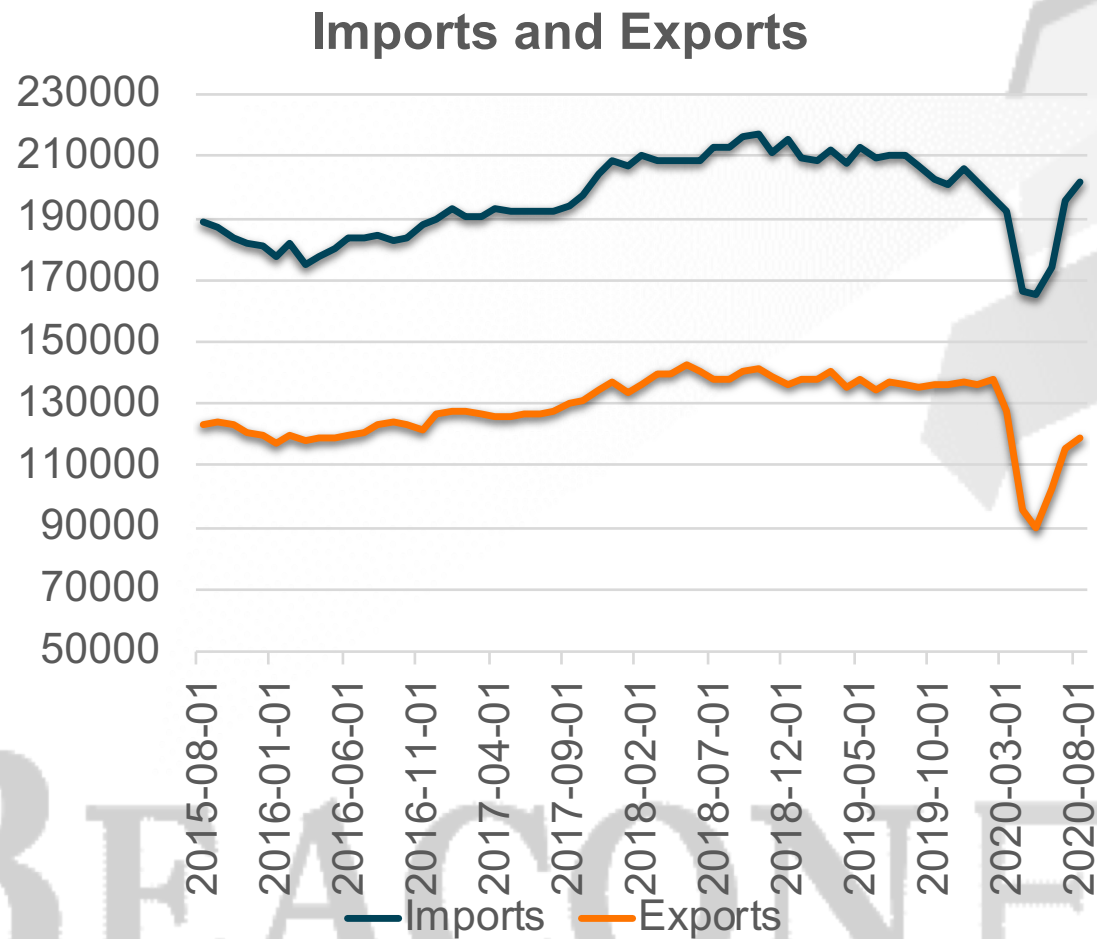
Retail Sales: Inventory to Sales Ratio



Non-Defense, Non-Aircraft New Durable Orders



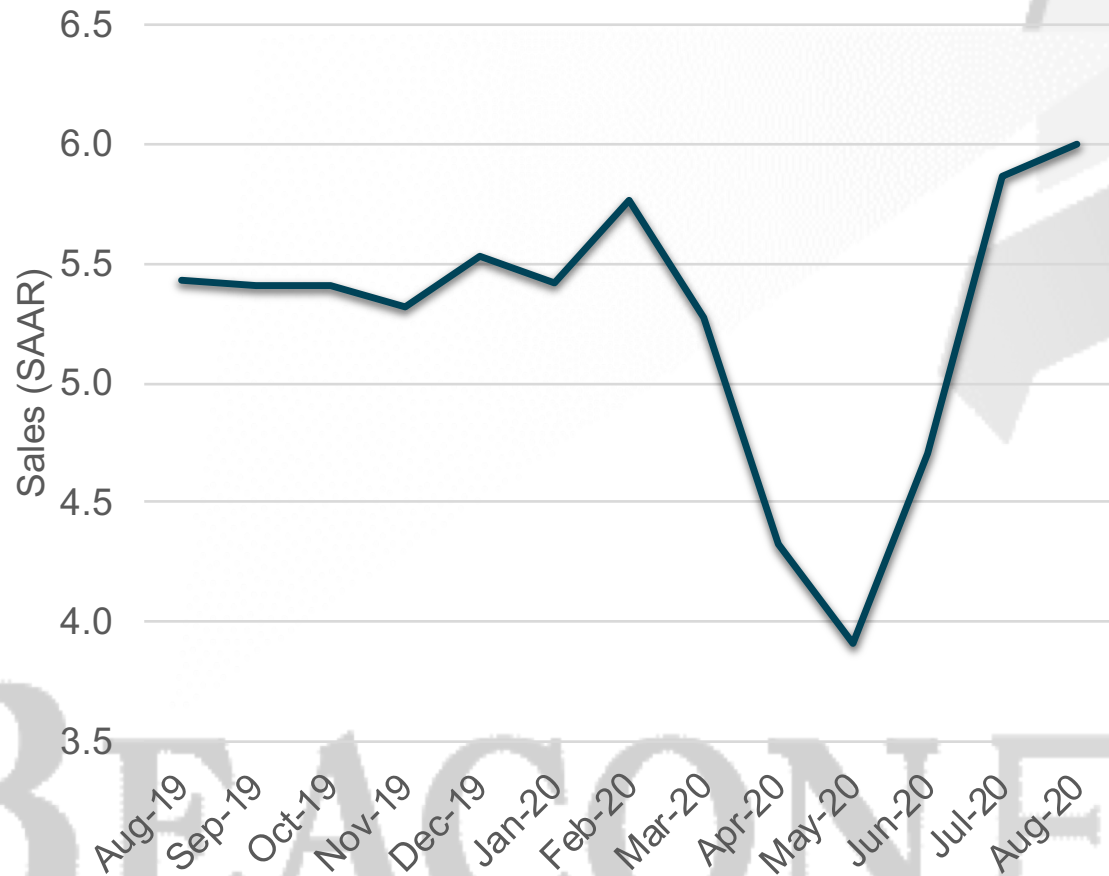
The Bounce in Production



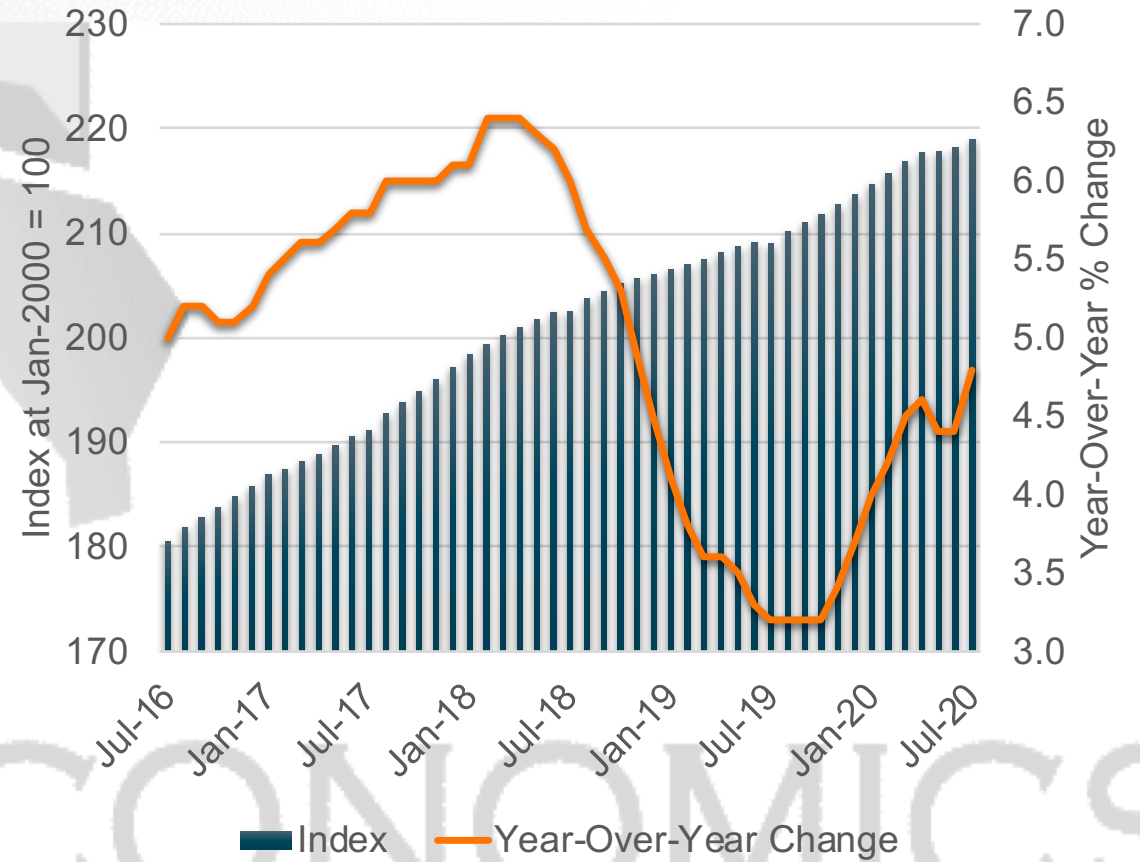
Housing – U.S.



