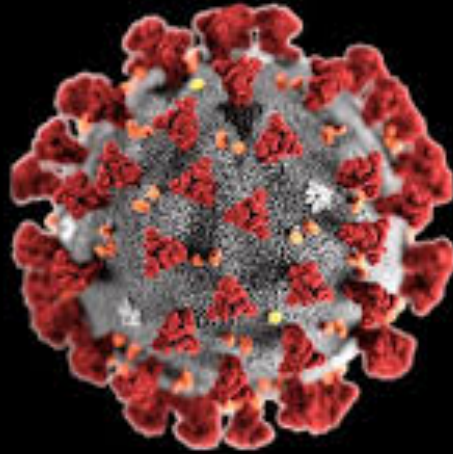


# The Economy in Recession

## How do we Recover ?



**Mark  
Schniepp  
Director**

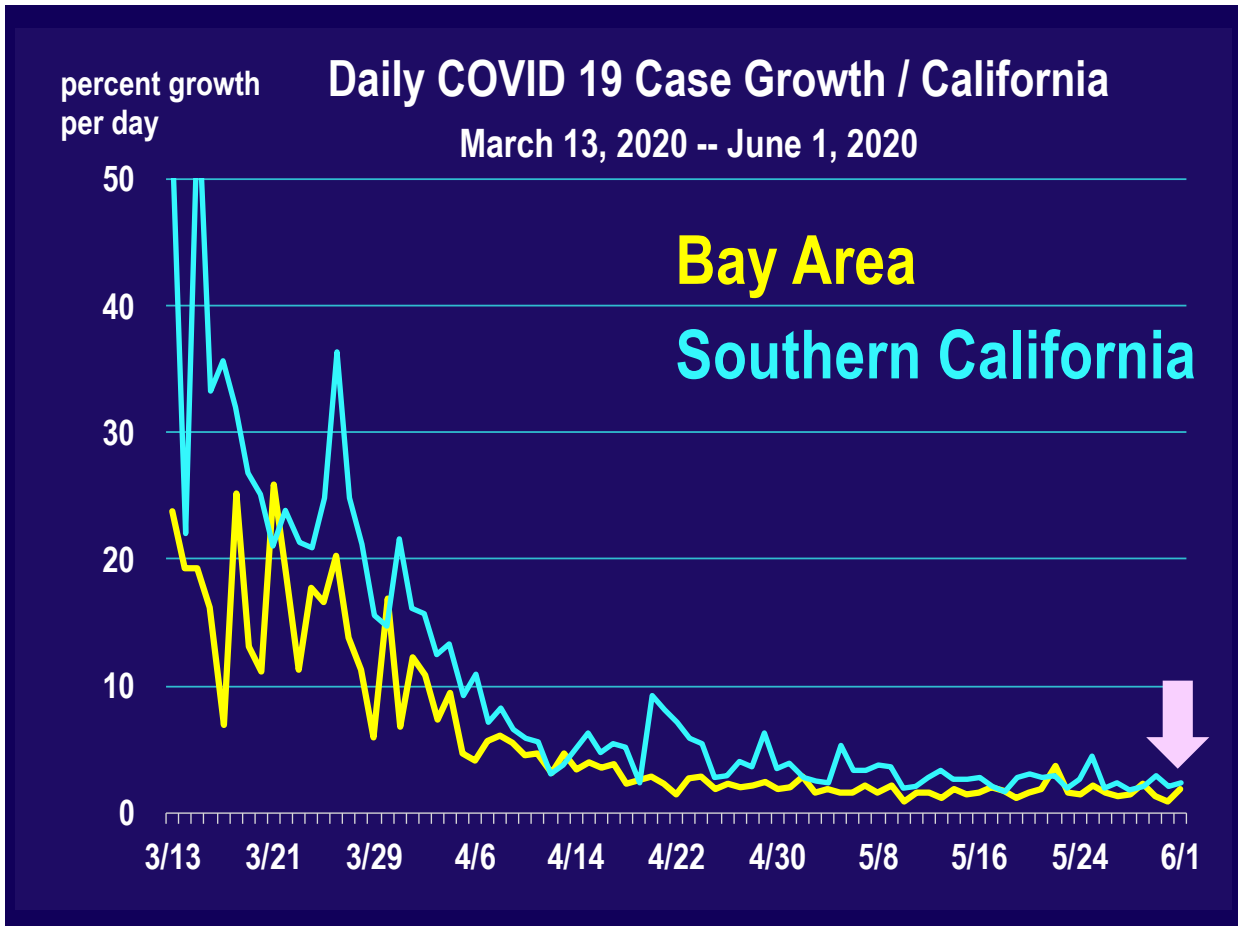
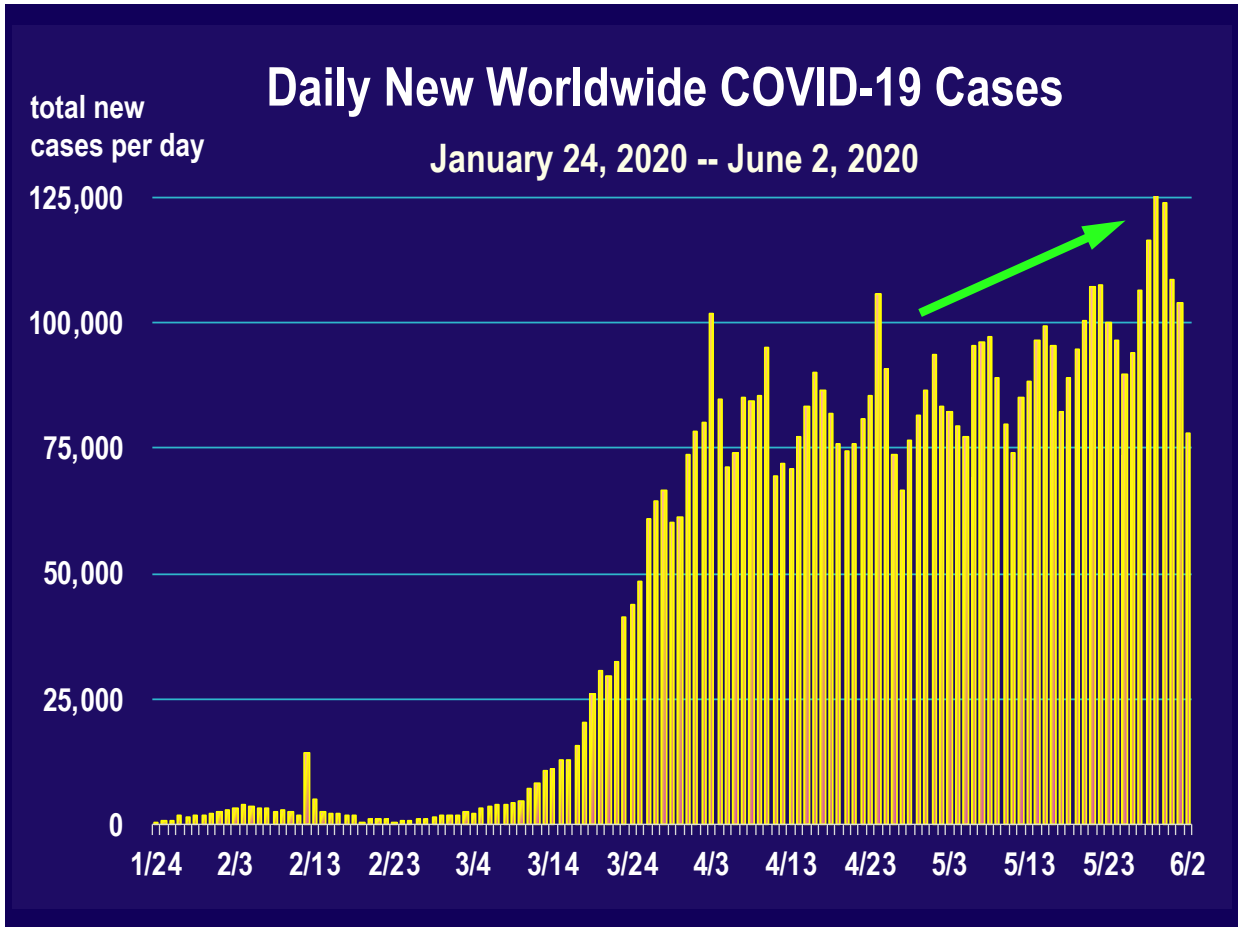
**June 3,  
2020**