U.S. Home Sales



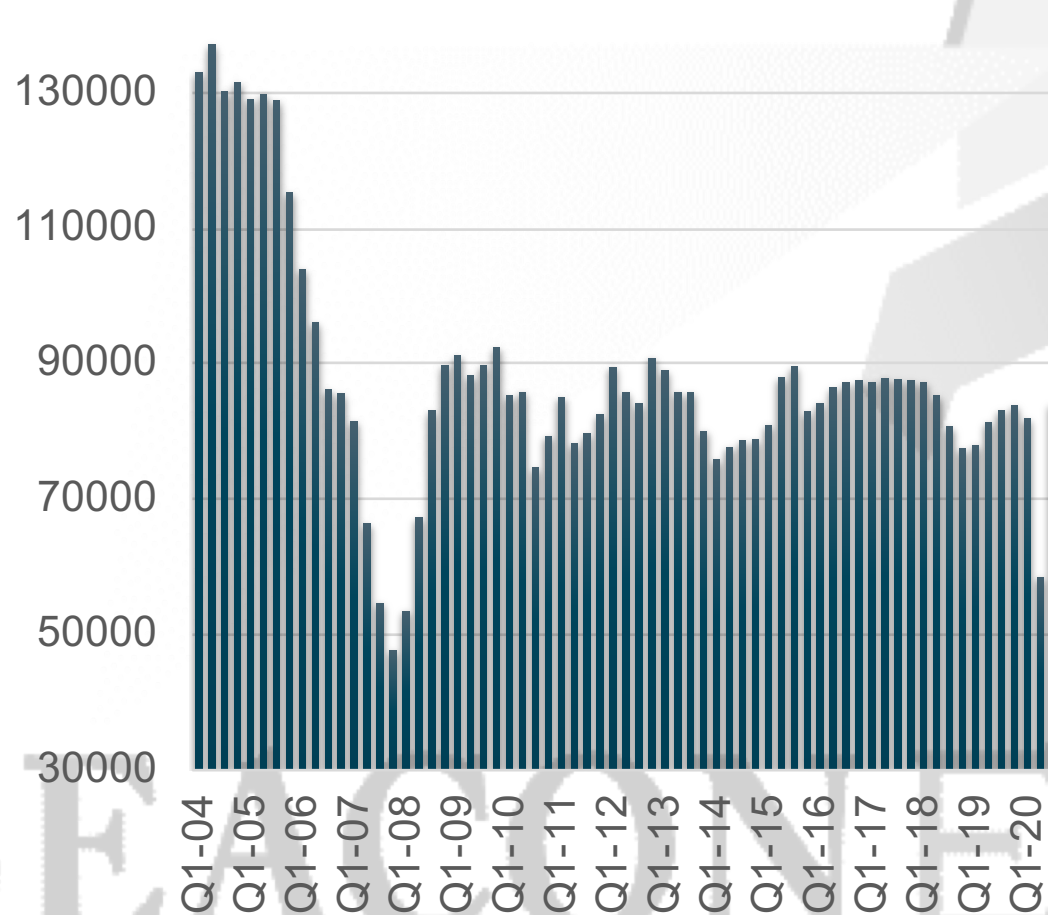
S&P/Case-Shiller National Index



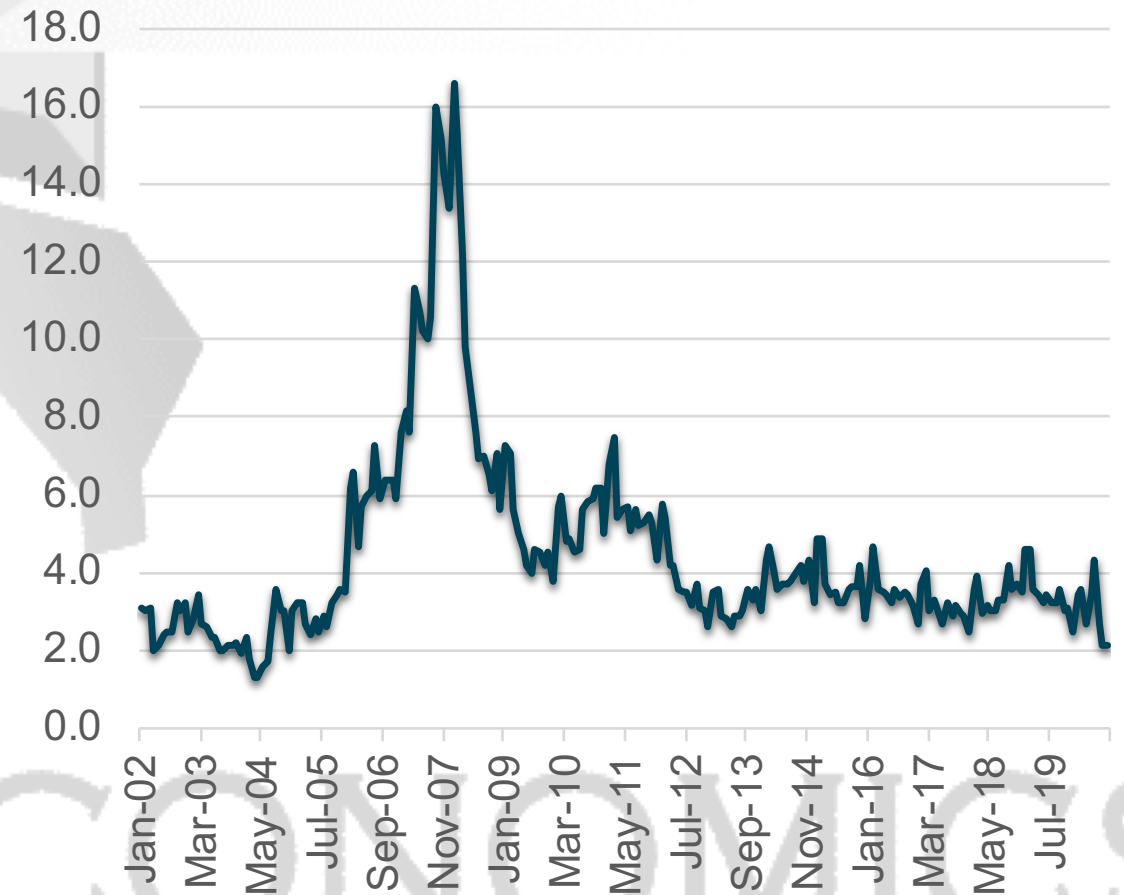
State Sales



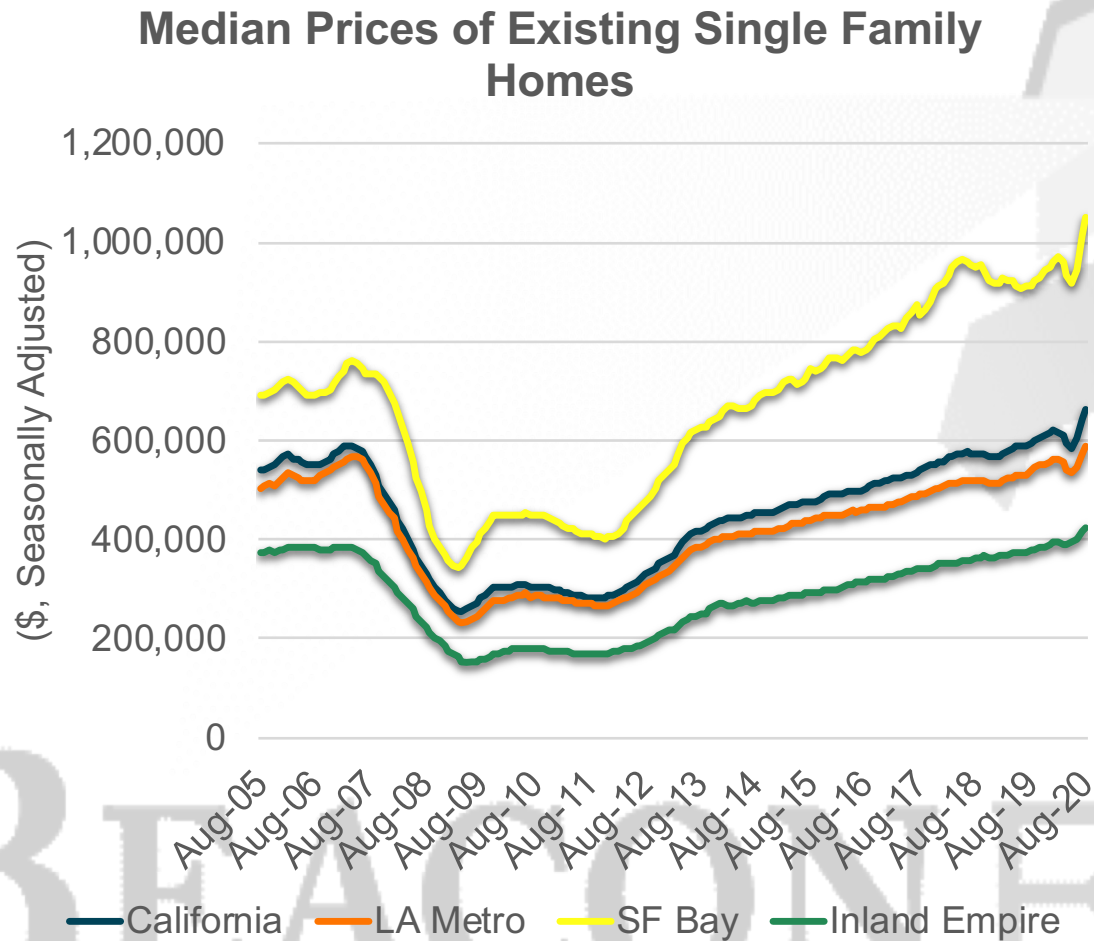
Home Sales



Months Supply of Inventory



California Real Estate

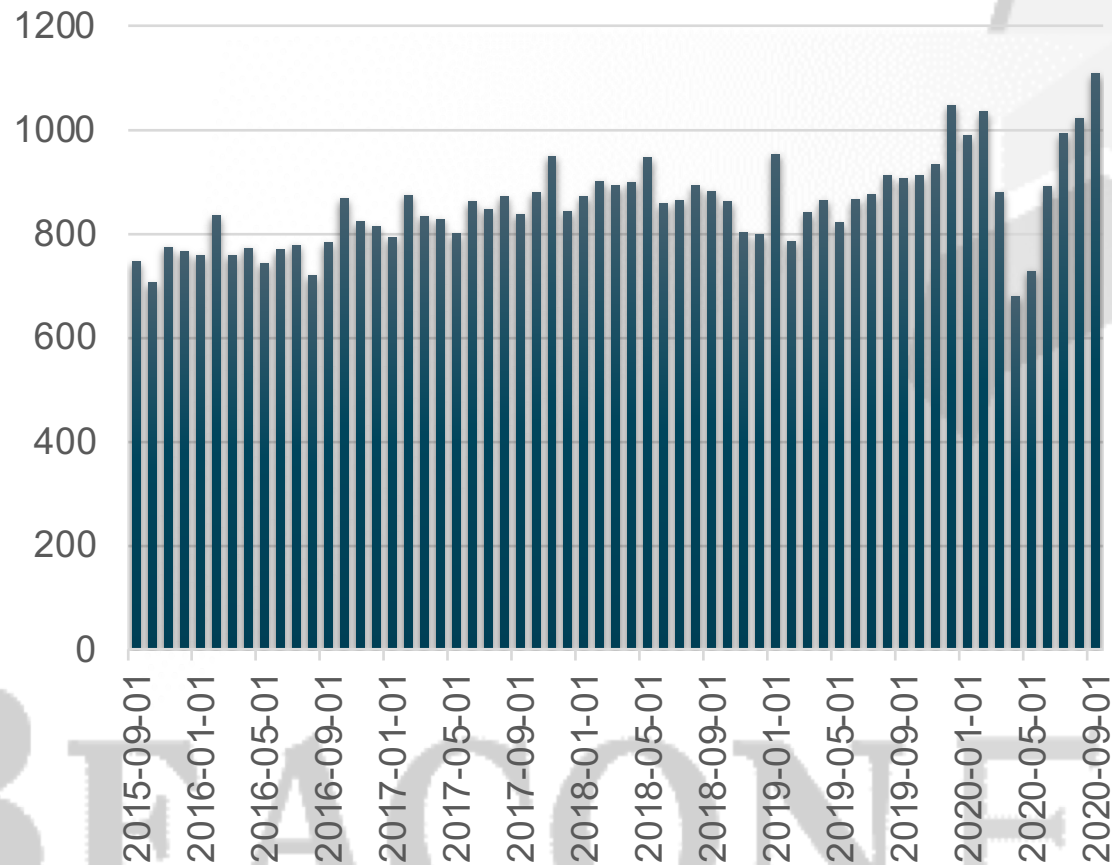


Region	Median SF Home Prices		Home Sales 1-Yr % Change
	Aug-20	1-Yr % Change	
California	\$706,900	14.5	14.6
SF Bay Area	\$1,068,000	18.7	10.8
Inland Empire	\$435,000	14.5	9.0
Los Angeles Metro	\$615,000	12.8	4.4