**In the U.S. and California**

## Agenda

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- 1) **Opening up again and what we can expect**
- 2) **Summary of where we are**  
*--- as of 6-3-20*
- 3) **What's done is done, and how that impacts the recovery**
- 4) **Risks and obstacles to the recovery**
- 5) **California, Los Angeles and the Santa Clarita Valley economies**
- 6) **How the economy recovers**



# Opening Up

- Regional economies finally opening in CA
- Providing some clear relief for consumers
- Phased reopening easing some of the supply-side shocks of the pandemic
- But limited reopening provides for a limited and temporary boost in demand
- Movement by consumers and options to spend remain severely limited
- Retail sales still suffer today from constraints



# Immediate Status of COVID-19

- 3.3 million cases world-wide on April 30
- 6.5 million cases world-wide today
- Most daily new cases: U.S., Brazil, Russia, India
- Now accelerating in Brazil, India, and Chile
- Decelerating all over Europe and the U.S.
- Now contained in South Korea, New Zealand  
Singapore, Australia, Thailand, Norway  
Austria, Japan, China , Spain, Switzerland

144,170 views | Mar 19, 2020, 03:28am EDT

## A Positive Coronavirus Update— Life In China Returning To Normal



**James Asquith** Contributor

Travel

*I write about all things travel, from air miles hacks to hidden gems.*

For anyone looking for some positive headlines regarding the most talked about topic online, they may seem few and far between.

Just one new case of COVID-19 was reported on Monday this week in China domestically as parks restaurants and even domestic tourism begins to recover.

**Forbes, March 19, 2020**

# COVID 19 Implications to date

---

- The economy is 90 percent back in China
  - Factories running
  - School classrooms are full
  - Restaurants have all opened
  - Disneyland in Shanghai open since March 10
- But China has been 90% back since mid-March
- There is less fun activity demanded
  - Hotels still realize low occupancy
  - Travel is down 75 percent
  - Less demand for entertainment

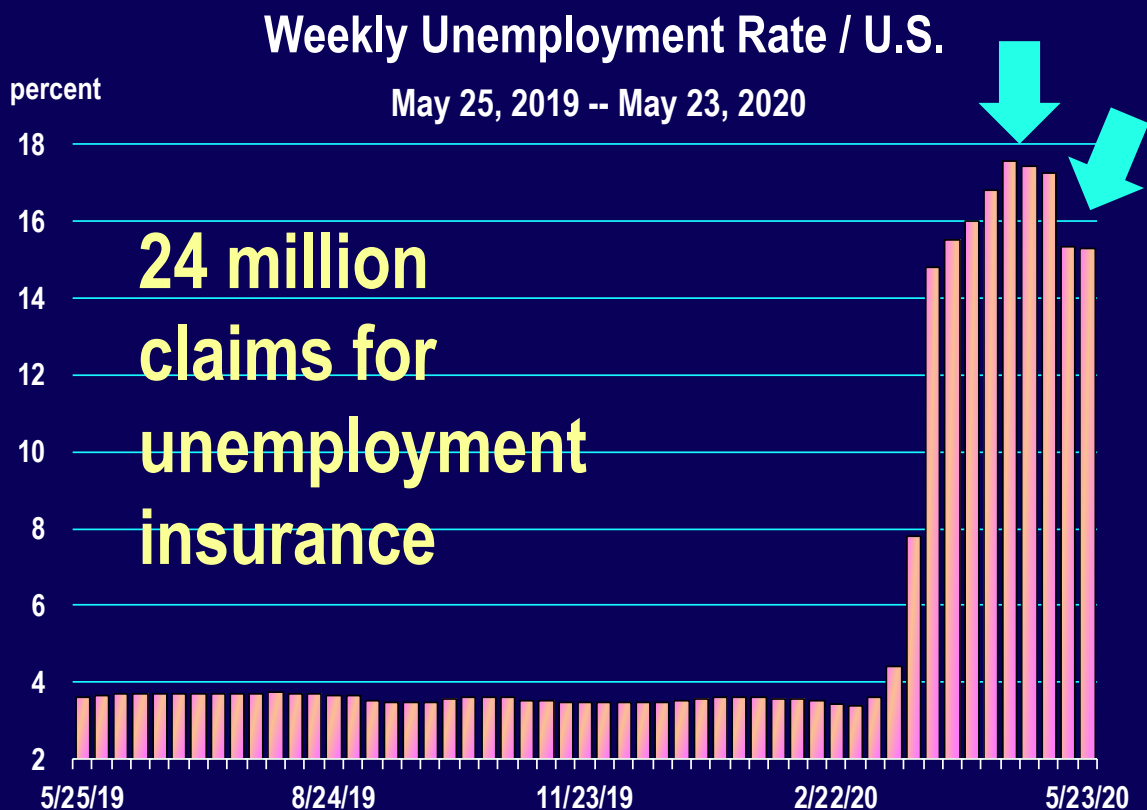
# COVID 19 Implications to date

---

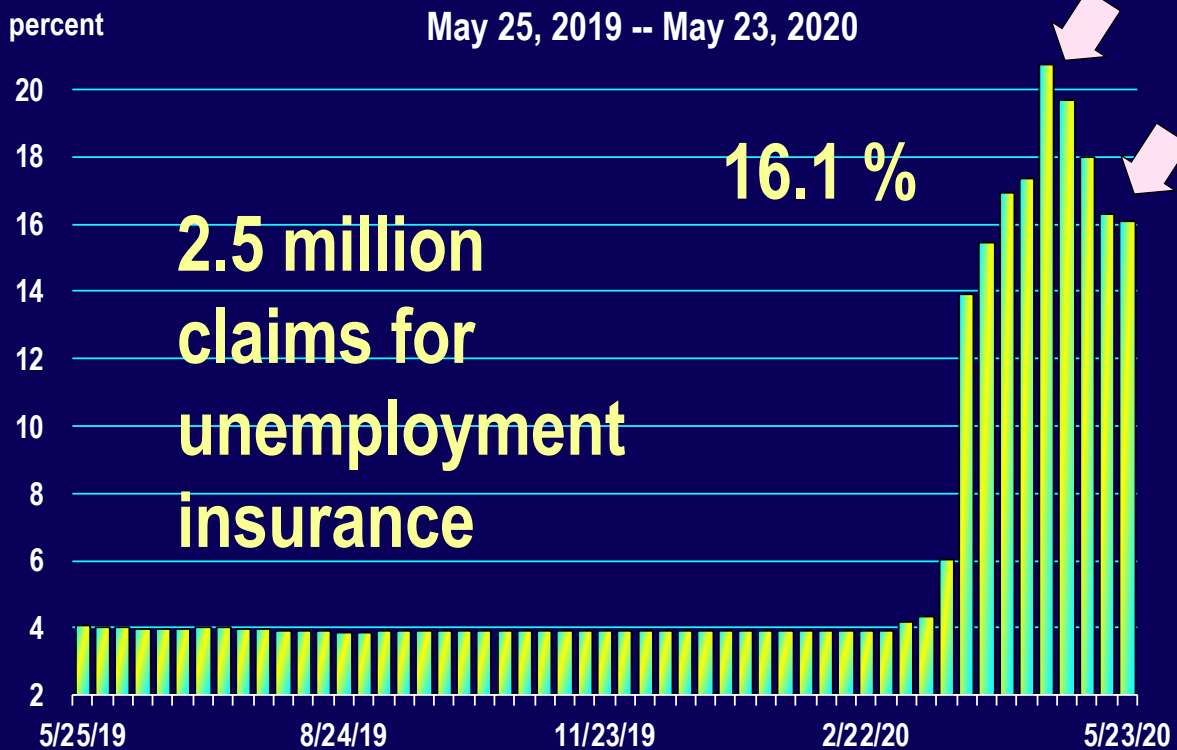
- Bankruptcies just now piling up in China
- Sweden never closed
  - Less demand for restaurants
  - and entertainment
- Evidence suggests that people are voluntarily reducing their spending
  - Precautionary saving
  - Uncertainty as world economies ramp up again
  - There are fewer options for expenditure due to permanent closures

## U.S. Summary: Where are we now?

- ❑ There has been historic devastation in the country's labor market
- ❑ April is likely the worst month of the pandemic
- ❑ The largest unemployed states are Nevada, Hawaii, and Michigan
- ❑ All 50 states have some business re-opened
- ❑ *The biggest question now is how the economy will recover from massive unemployment and likely massive business failure*