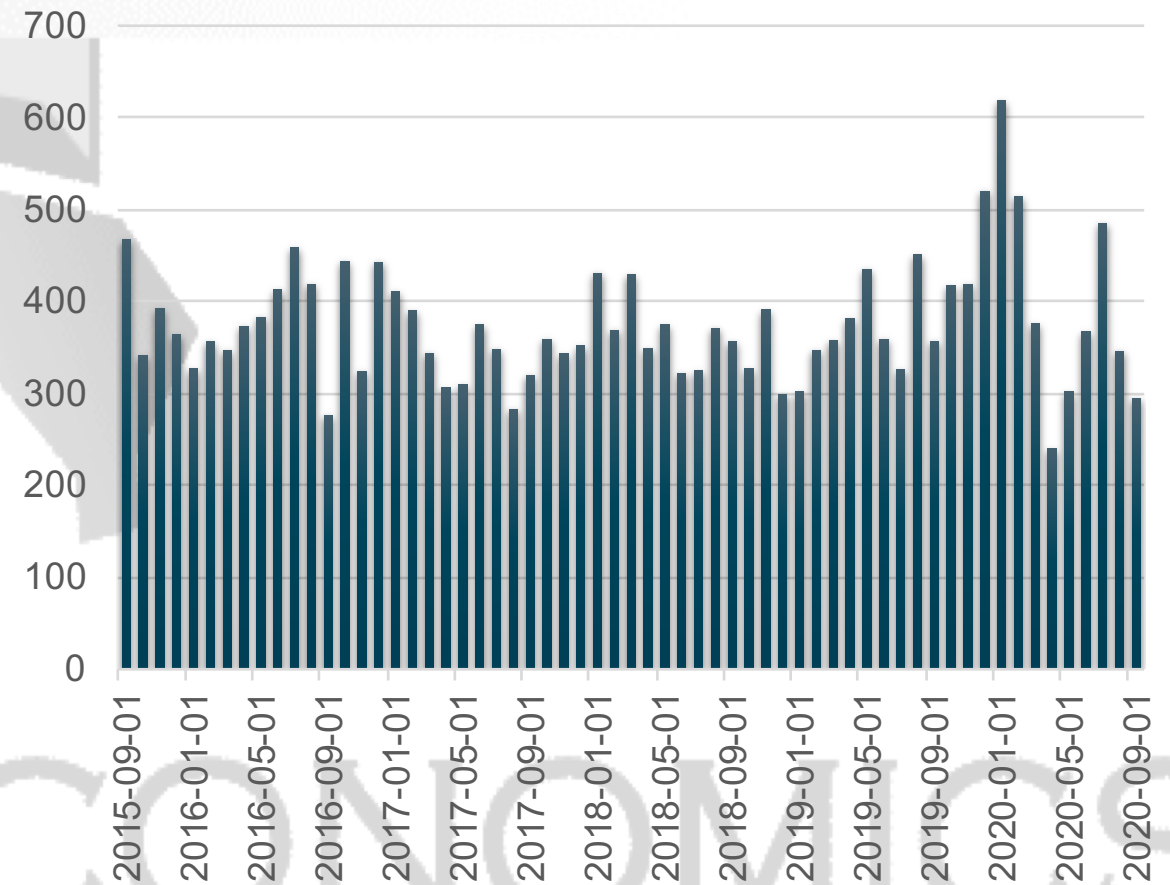
Housing Starts



SF Housing Starts SAAR



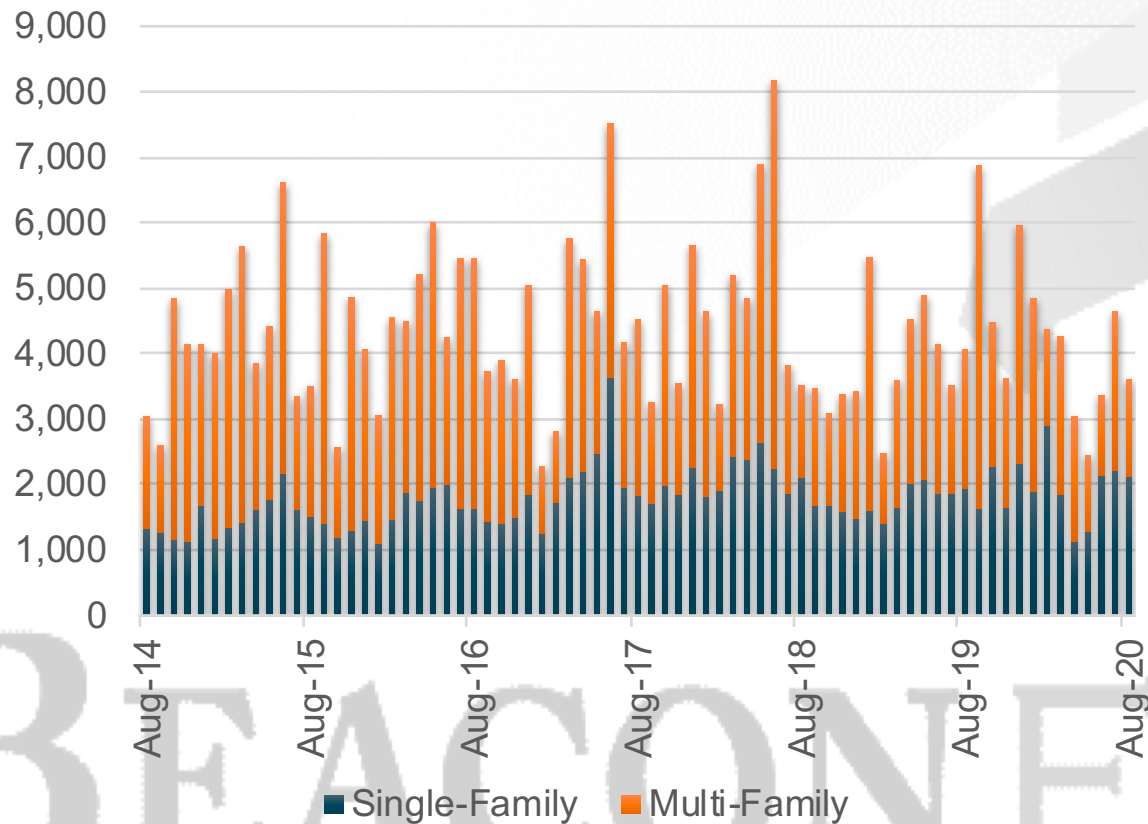
MF Housing Starts



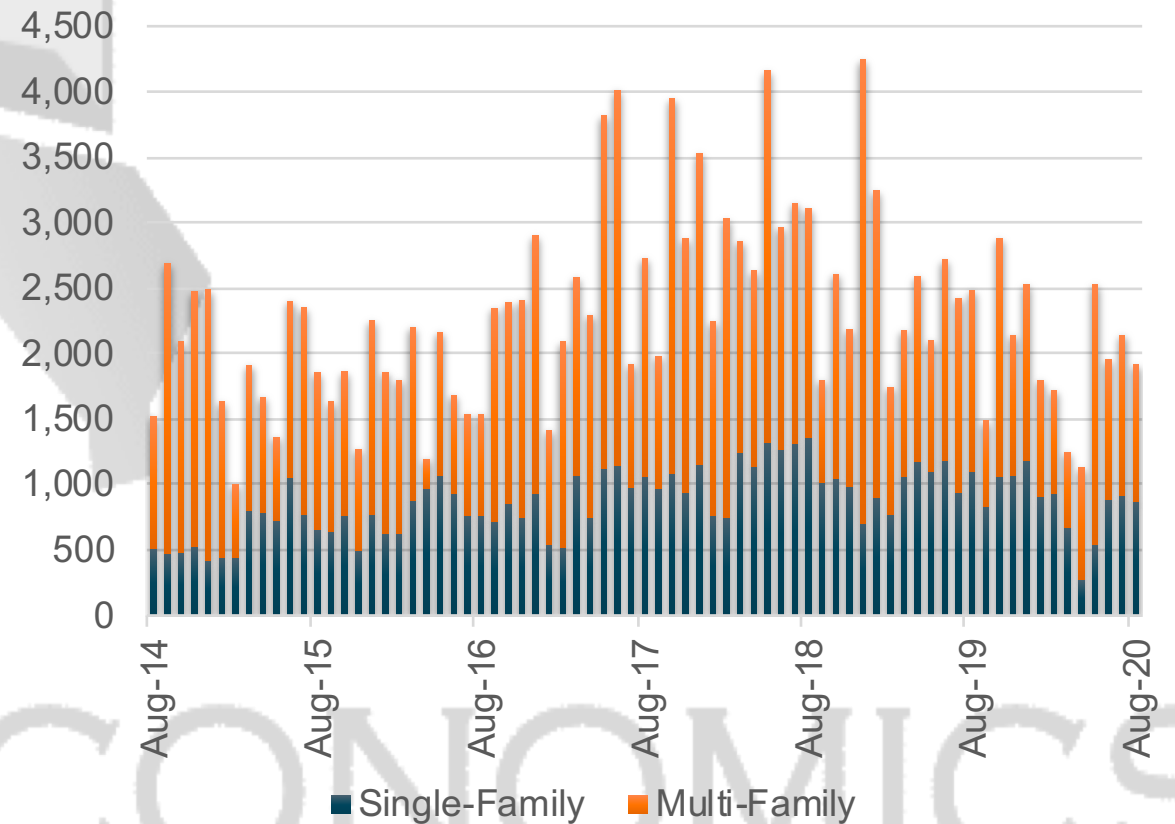
Residential Permits



Residential Permits Southern California



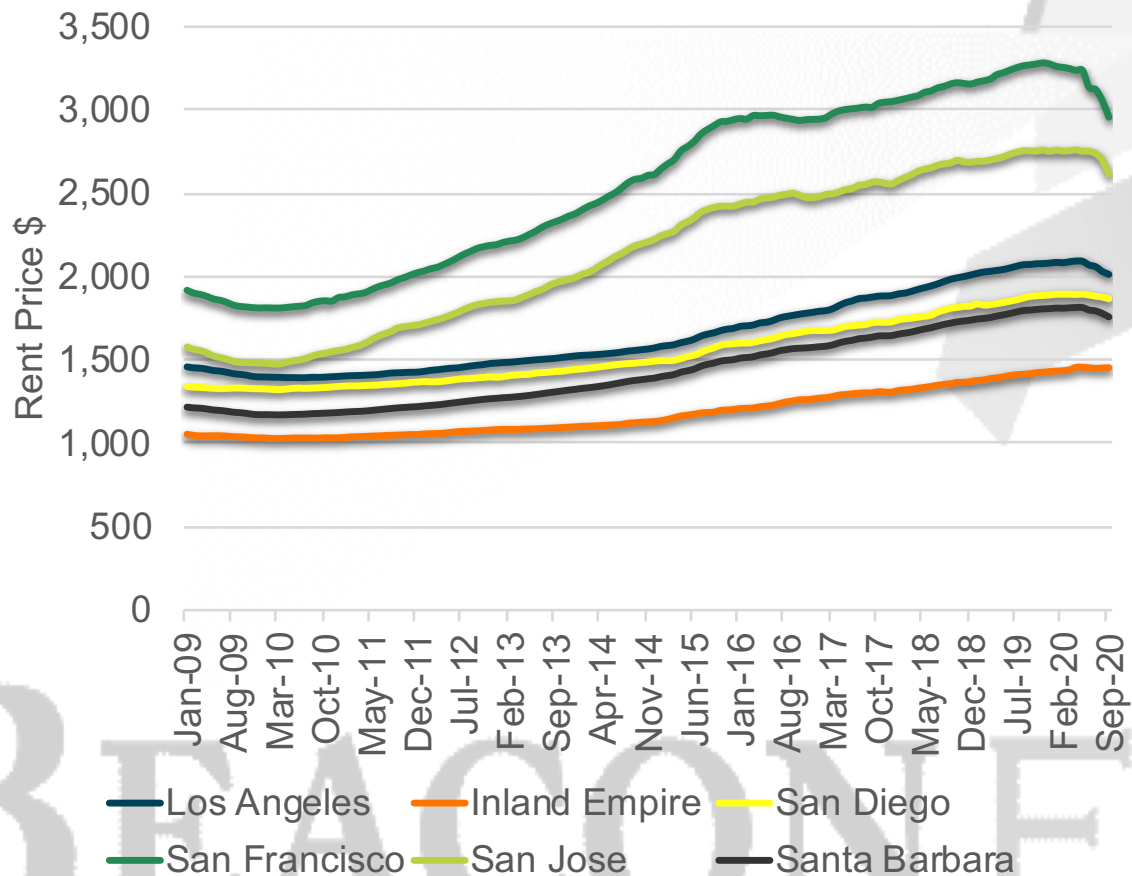
Residential Permits Northern California



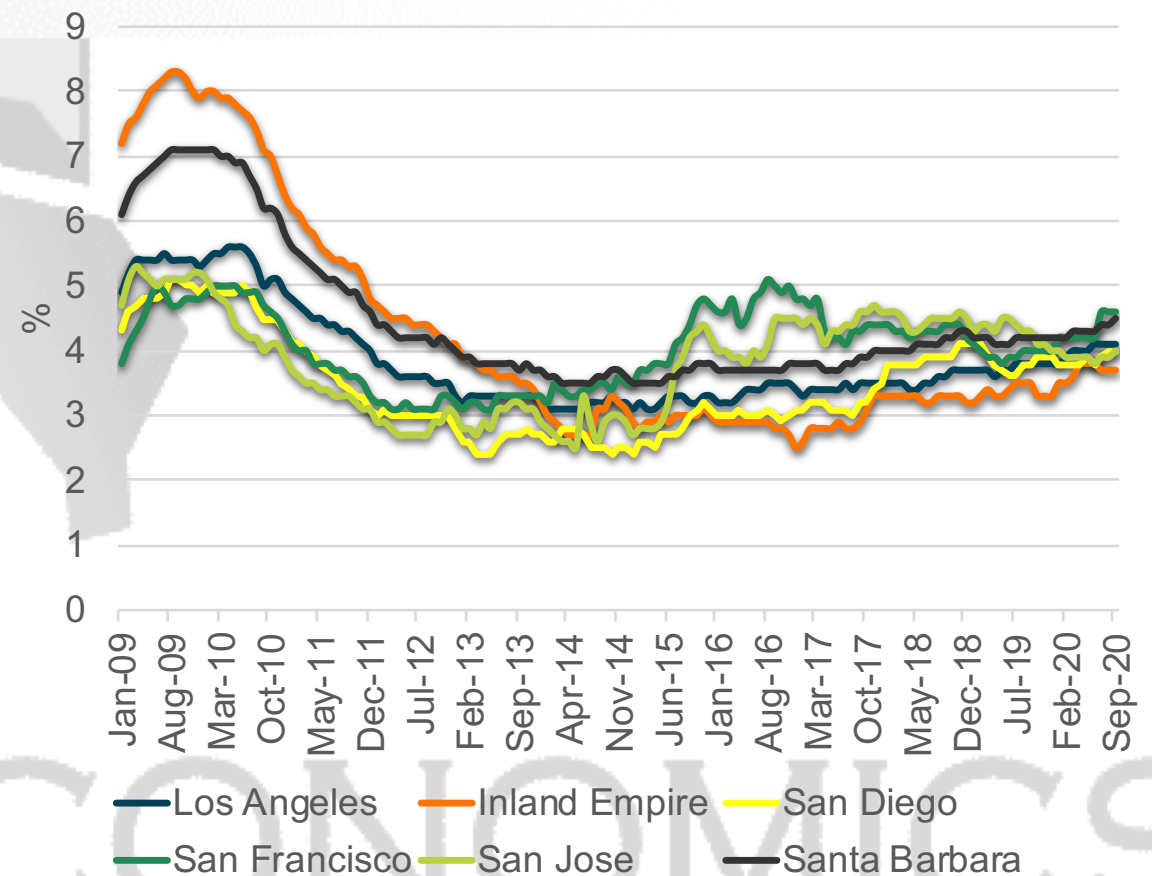
Residential Rents and Vacancies



Cost of Rent



Vacancy Rate



Permitting Trends



Single-Family Permits

County	2020 YTD Through Q2	Change from 2019 YTD	Growth from 2019 YTD (%)
Riverside	3,754	834	28.6
San Diego	1,812	373	25.9
Los Angeles	2,537	-44	-1.7
San Bernardino	1,461	-83	-5.4
Orange	1,257	-209	-14.3

Multifamily Permits

County	2020 YTD Through Q2	Change from 2019 YTD	Growth from 2019 YTD (%)
Riverside	97	-1249	-92.8
San Diego	2,237	182	8.9
Los Angeles	6,759	-683	-9.2
San Bernardino	425	-268	-38.7
Orange	2,271	-481	-17.5

Non Residential Markets



**Real Investment in
Structures**



Structures	-15.2%	468.6
Commercial and health care	-3.7%	156.6
Manufacturing	-10.4%	55.8
Power and communication	0.2%	114.4
Mining exploration, shafts, and wells ¹	-55.2%	54.2
Other structures ²	-15.0%	83.3

Nonresidential Rents and Vacancies



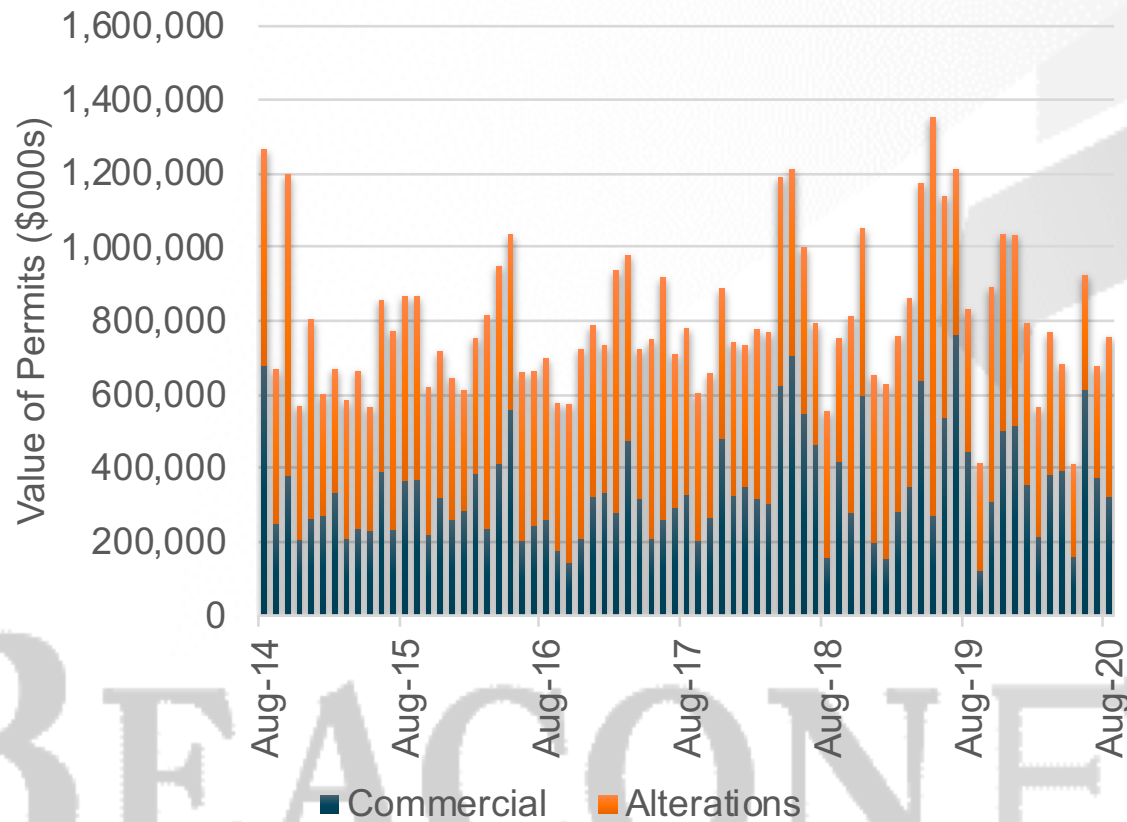
Office	Cost of Rent		Vacancy Rates	
	Q3-2020 (\$)	1-Year % Change	Q3-2020 (%)	1-Year Change
San Diego	34.3	2.6	16.3	0.7
San Francisco (MD)	65.8	2.5	9.9	1.1
Los Angeles (MD)	40.6	1.4	14.6	0.4
San Jose	47.0	0.9	18.3	0.1
Inland Empire	23.3	0.9	16.8	-0.1
Santa Barbara	26.4	0.2	12.7	2.3

Retail	Cost of Rent		Vacancy Rates	
	Q3-2020 (\$)	1-Year % Change	Q3-2020 (%)	1-Year Change
San Francisco (MD)	41.3	0.3	4.8	0.6
San Diego	32.4	-0.1	6.6	0.7
Santa Barbara	27.6	-0.3	7.3	-0.6
San Jose	37.6	-0.6	5.7	0.3
Los Angeles (MD)	33.6	-0.9	7.4	0.0
Inland Empire	23.2	-1.0	9.9	0.1

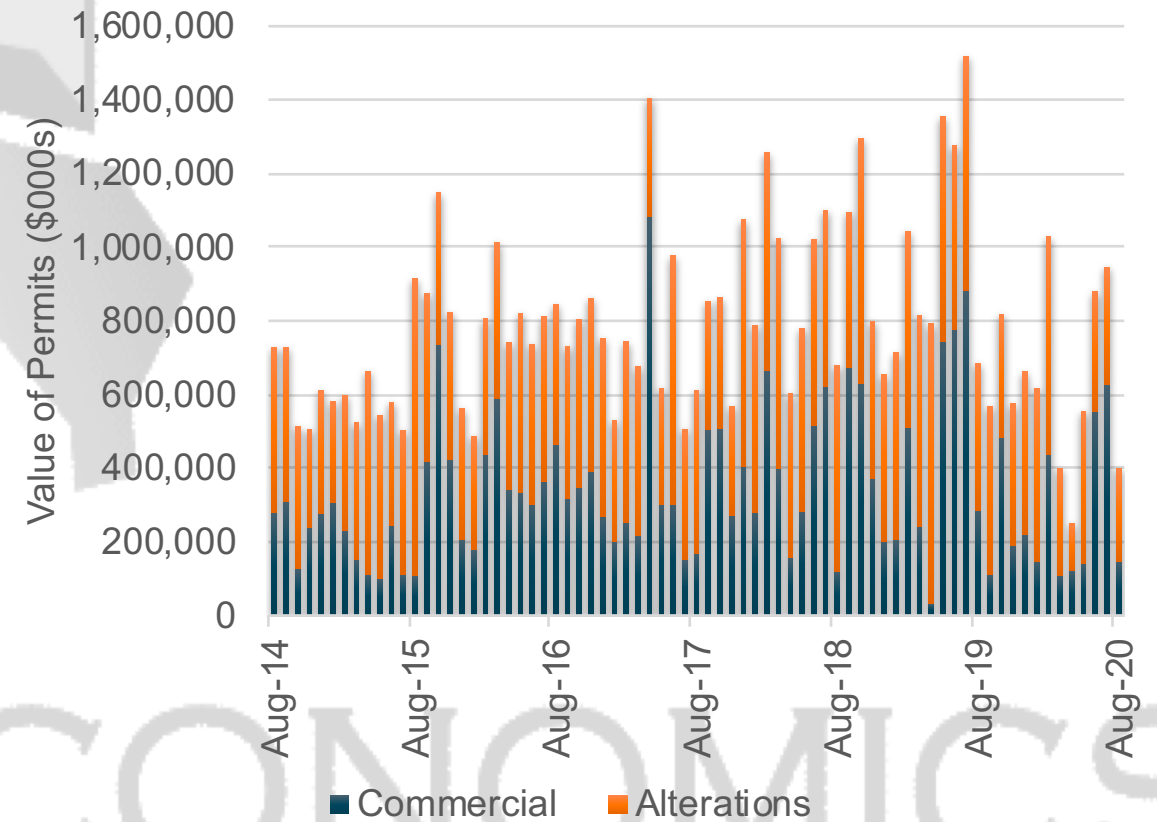
Nonresidential Permits



Nonresidential Permits - Southern California



Nonresidential Permits - Northern California



Nonresidential Permits

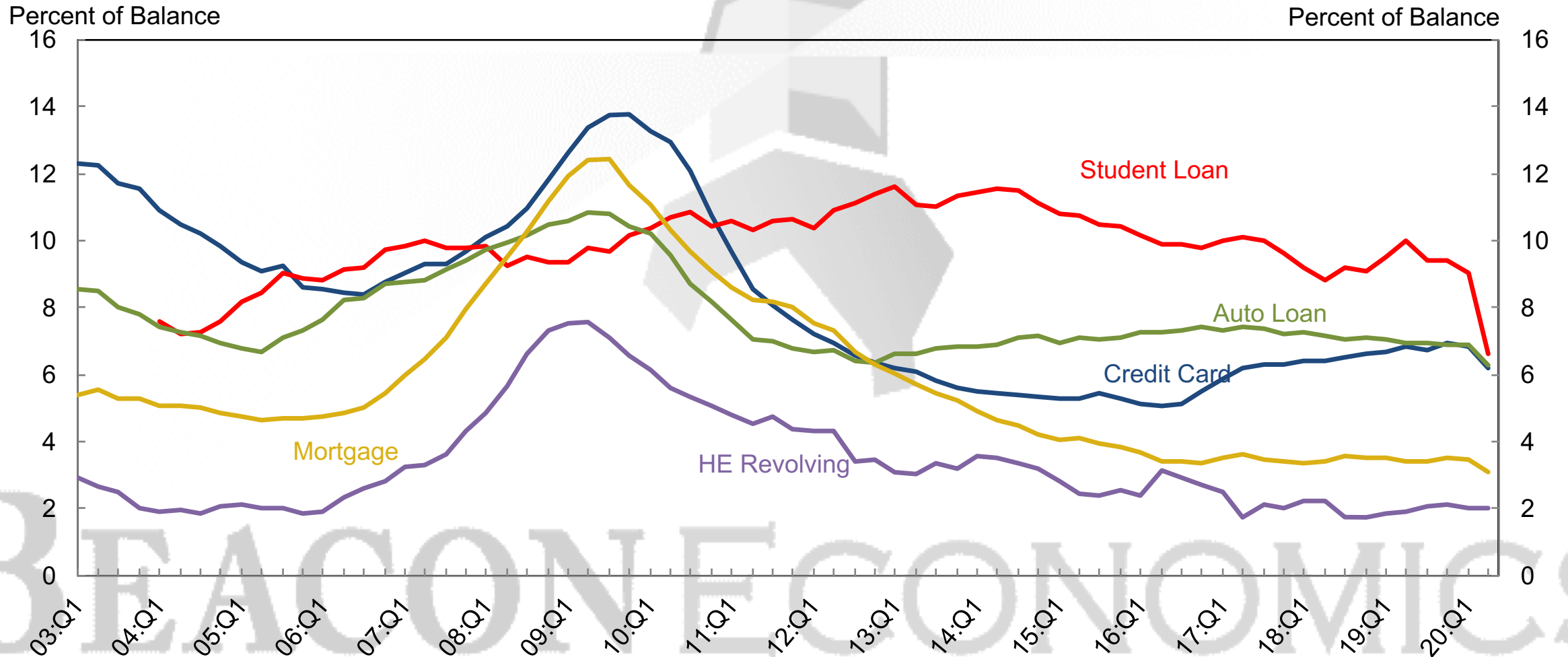


Northern California	Value of Permits (Commercial) \$, Billions	
	Aug 2020	1-Yr Change
Alterations	300.3	-166.7
Commercial	215.6	-188.5
Retail	176.6	88.3
Office	33.6	-236.3
Industrial	22.3	-1.3
Hotels	0.9	-16.6

Northern California	Value of Permits (Commercial) \$, Billions	
	Aug 2020	1-Yr Change
Alterations	439.9	37.6
Commercial	325.0	-120.9
Hotels	219.0	37.9
Retail	74.1	-92.2
Industrial	26.9	19.5
Office	7.0	-66.3

Consumer Debt

Transition into Delinquency (30+) by Loan Type



Source: New York Fed Consumer Credit Panel/Equifax

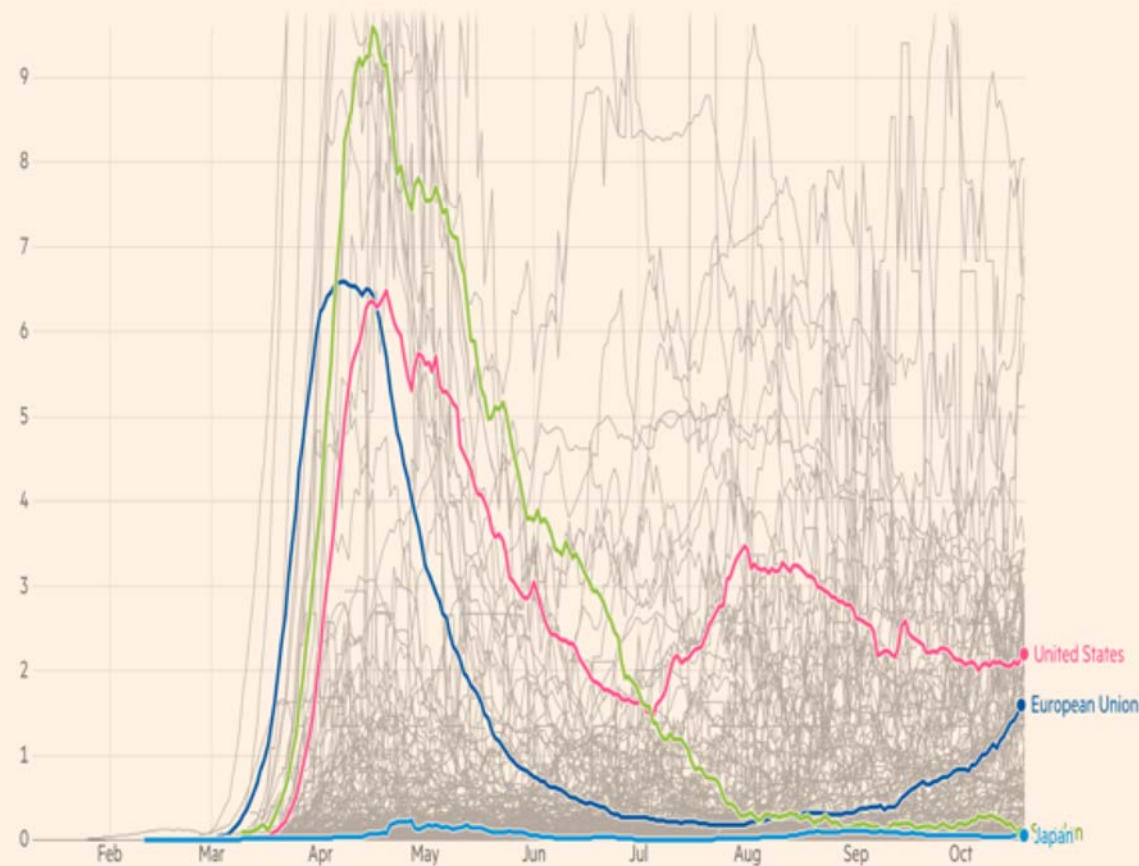
Note: 4 Quarter Moving Sum
Student loan data are not reported prior to 2004 due to uneven reporting

The Second Surge impact...



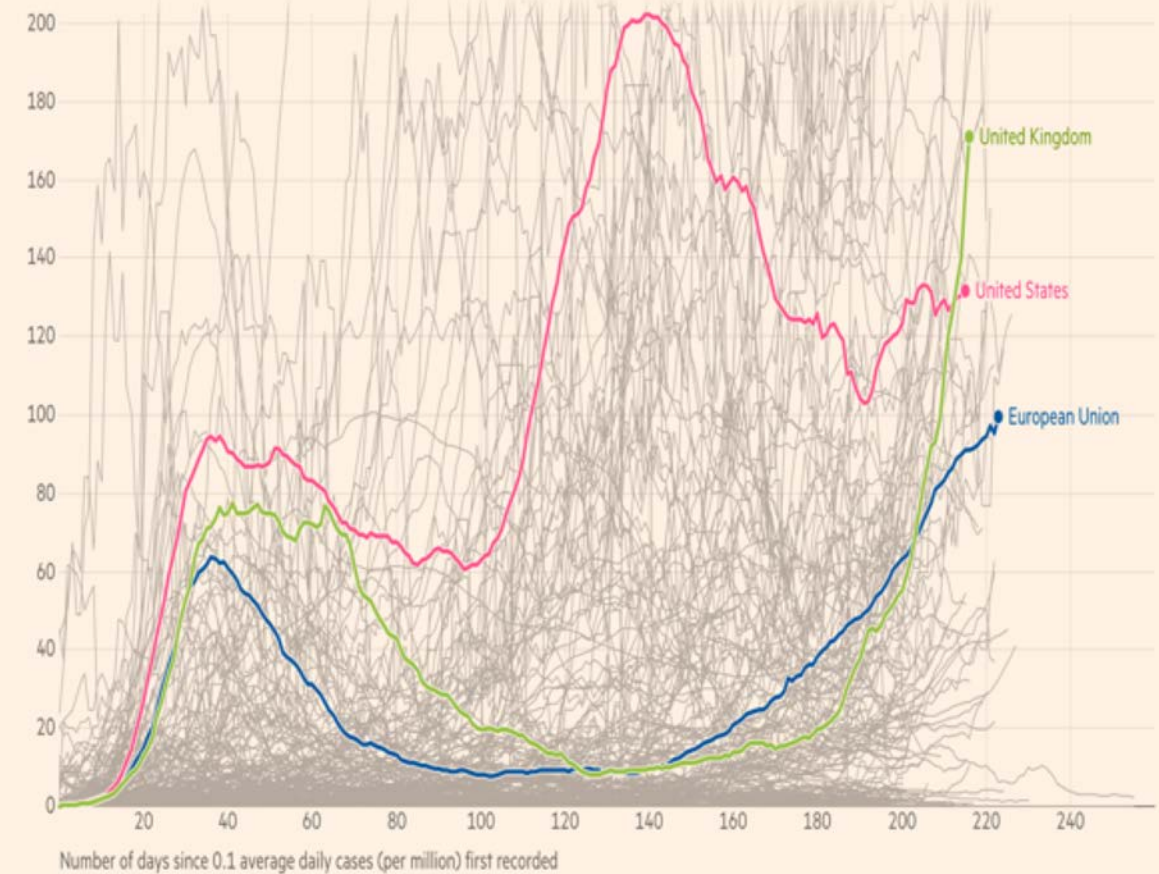
New deaths attributed to Covid-19 in European Union, United States, Sweden and Japan

Seven-day rolling average of new deaths (per million)



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

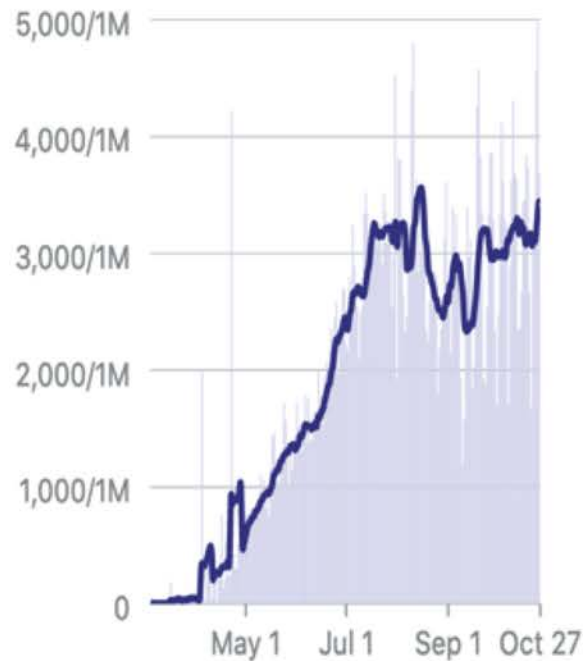


The state situation

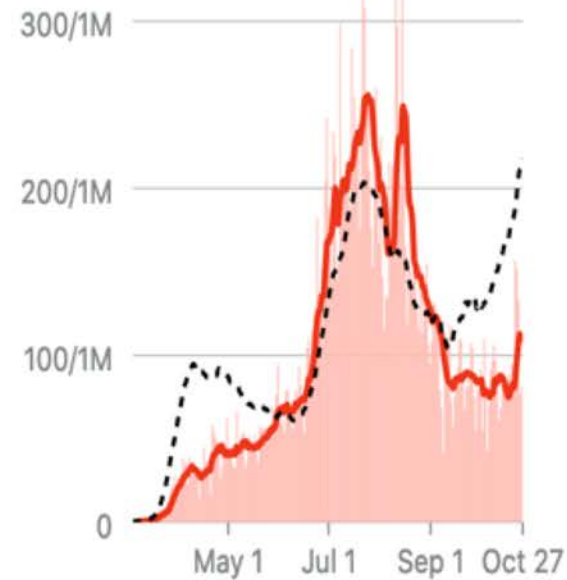


New tests (Calculated)

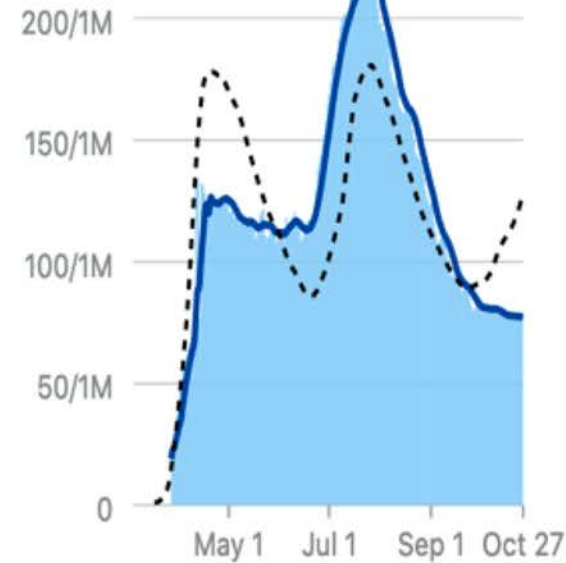
Total PCR tests (specimens)



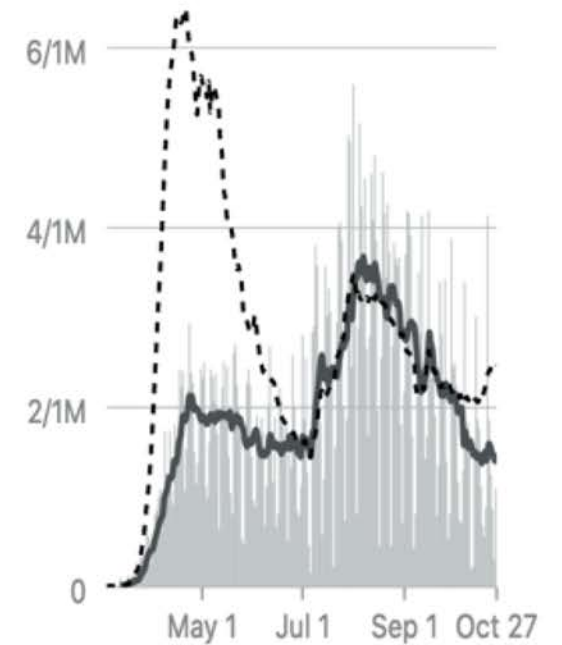
New cases (Calculated)



Current hospitalizations



New deaths (Calculated)



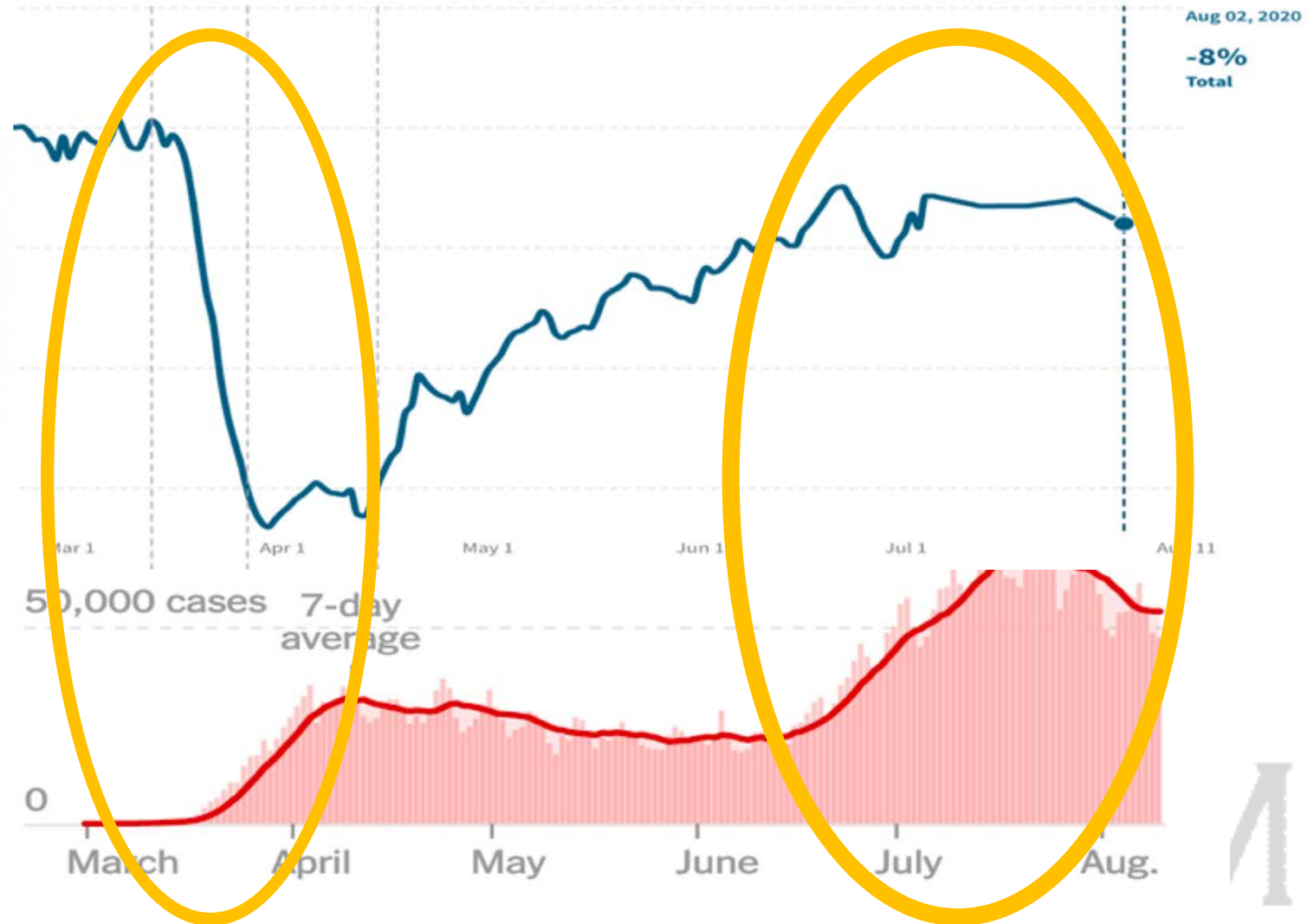
[Chart information and data](#) ↓

No New Recession



Consumer
Spending
(Opportunity
Insights)

New Cases
(New York
Times)



Lagging sectors

In **the United States**, as of September 26, 2020, arts, entertainment, and recreation spending by all consumers decreased by **55.5%** compared to January 2020.