## Weekly Unemployment Rate / California



# What's done is done

---

- To restore confidence the disease needs to be
  - severely limited
  - with sufficient testing . . . .
  - or eliminated through vaccine
- Any new lockdowns would be more devastating to the economy . . . .
- . . . leading to further erosion in confidence and more business failures and layoffs

# Recovery Risks: Downside

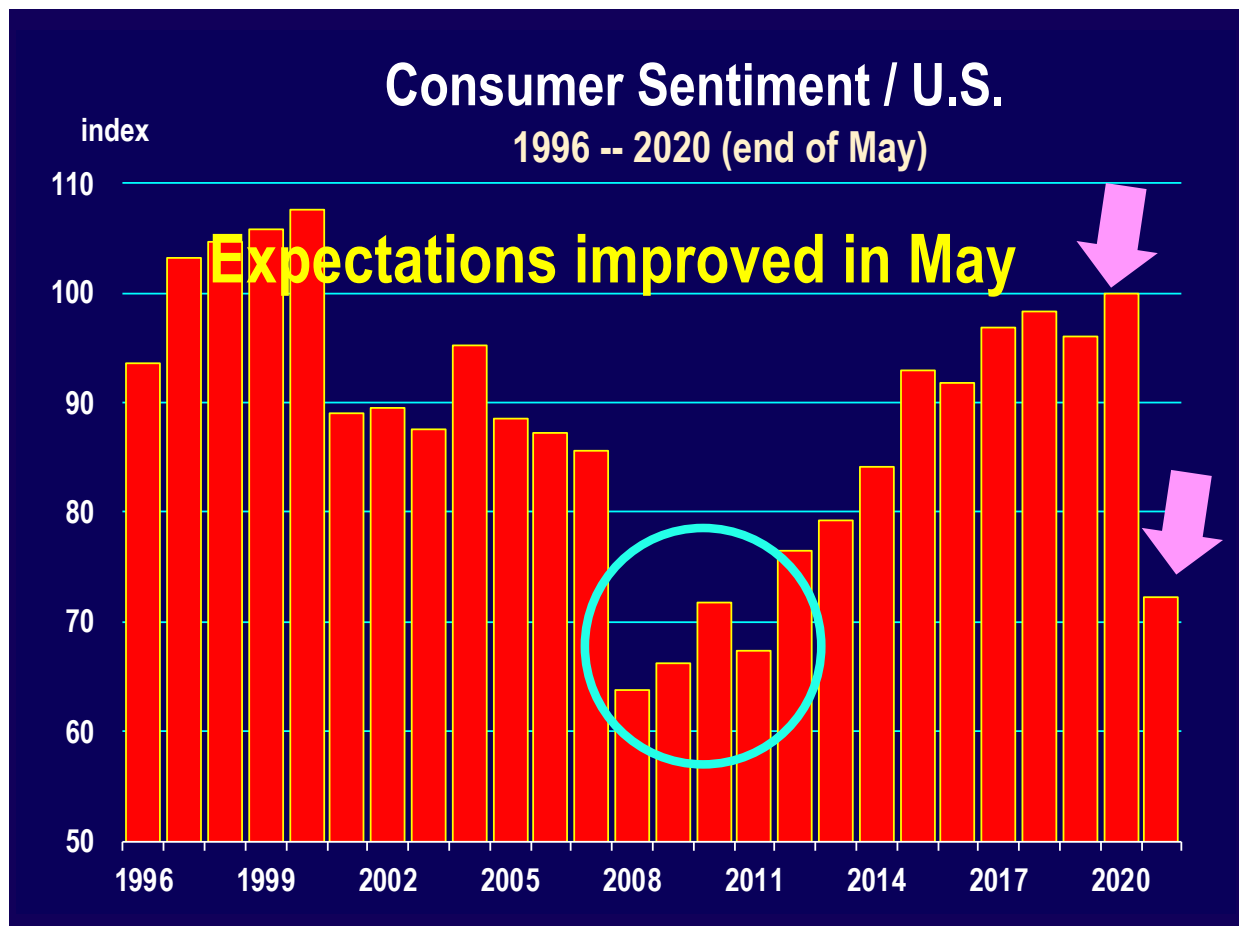
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- Too many unknowns
  - How will COVID 19 evolve this year?
  - How will state & local governments respond ?
  - How will people tolerate the response ?
- Possible outbreaks in coming months
- The phased and gradual imitations during the current restart may prove too restrictive
  - Businesses can't operate profitably and close
  - Layoffs rise again
- Demand side affected by precautionary consumers



# Recovery Risks: Upside

- ❑ Consumers embrace reopening
  - ❑ Demand strong for restaurants and personal care
  - ❑ Vehicles and homes
- ❑ American industry innovates through the business constraints
  - ❑ to serve more people despite capacity limitations
  - ❑ to restore confidence to consumers
- ❑ May not be as difficult as assumed
- ❑ While confidence has been shaken, it's not fallen to Great Recession levels . . .



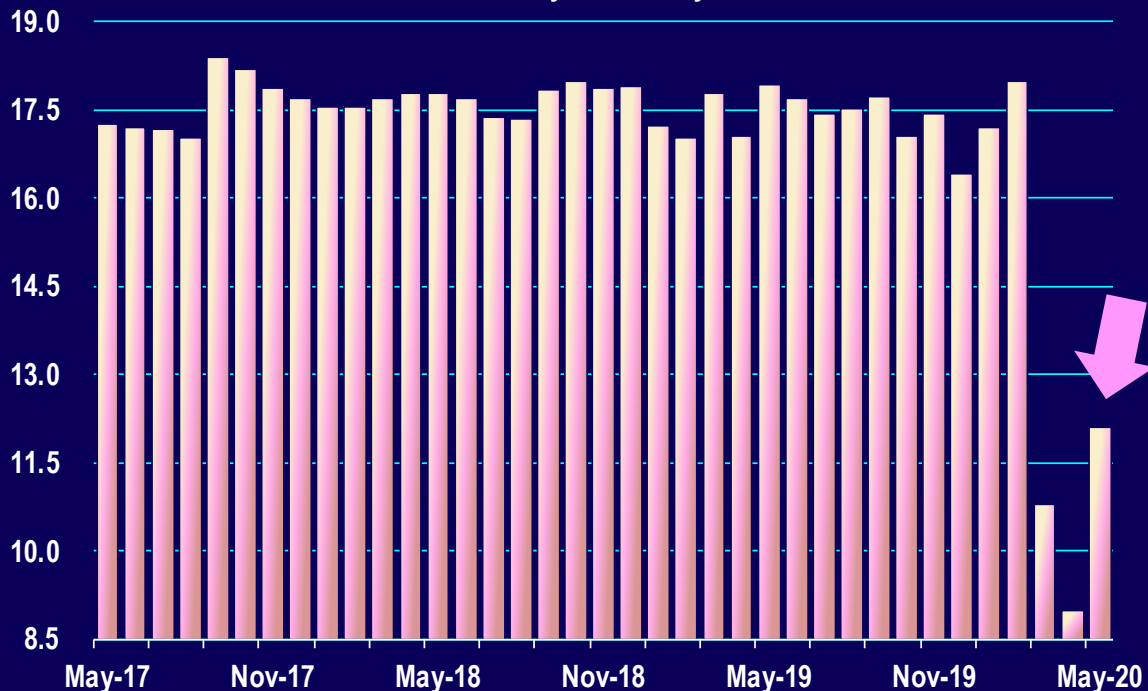
# Improvements to date

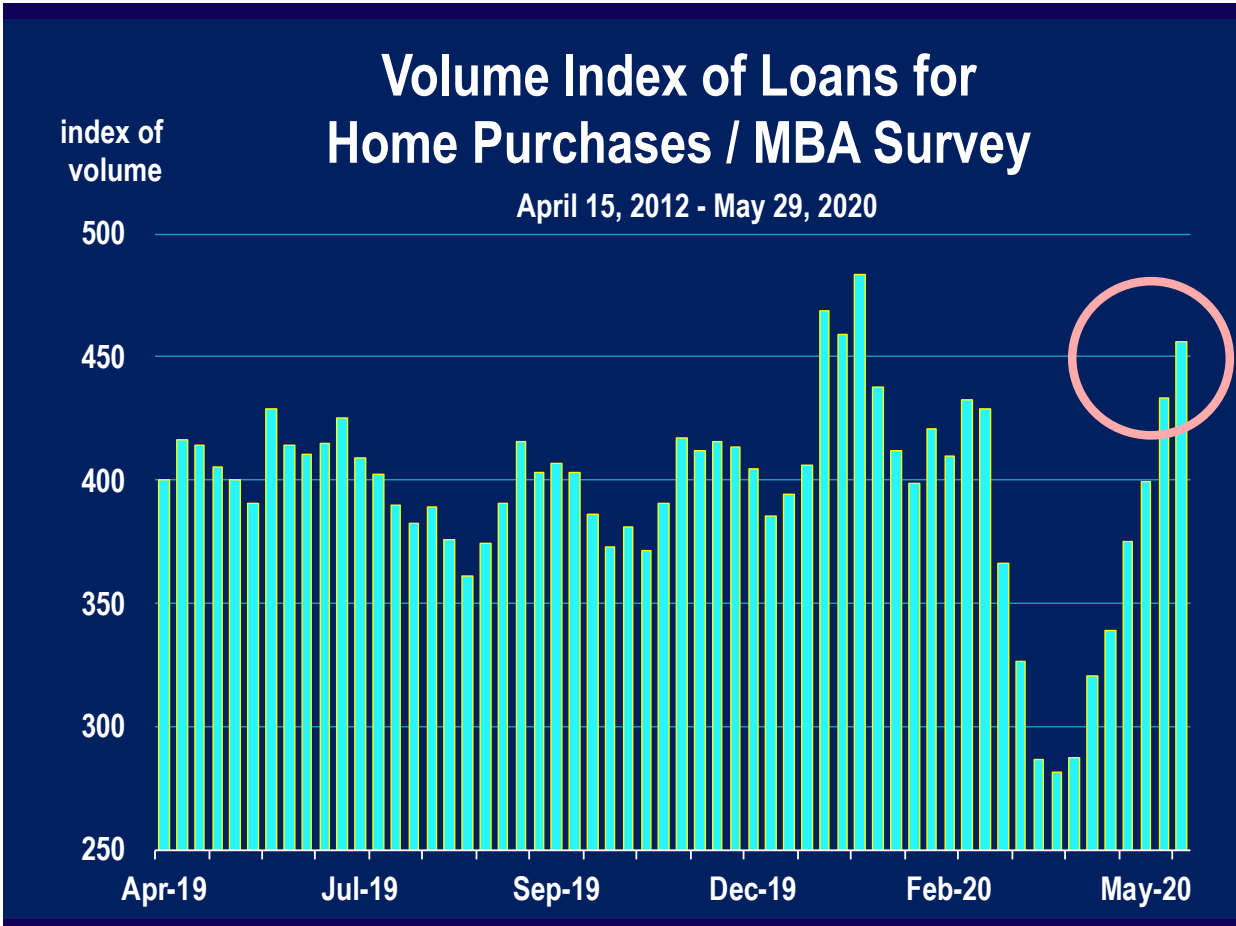
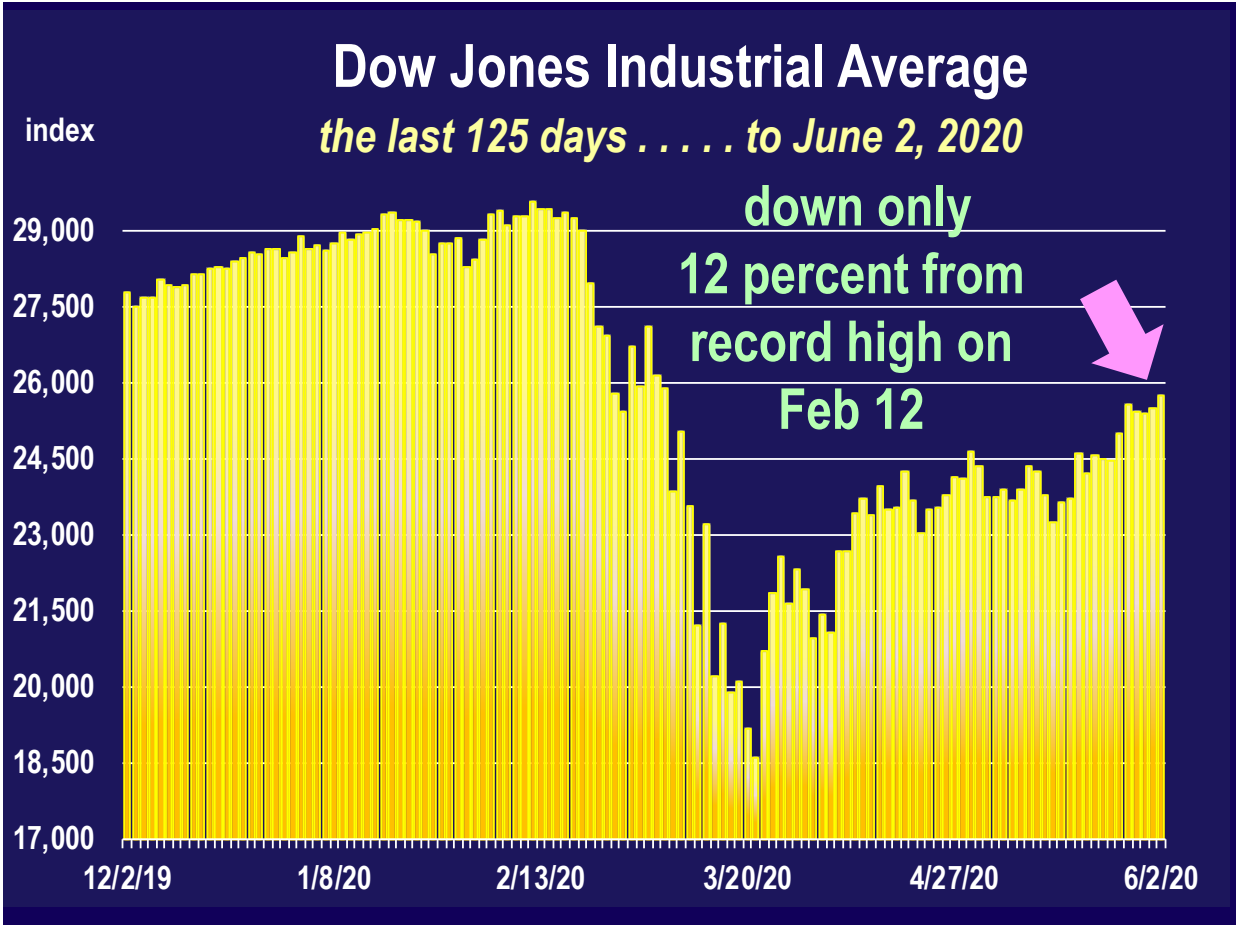
- ❑ Stock Market has rallied since March
- ❑ Home loans for purchases increased in May
- ❑ Refinancings are still at prolific levels
- ❑ Consumer spending is rising again
- ❑ Manufacturing is slowly improving
- ❑ Continuing unemployment claims are in decline
- ❑ Oil prices have rallied, now back to \$38
- ❑ New car sales came back strong in May

millions of  
vehicles  
(SAAR)

## New Auto and Light Truck Sales / U.S.

May 2017 -- May 2020





## Recovery obstacles this summer

---

- ❑ Mortgage credit tightening will affect home builders and the existing home market
  - ❑ There is now more rigorous income, credit-score and down-payment conditions
- ❑ Capacity limitations combined with consumer reticence will produce a wave of business failures and new layoffs
- ❑ Unless travel rebounds with some momentum hotels and travel related businesses will be forced to sell, merge, or fail

## Recovery obstacles this summer

---

- ❑ Property owners already are receiving less rental income from non paying tenants
  - ❑ They will now face further problems if SB 939 becomes law
- ❑ More fiscal stimulus will be needed for many business sectors including hospitality, recreation, retail, and travel
- ❑ The great shutdown of public gathering events is unlikely to be restored soon

## A further drag on the recovery

---

- The NBA season
- Colleges and Universities:  
will they open in-person in the fall ?
- Amusement parks and National Parks  
-- Disneyland, Yosemite, Universal, Death Valley, etc.
- Theatres, performing arts
- The Major League Baseball season
- The NFL

## A further drag on the recovery

---

- Music festivals and concerts
  - Ticketmaster says 50,000 concerts cancelled to date
- Summer festivals and parades
- Conventions and Conferences
- Travel to/from Asia and Europe is still banned