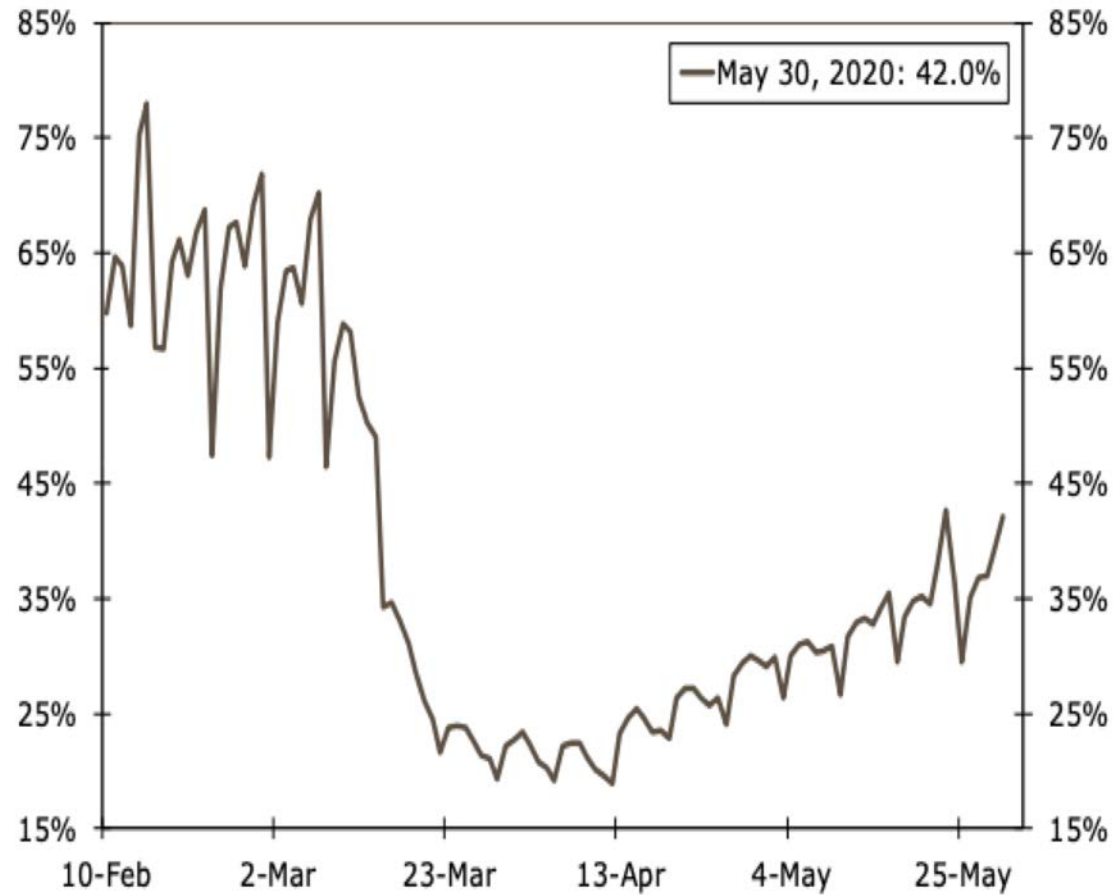
DOWNLOAD CHART



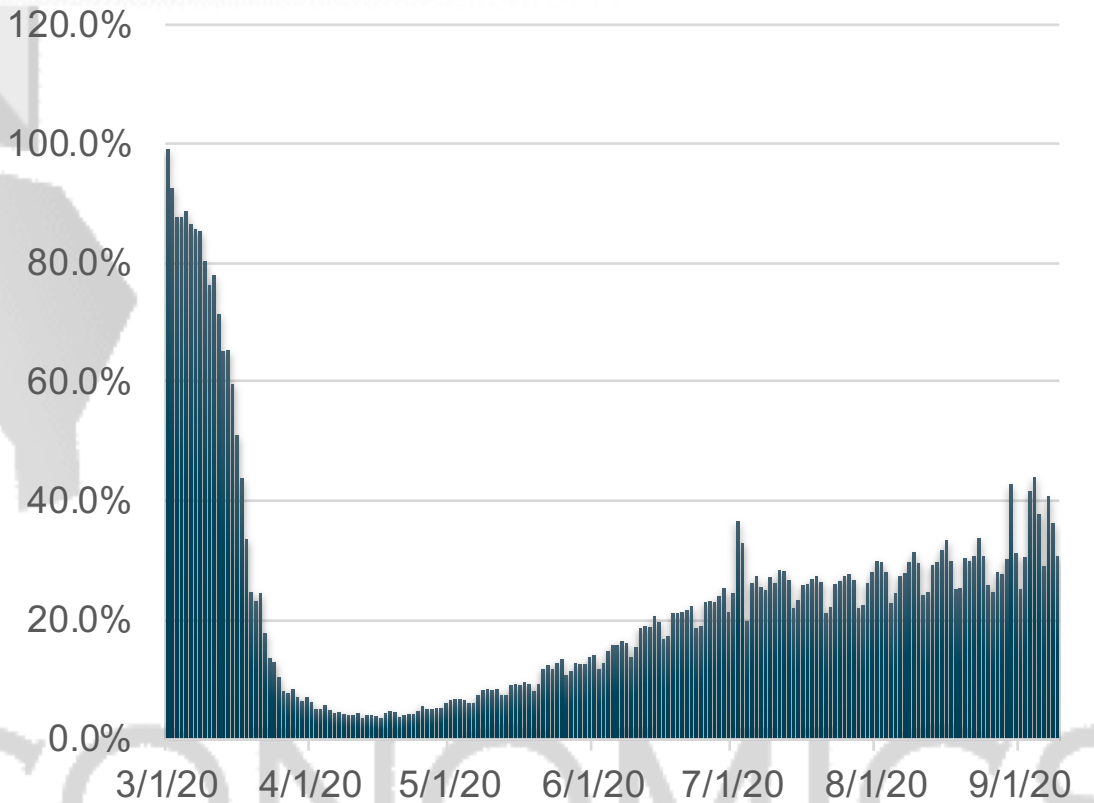
Travel Trends



Daily Hotel Occupancy



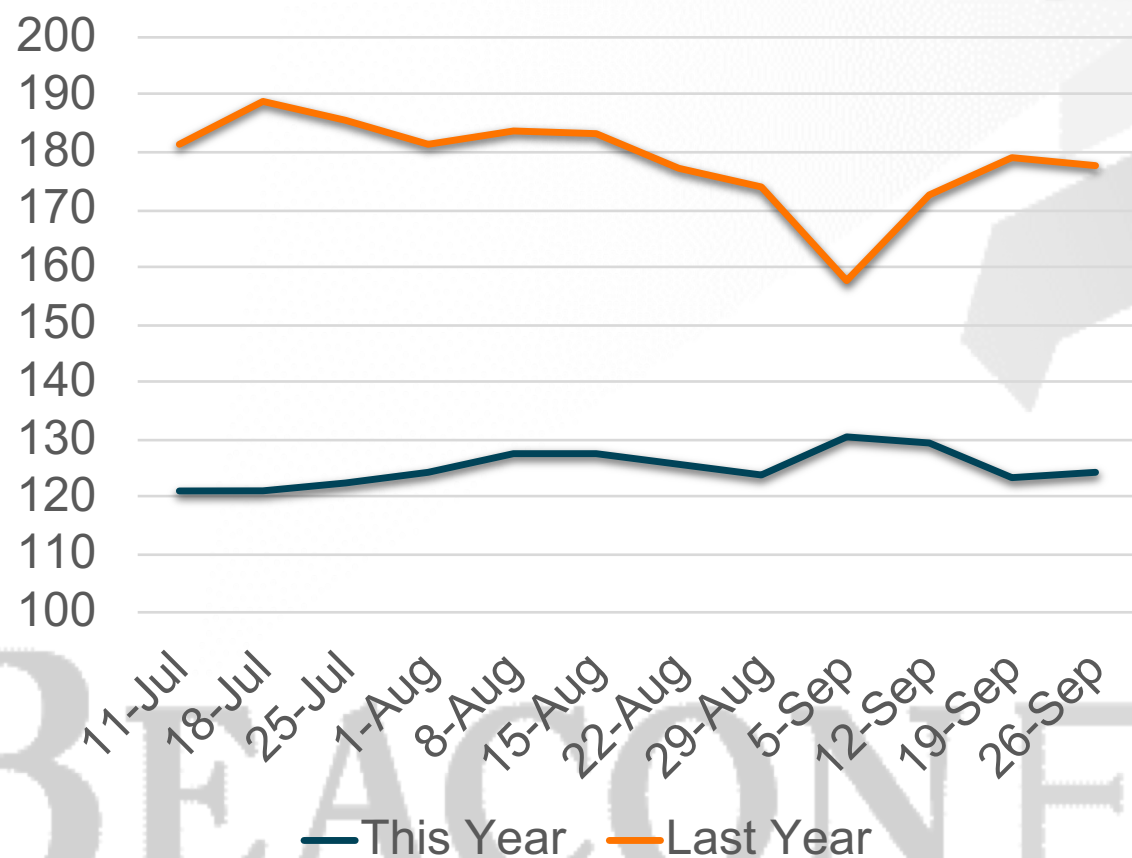
TSA Pass-Throughs Same Day 2020 / 2019



Hotels

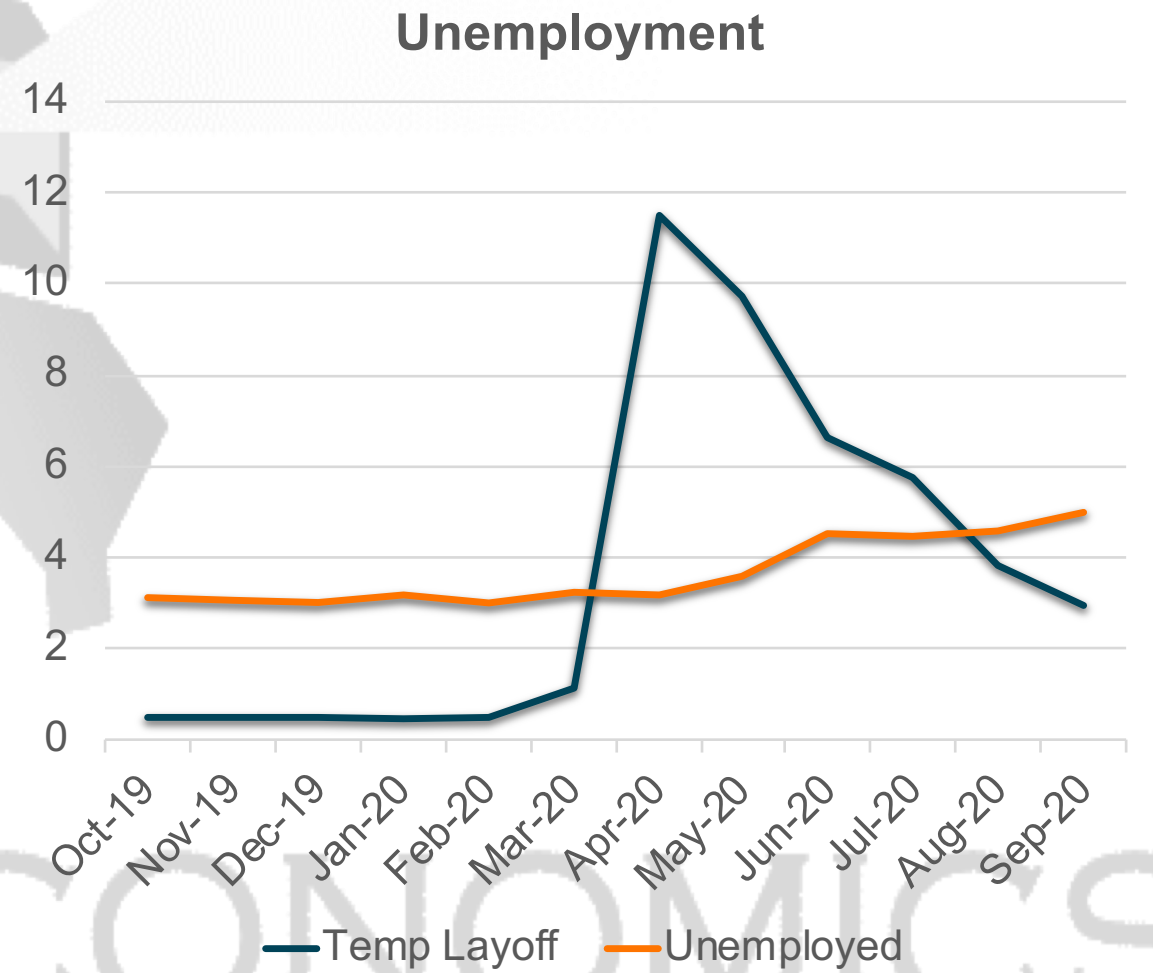
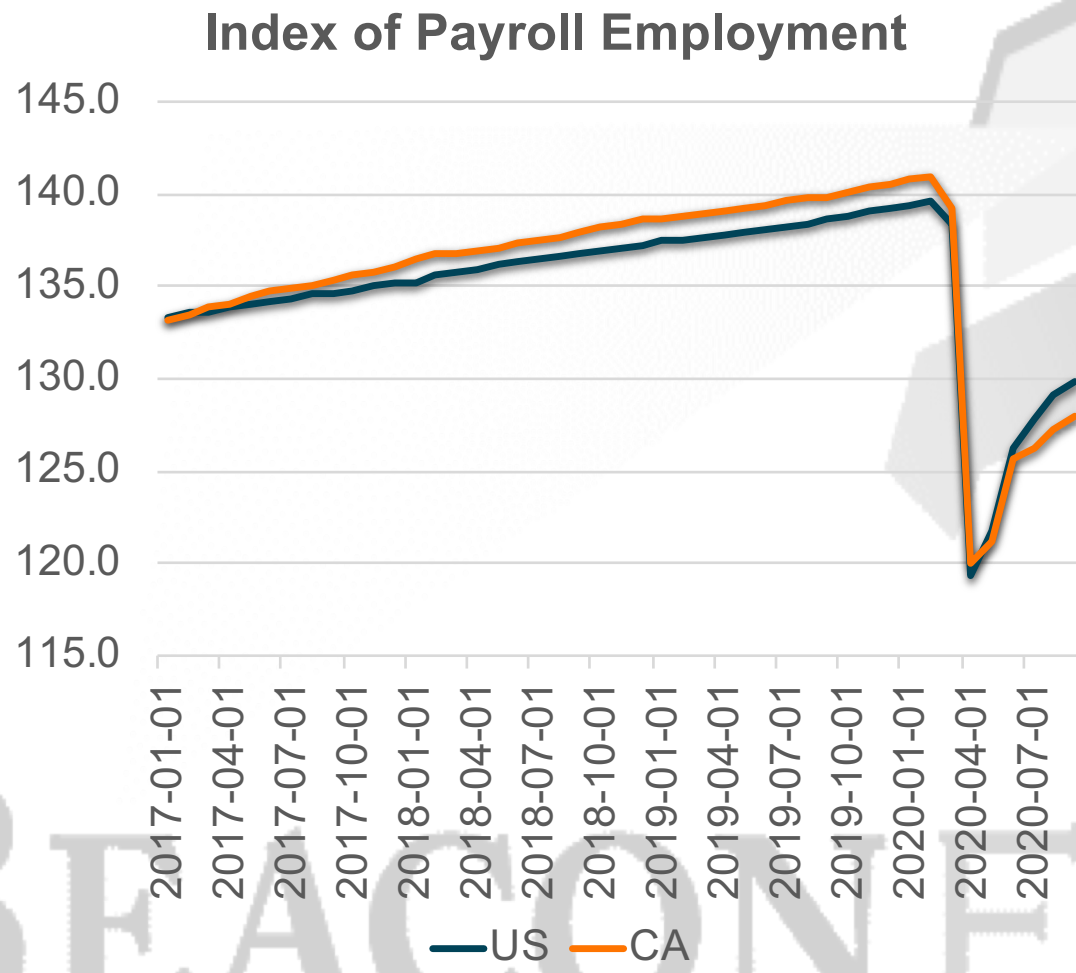


Weekly ADR



Location	Occupancy (%)		ADR	
	2020	Change	2020	% Change
United States	48.6	-31.7	102.4	-22.8
Pacific	52.6	-34.8	123.1	-32.7
California	54.8	-31.5	127.2	-29.8
Central Coast	62.6	-22.3	116.4	-19.9
Central Valley	68.9	-6.2	64.1	-5.0
Deserts	46.3	-12.5	46.0	-6.3
Gold Country	62.5	-19.5	63.5	-16.6
High Sierra	62.6	-20.0	103.2	-3.1
Inland Empire	70.1	-3.5	70.1	-9.1
Los Angeles	51.7	-38.9	66.3	-33.7
North Coast	77.3	-3.4	97.5	-2.4
Orange County	43.7	-46.2	59.0	-25.1
Shasta Cascade	72.2	-5.6	73.9	-3.6
San Diego County	51.6	-37.5	68.9	-25.8
San Francisco Bay	48.8	-42.0	61.9	-42.5