A note on



California

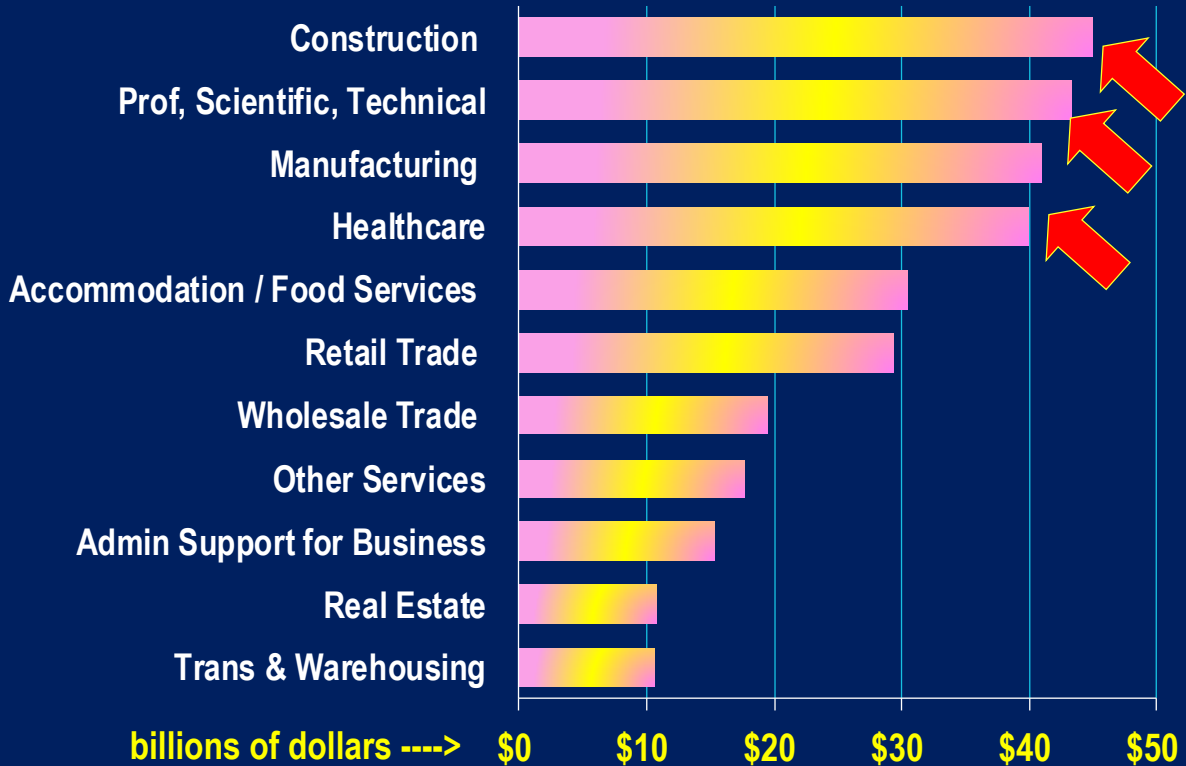
## California is more impacted

- Largest "tourism" state
  - More hotels, bars, restaurants, wineries, breweries
  - 9 National Parks – more than any other state
  - 11 theme and amusement parks -- ditto
- More conferences and conventions held here
- Most professional sports teams located here
- More year around concerts and performances
- More wine tasting tourism
- More workers idled at the Ports
- 37 percent of the workforce vulnerable to layoff

# CA Job declines: February to April

- 2.6 million total
- 961,000 Leisure and Hospitality
- 280,000 Retail
- 267,000 Professional & Business Services
- 250,000 Healthcare
- 150,000 Construction
- 130,000 Manufacturing
- 84,000 Local government

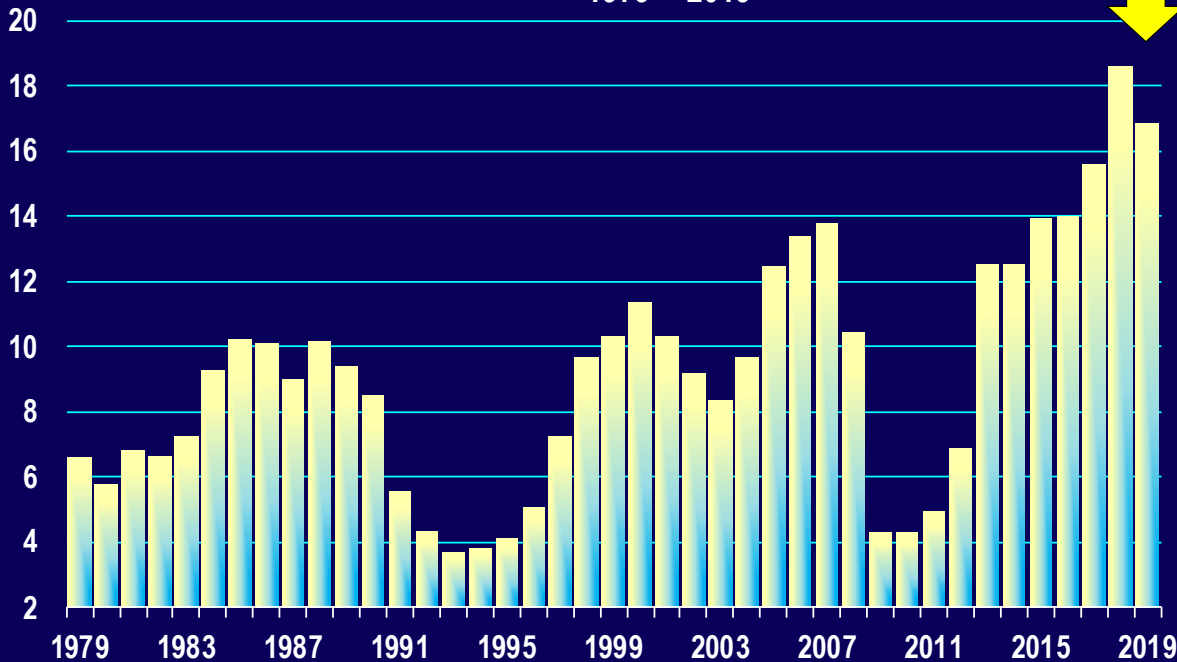
## PPP loan funding by Sector / U.S. / first round



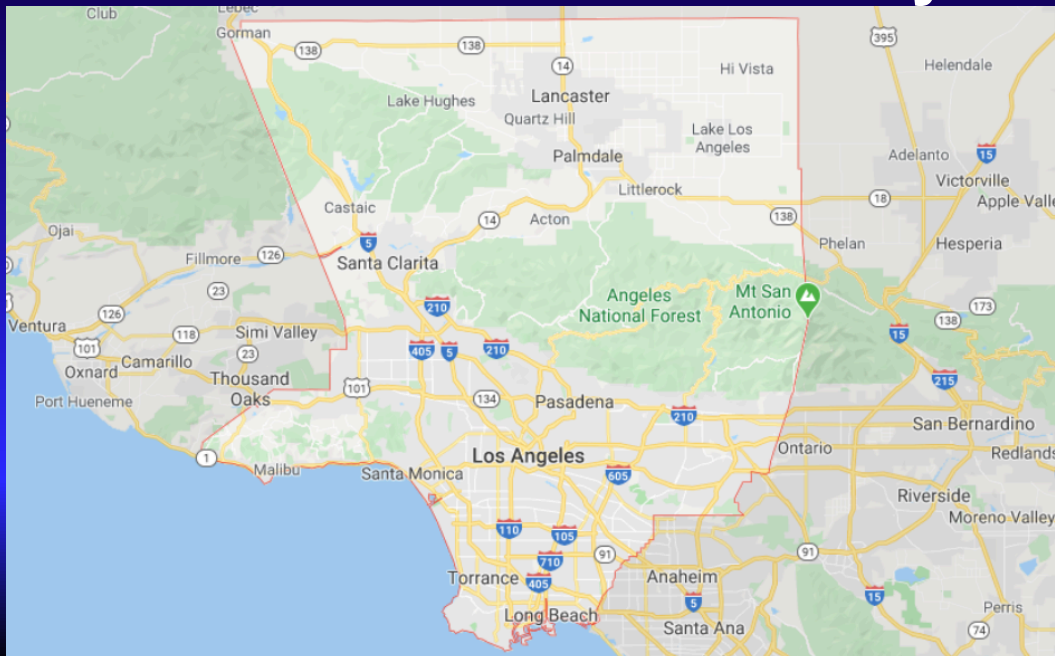
# Investment in New Commercial & Industrial Structures / California