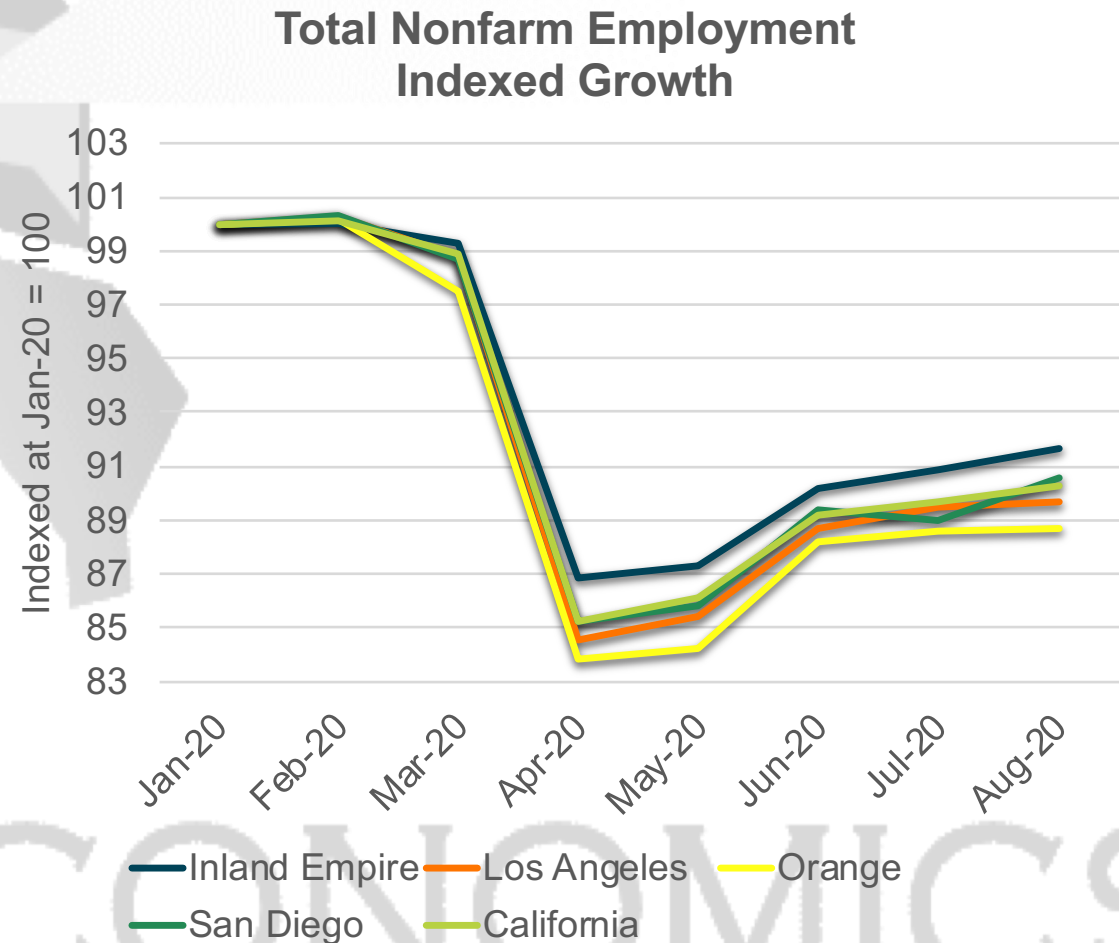
Employment: Lead / Lag



Labor Market Recovery



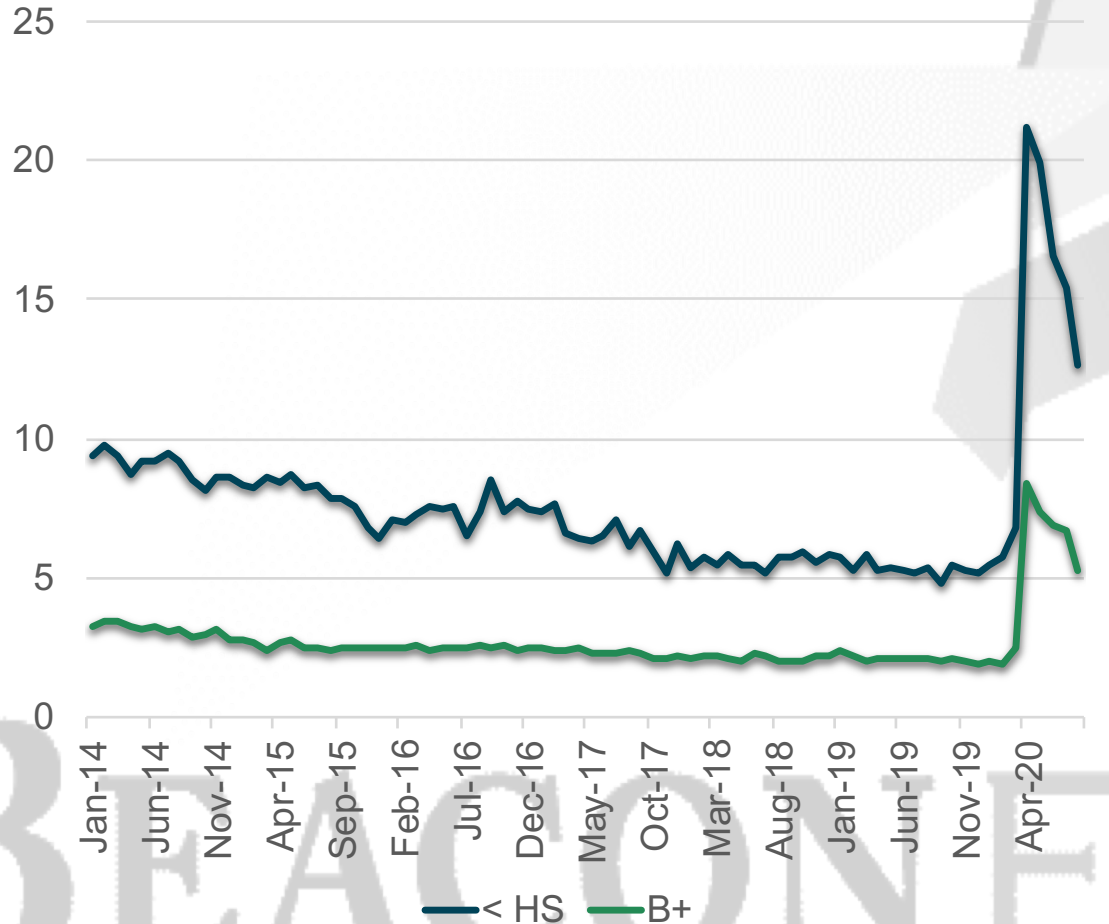
	Sep-20		
Civilian Labor Force	4,942,400	-4.1%	-210,000
Civilian Employment	4,196,300	-14.9%	-733,500
Civilian Unemployment Rate	15.1%		11%
Total, All Industries	4,133,300	-9.6%	-437,800
Leisure & Hospitality	381,600	-30.3%	-165,500
Other Services	123,900	-22.1%	-35,200
Information	185,500	-15.8%	-34,900
Government	553,600	-5.6%	-32,600
Administrative	255,000	-9.7%	-27,500
Health Care	684,800	-3.7%	-26,400
Manufacturing	313,800	-7.2%	-24,500
Retail Trade	387,900	-5.7%	-23,400
Professional, Scientific	279,900	-6.7%	-20,200
Educational Services	123,500	-10.1%	-13,900
Logistics	190,700	-6.3%	-12,900
Wholesale Trade	208,300	-4.9%	-10,800
Construction	147,200	-2.6%	-3,900
Financial Activities	220,400	-1.2%	-2,600



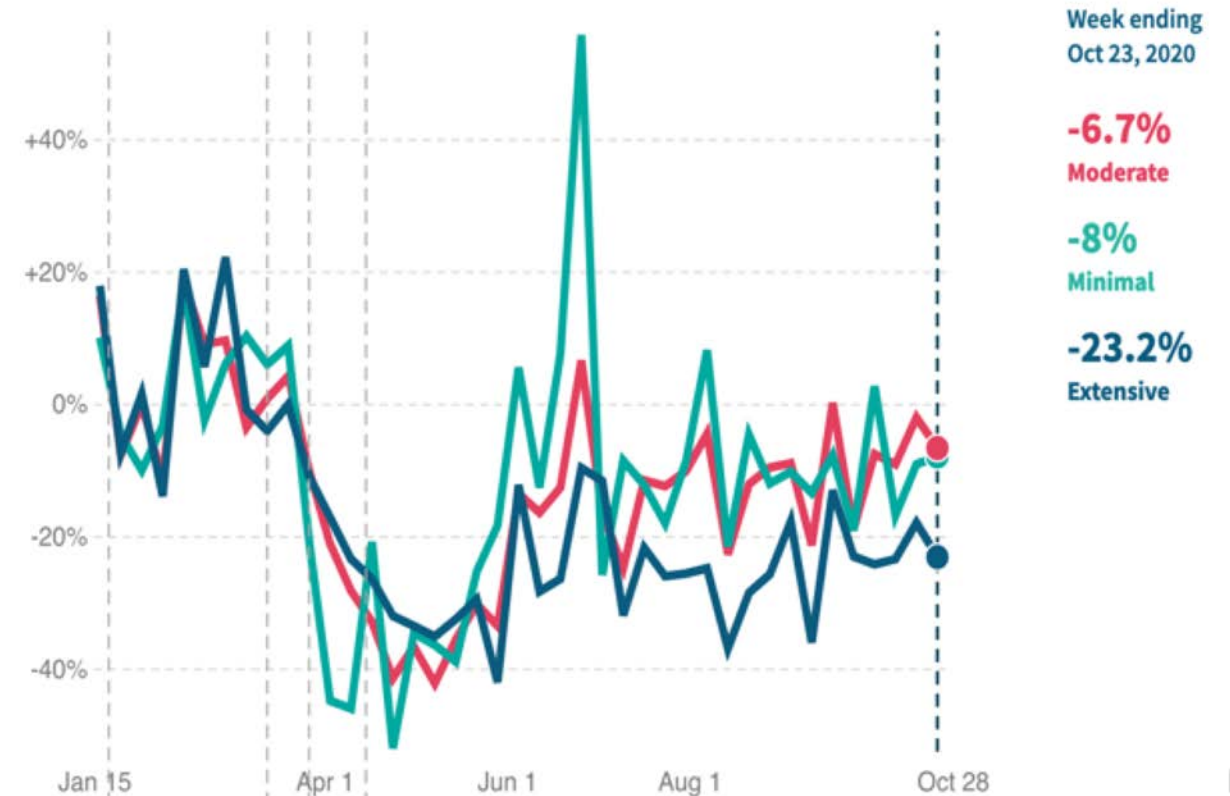
K Shaped Recovery?



Unemployment by Education



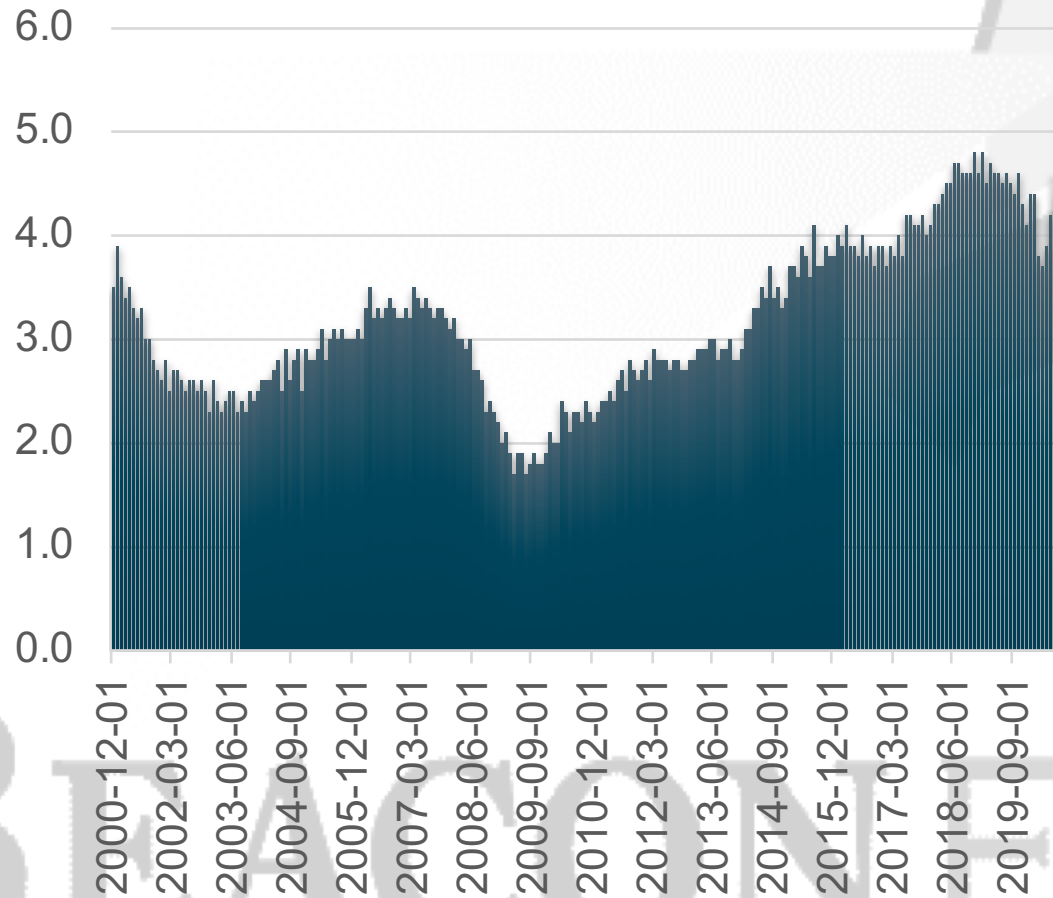
In the United States, as of **October 23 2020**, job postings requiring extensive education **decreased** by **23.2%** compared to January 2020.



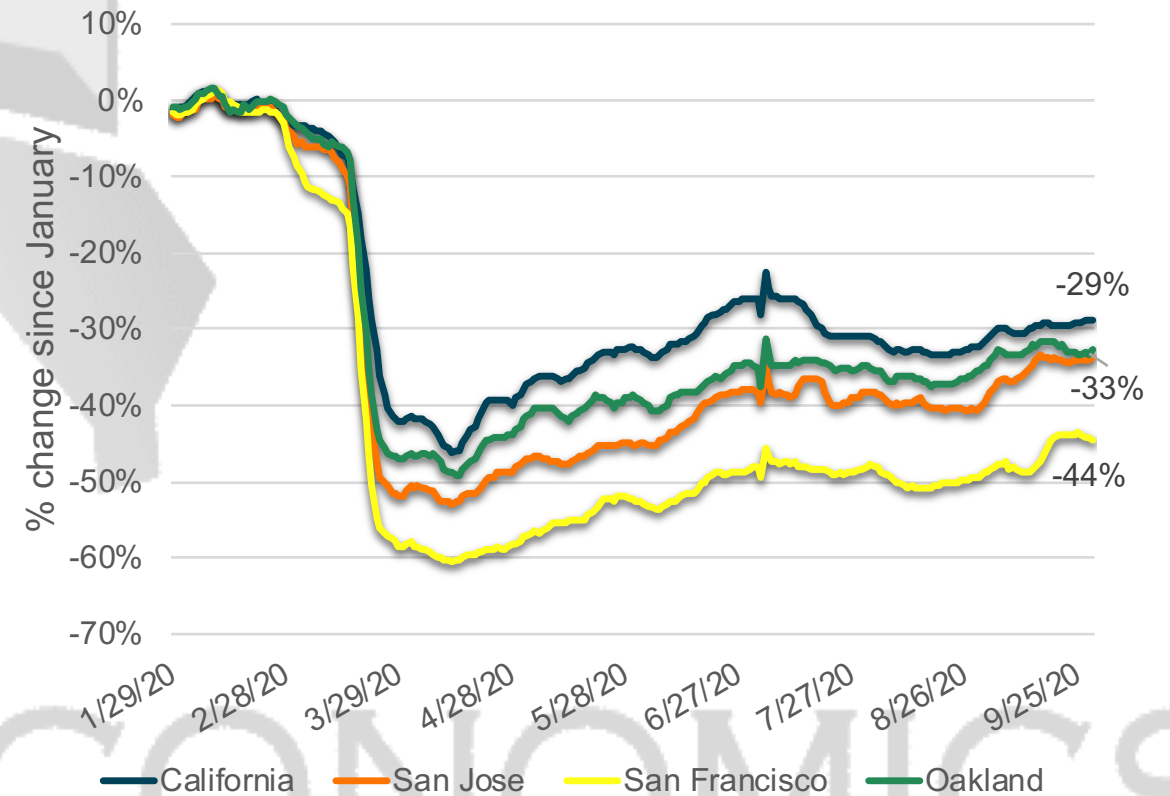
More Context



Jobs Opening Rate



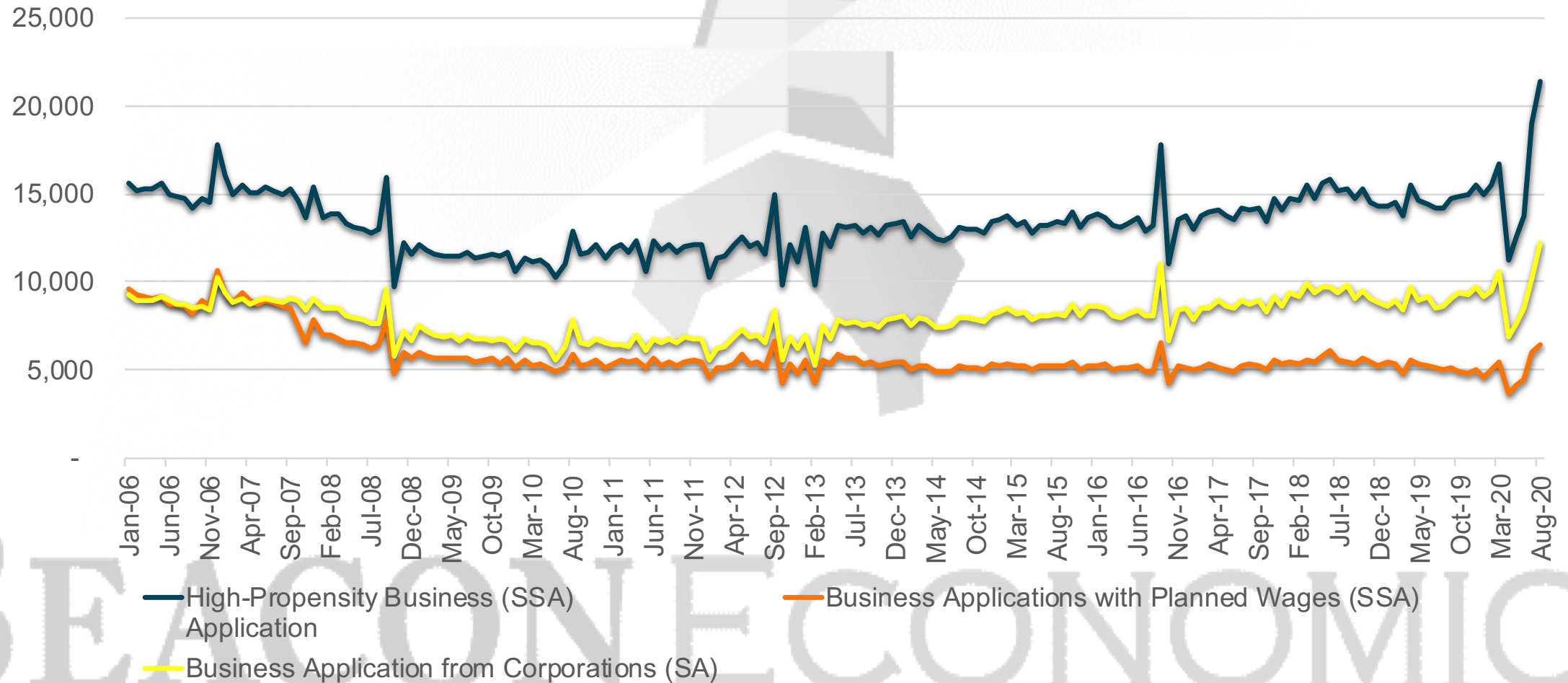
Change in Small Business Reopenings



Small Business?

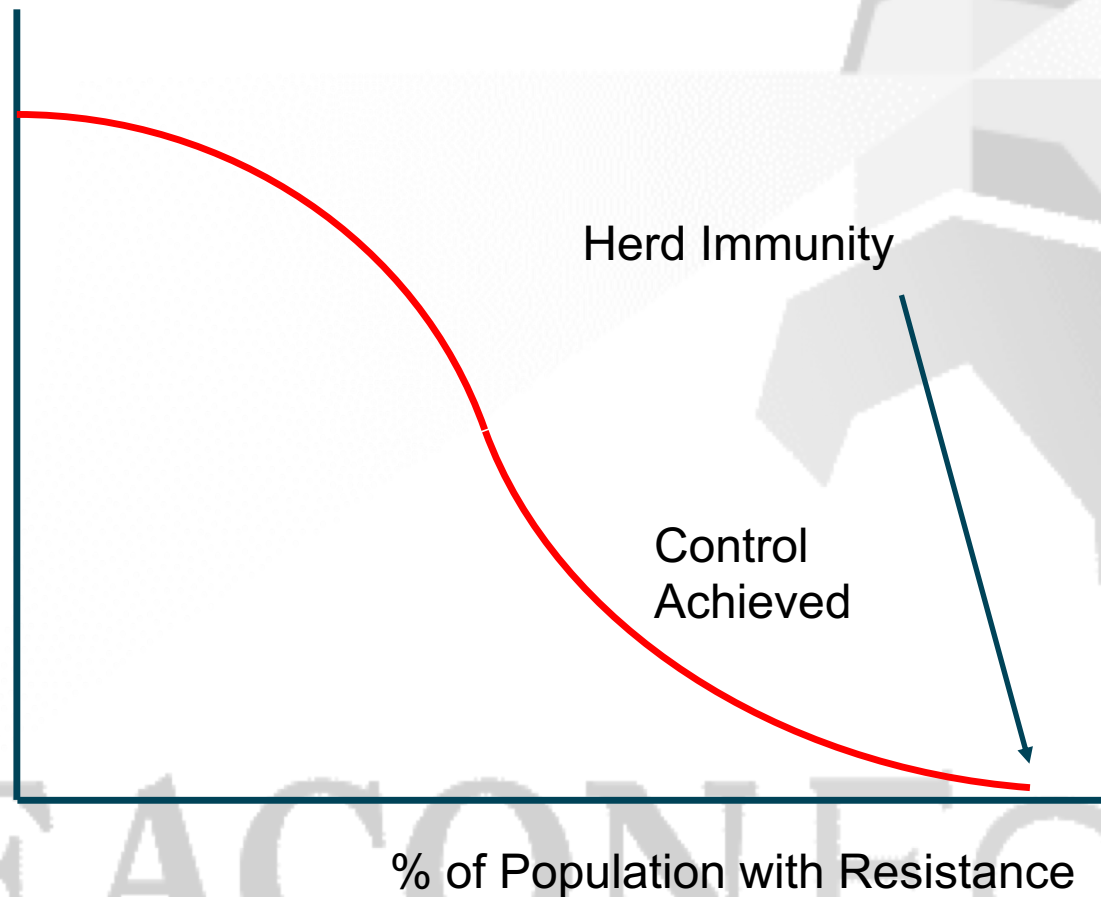


California Business Applications



New surge vs second wave

Speed of outbreaks



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

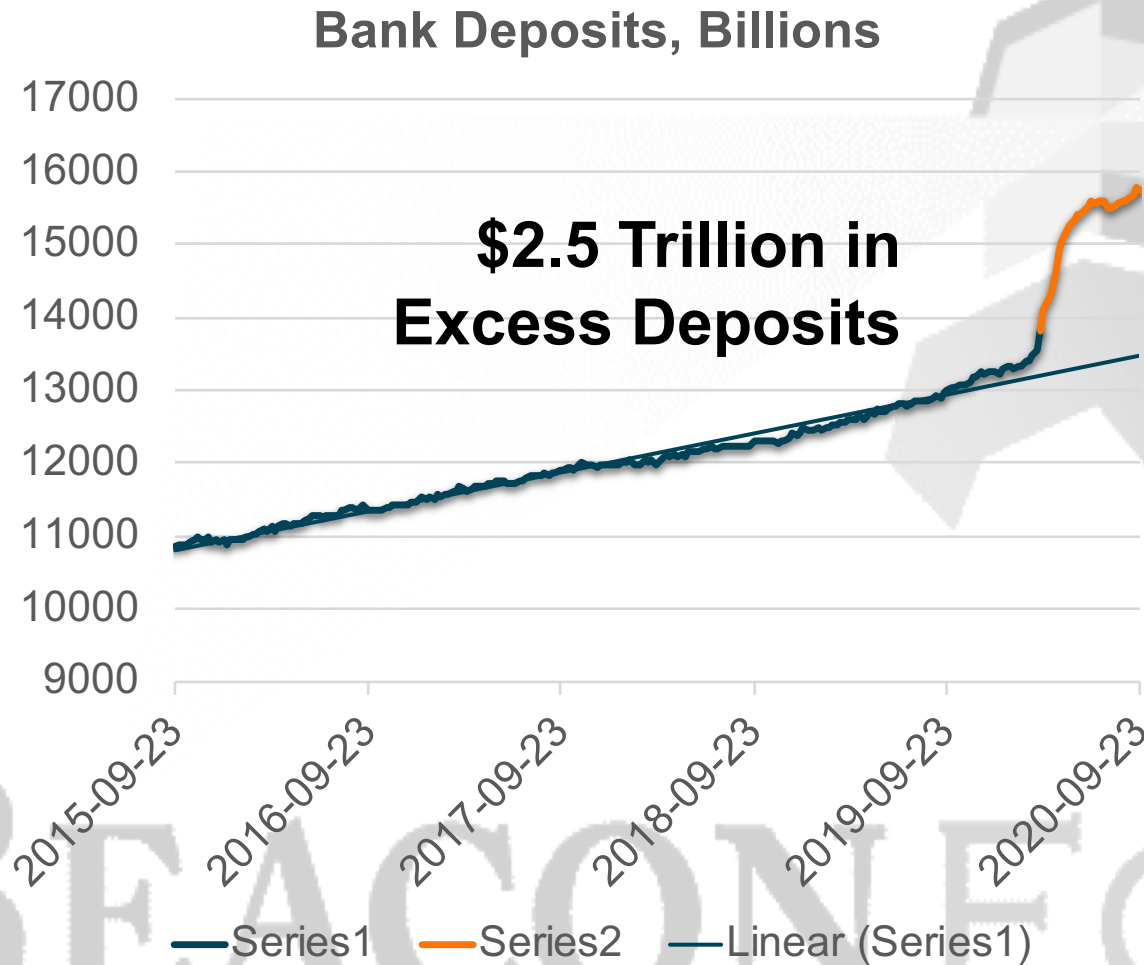
- The Fed

- Rate cuts
- Full QE efforts

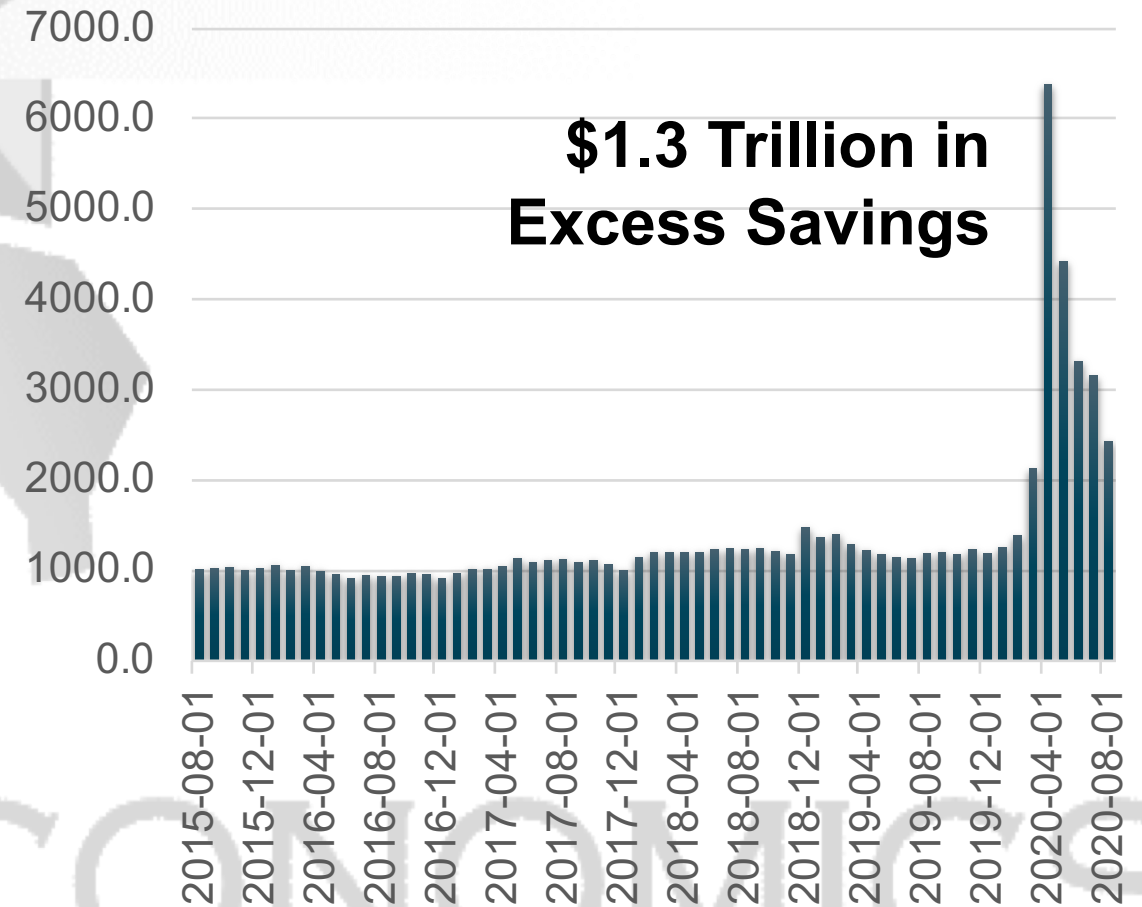
- Other Efforts

- 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

Dry Powder



Household Savings Billions SAAR



Who is Ahead / Behind?

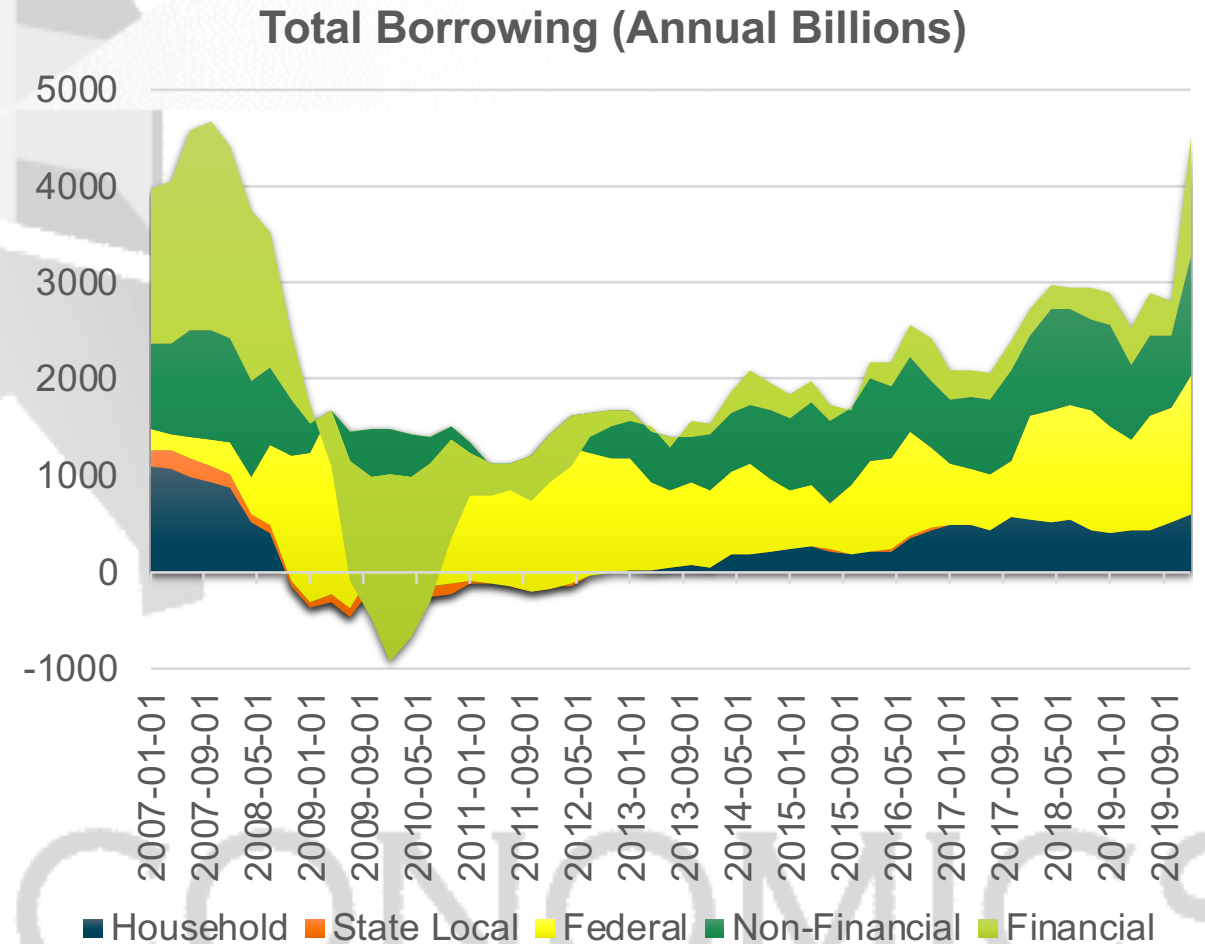
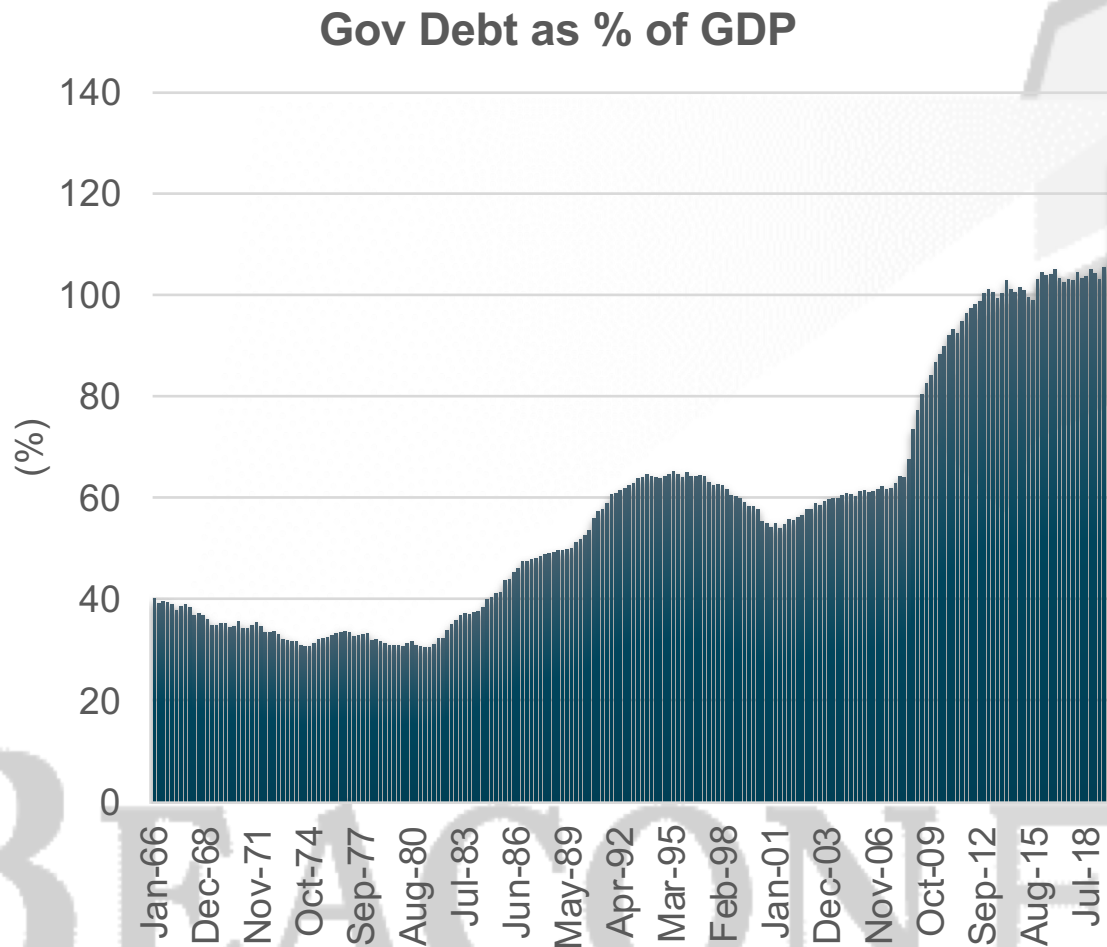


In **the United States**, as of October 04 2020, total spending by all consumers decreased by **3.2%** compared to January 2020.