billions of dollars

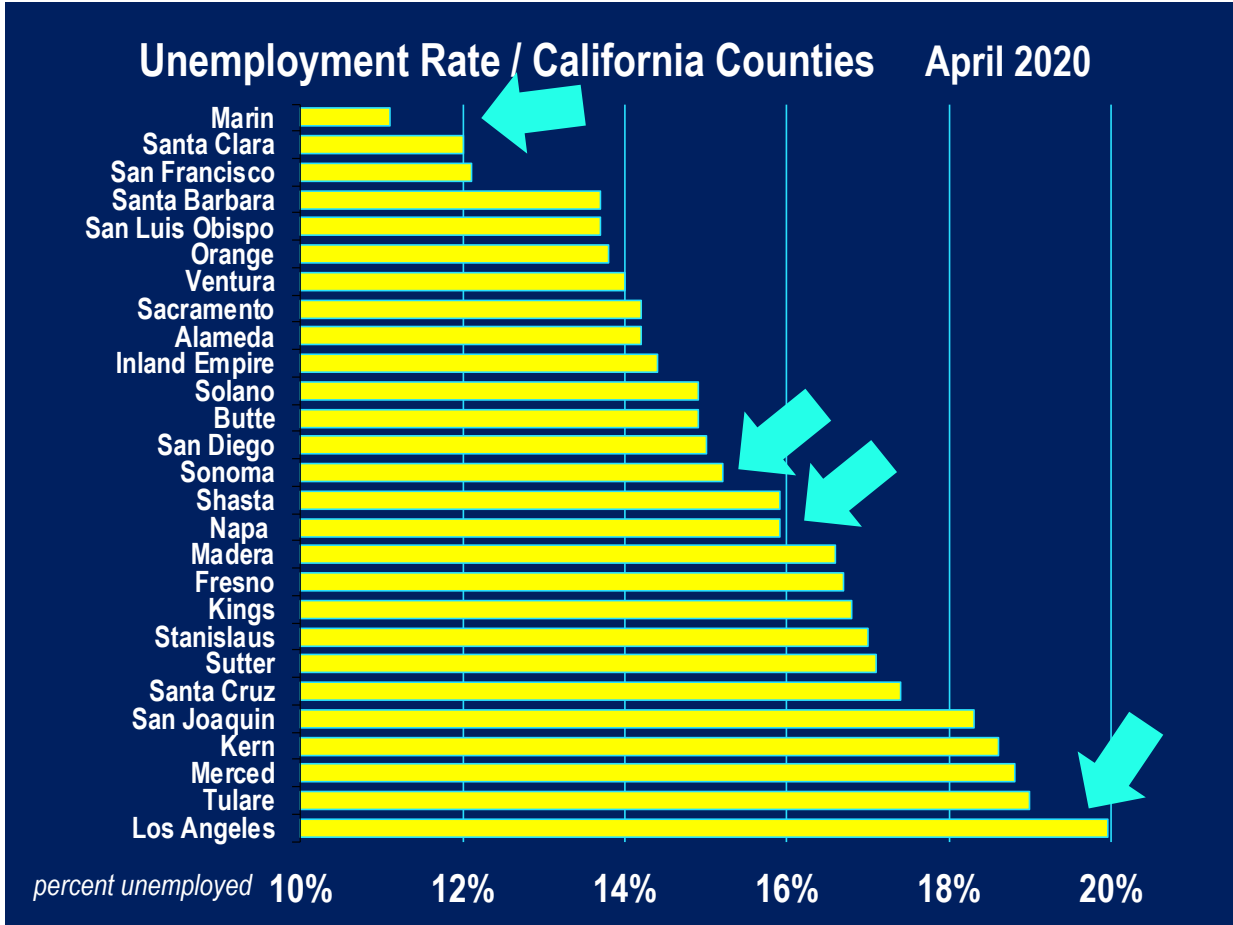
1979 -- 2019



# The Region Los Angeles County and The Santa Clarita Valley



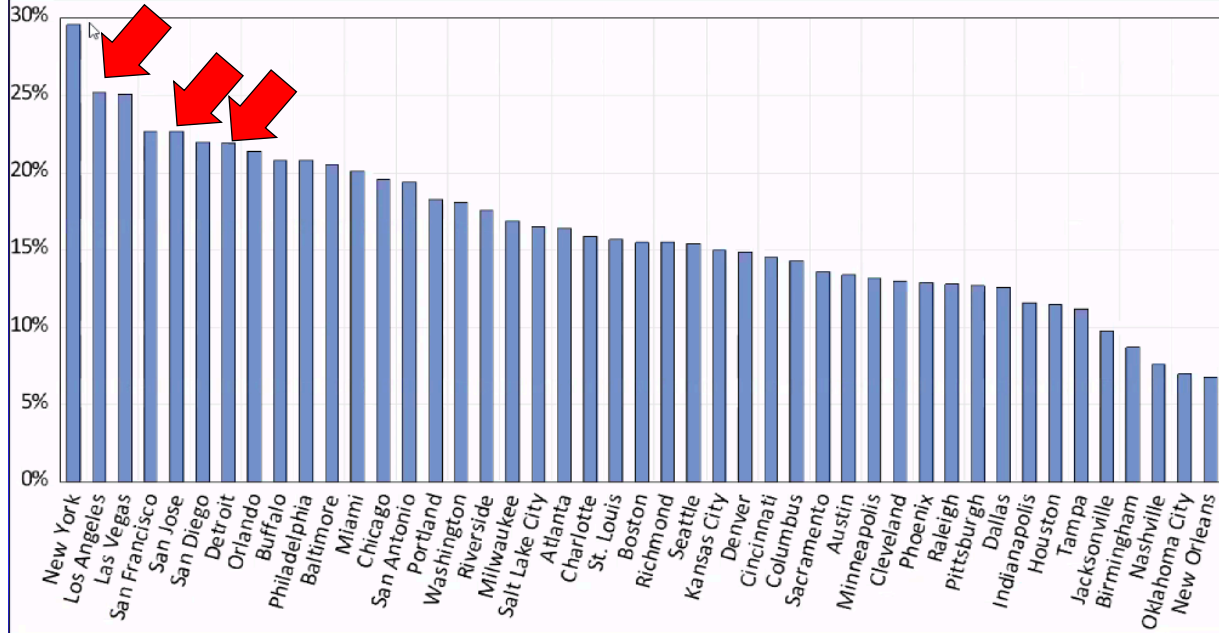




## LA County Economy

- More working residents of LAC lost their jobs than other counties
- More services that were shut down; workers unable to work remotely
  - Tourism
  - Entertainment – Dodgers, Clippers, Lakers
  - Universal Studios, MM, Hollywood, museums, beaches, Santa Monica, Film studios
  - Ports of LA/LB idled by fewer vessel calls
- More self employed workers

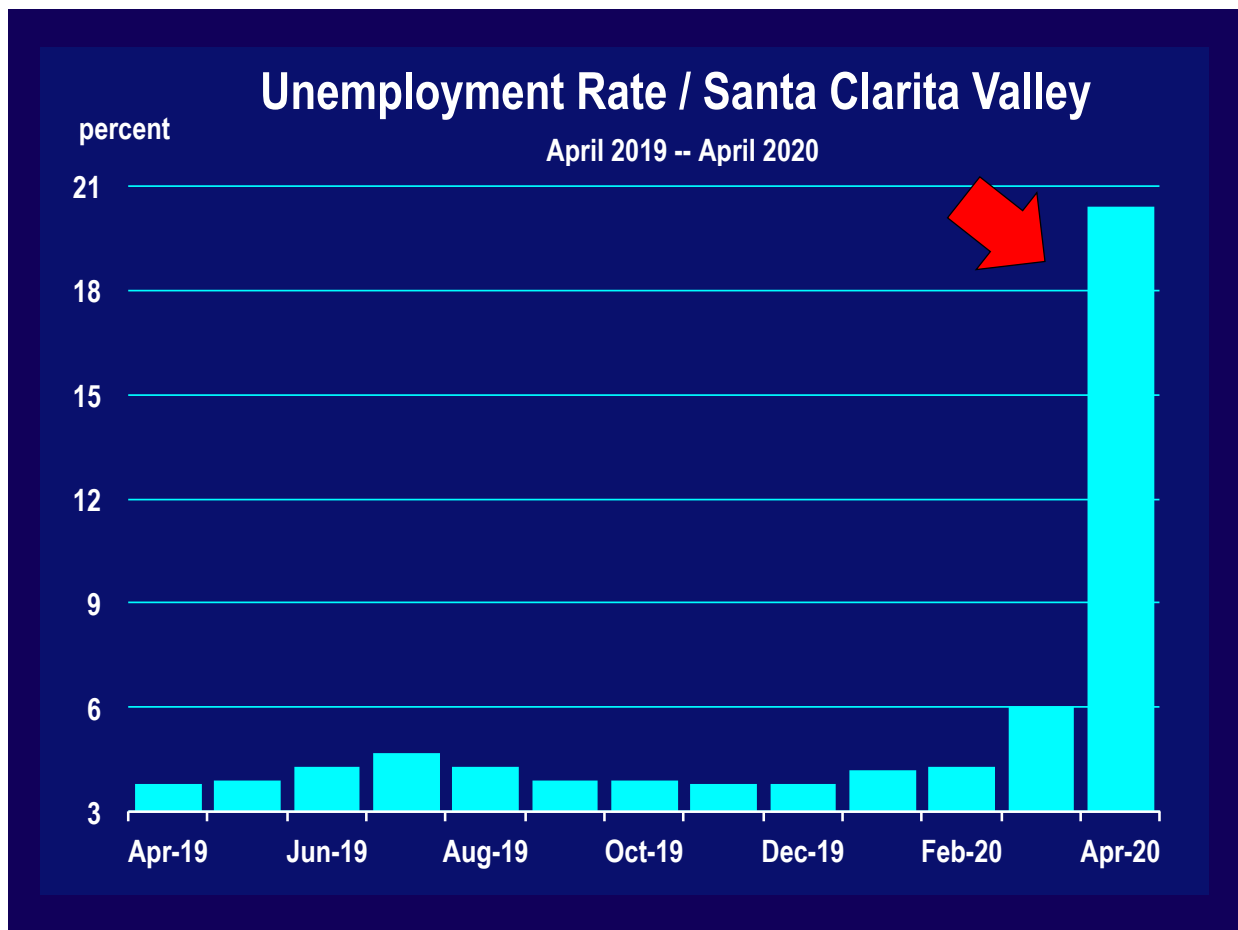
Since March 13, have you missed any scheduled payments like rent, utilities or payroll ?



U.S. Census Bureau, May 2020

## How will LA County recover ?

- It has been shut down longer than most counties and is opening up slower
- There are more people unemployed in the services which are lagging other sectors
- Technology will be an offset
- LA County is likely to lag other regions of California during the recovery
  - Especially if all entertainment venues remain shut down for a longer period of time . . .

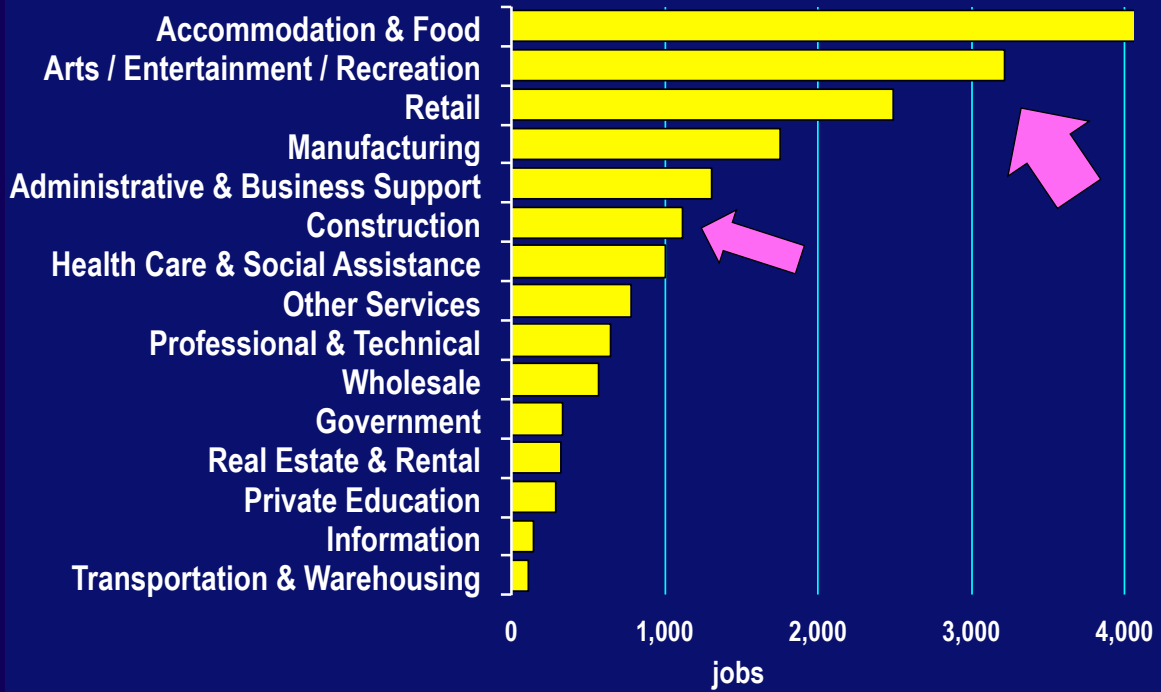


## The SCV Economy

- Estimates by the State put the region's unemployment rate akin to the County's rate
- Hospitality, food services, recreation, and retail jobs have been hammered
- Government, healthcare, and professional & technical jobs largely spared
- Real estate asset values and utilization largely unaffected to date by the crisis
- Construction activity is rebounding