DOWNLOAD CHART 



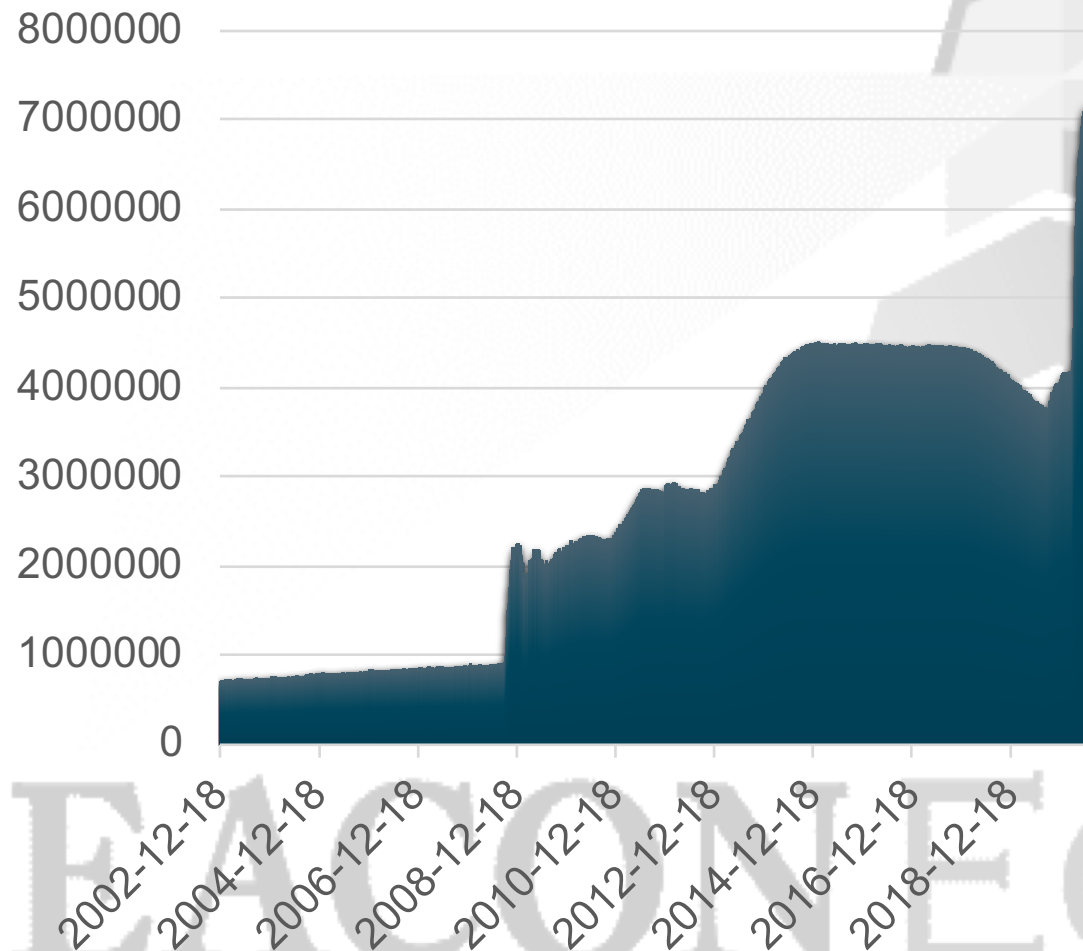
Government Debt



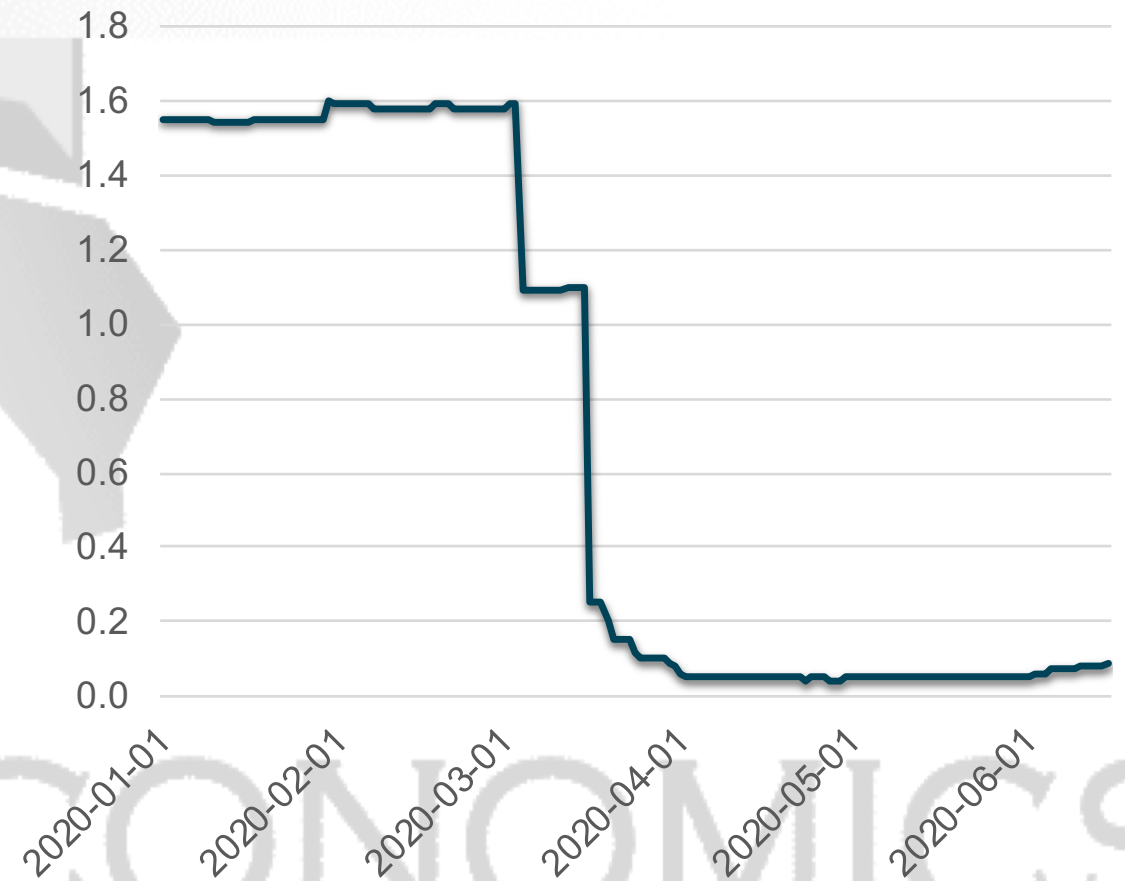
Federal Reserve Policy



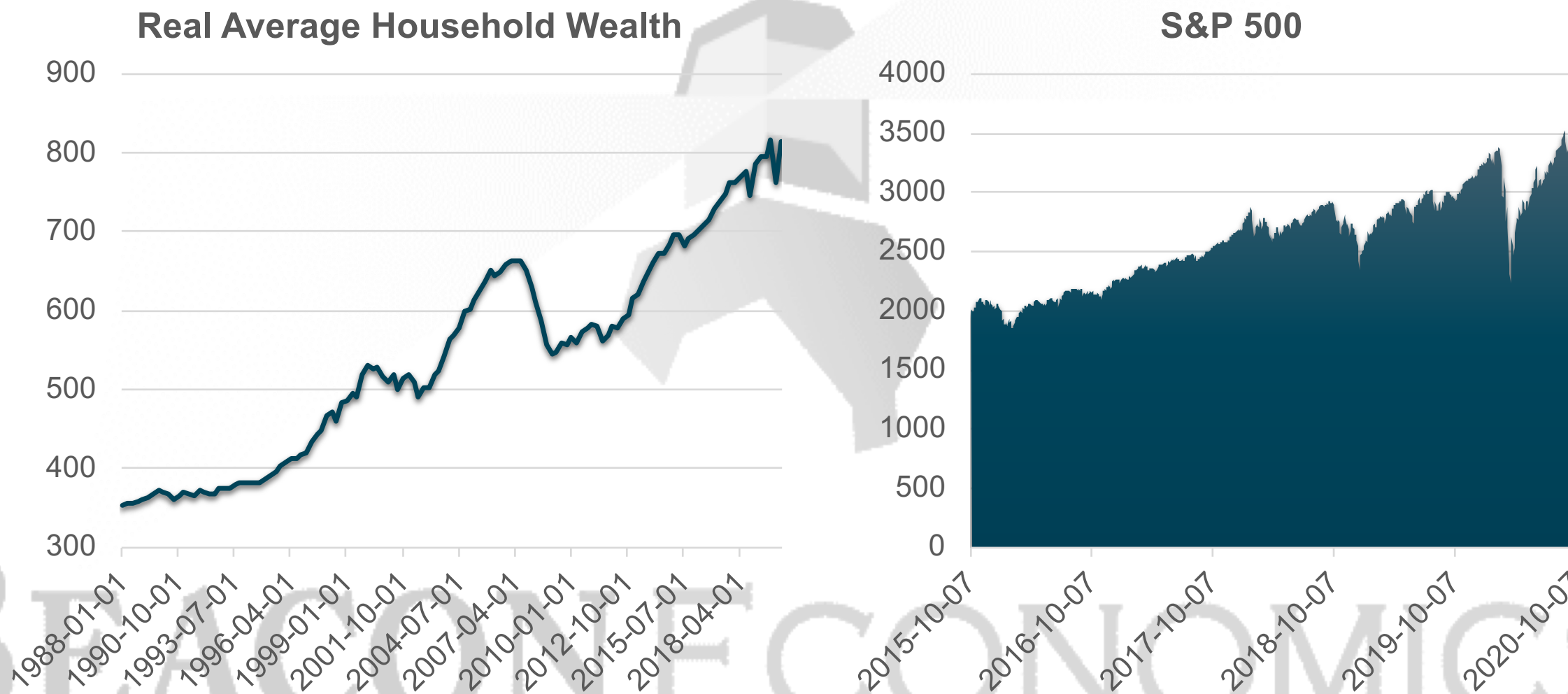
Fed Balance Sheet



Effective Federal Funds Rate



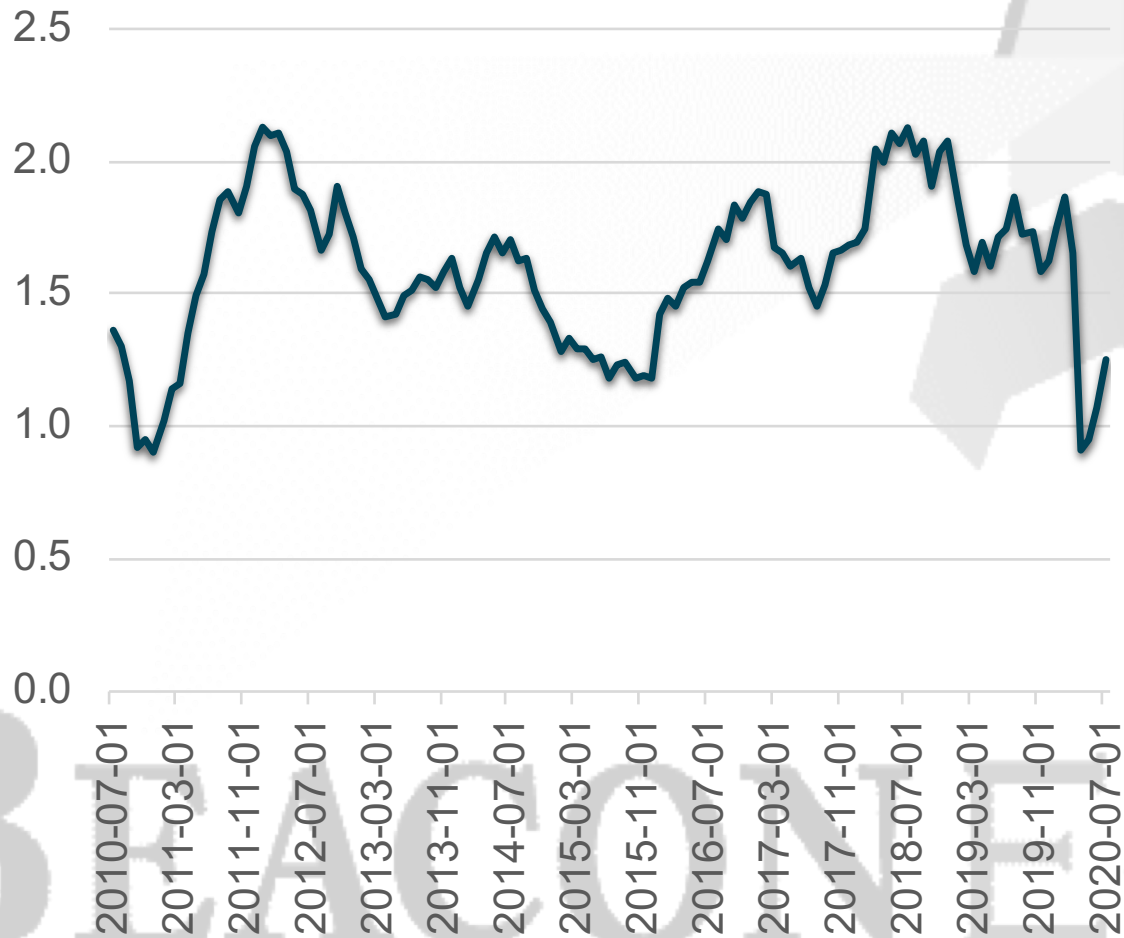
Financial Trends



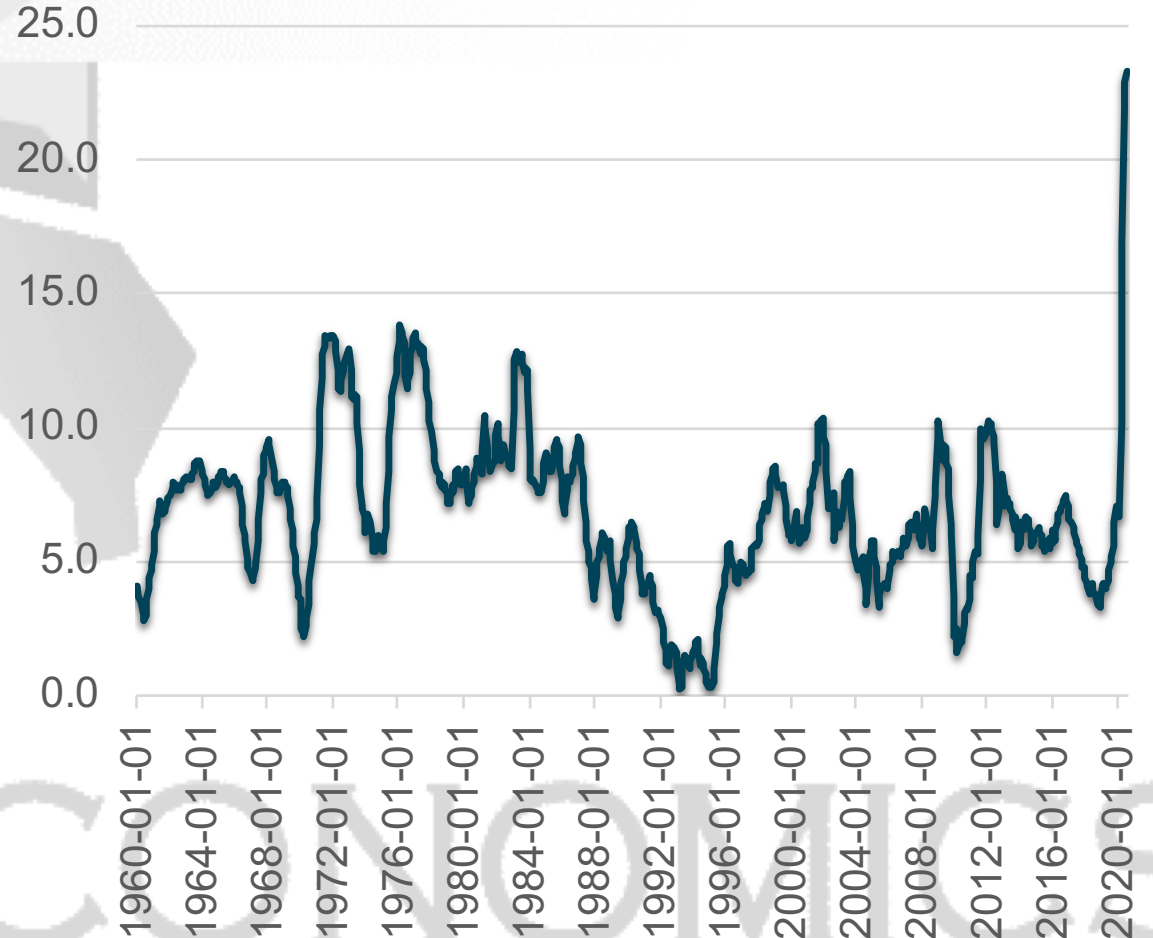
Inflation Warning



Core PCE Inflation



Y-o-Y M2 Growth



Closing the State Budget Gap



- January proposed for FY 2020-21:
 - \$5.6 billion surplus
- May revision for FY 2020-21:
 - \$54.3 billion deficit

Summary of Solutions	2020 Budget Act (\$Billions)
Reserves	8.8
Borrowing/Transfers/Deferrals	9.3
Revenues	4.4
Federal Funds	10.1
Cancelled Expansions, Updated Assumptions, Other	10.6
Trigger Reductions/Additional Deferrals	11.1
Total	54.3

Closing what Budget Gap?



Revenue Source	2019-20 YEAR-TO-DATE				2020-21 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change	Forecast	Actual	Change	Percent Change
Personal Income	\$81,845	\$82,507	\$662	0.8%	\$26,003	\$29,649	\$3,646	14.0%
Sales & Use	25,426	26,070	643	2.5%	3,371	4,547	1,176	34.9%
Corporation	9,787	9,836	49	0.5%	5,029	4,853	-176	-3.5%
Insurance	3,052	3,128	76	2.5%	629	599	-31	-4.9%
Estate	0	0	0	0.0%	0	0	0	0.0%
Pooled Money Interest	587	599	12	2.0%	61	33	-29	-46.7%
Alcoholic Beverages	385	381	-5	-1.2%	69	75	6	9.3%
Tobacco	60	60	0	-0.5%	12	10	-1	-10.7%
Other	2,253	1,899	-353	-15.7%	430	381	-48	-11.2%
Total	\$123,395	\$124,479	\$1,084	0.9%	\$35,604	\$40,148	\$4,544	12.8%

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

BEACON ECONOMICS

The election



- National Election
 - Biden, House in Democrat hands
 - Senate to stay with Republicans
 - Big issue: uncertainty until transition
- State Election
 - Prop-15 going down? (19 passing)
 - Prop-22 big win: what about AB5?
 - Rent control done for once and all?

BEACON ECONOMICS

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
- Wildcards
 - True Second round of outbreaks / shutdowns
 - Global situation
 - How long until travel gets going
 - Government budgets
- Baseline Forecast
 - 4.8% Q1, -31%Q2, 33% Q3, 8% Q4
 - Close to full recovery by Q3-2021
 - 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
- 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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