# Jobs lost by Industry / Santa Clarita Valley

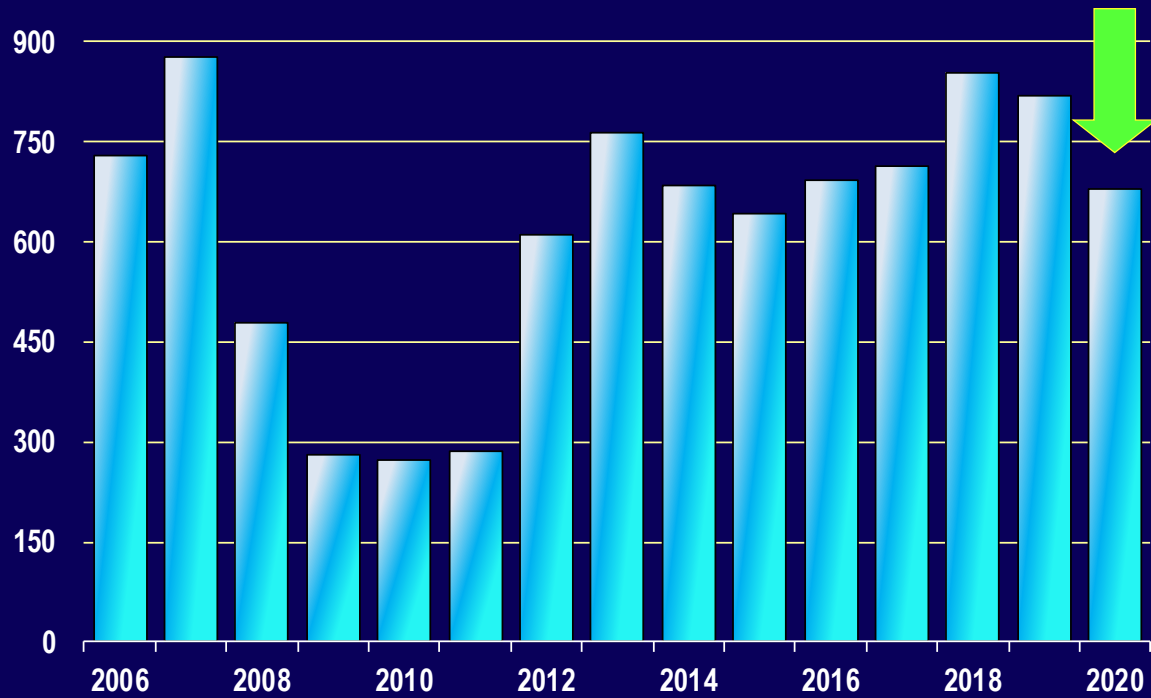
April 2020



# New Residential Units / Santa Clarita Valley

units permitted

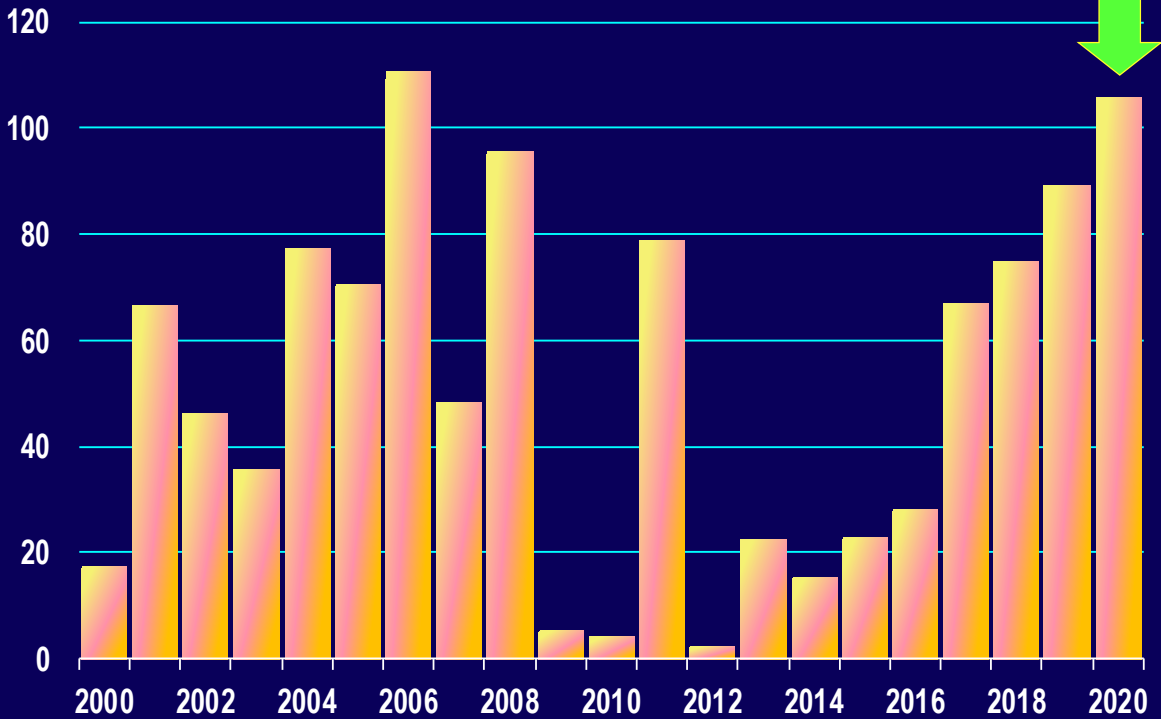
2006 -- 2020



millions  
of dollars

## New C&I Building / City of Santa Clarita

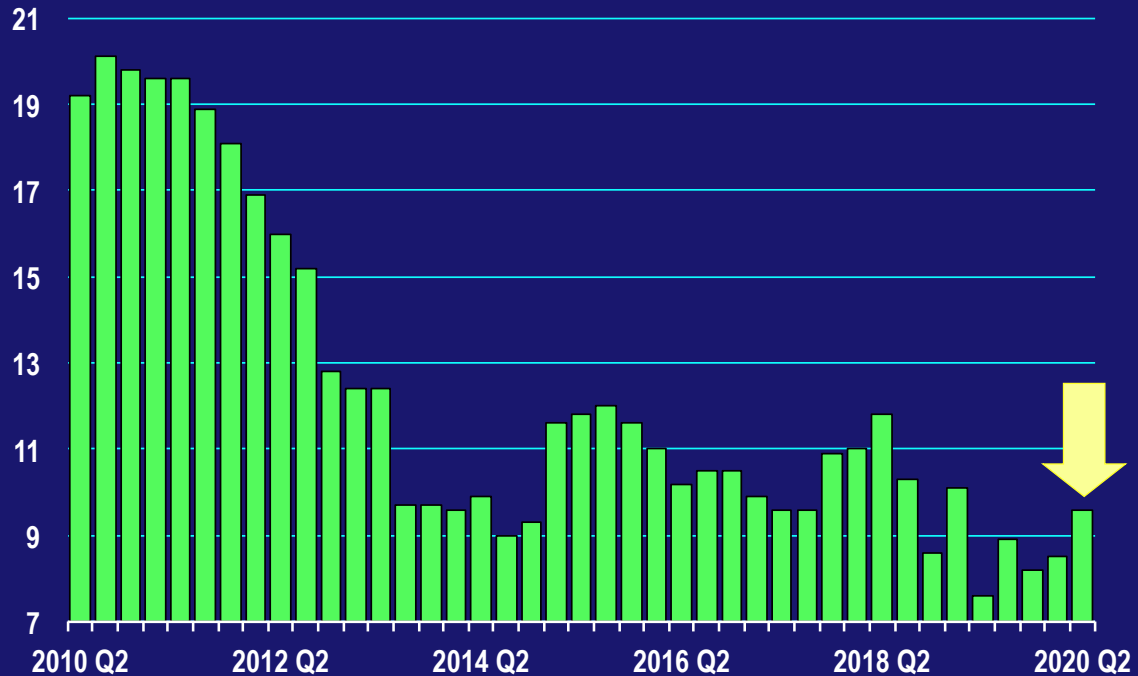
2000 -- 2020



## Office Vacancy Rate / Santa Clarita Valley

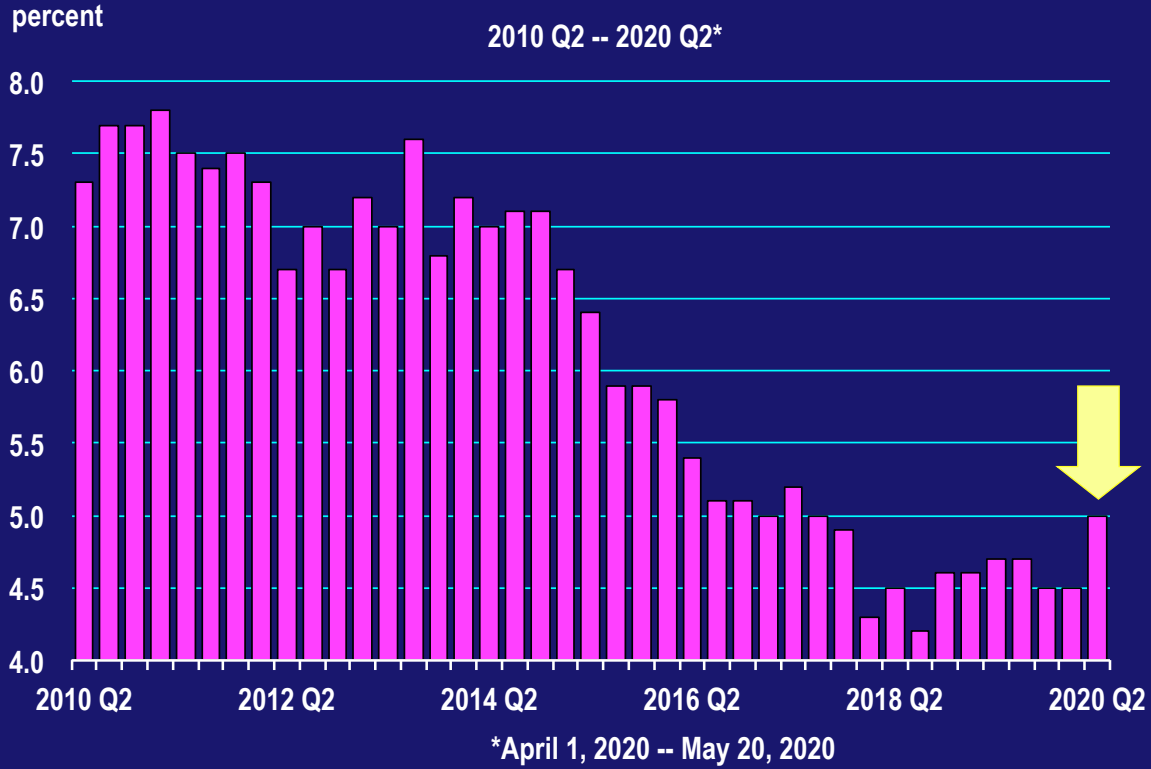
percent

2010 Q2 -- 2020 Q2\*

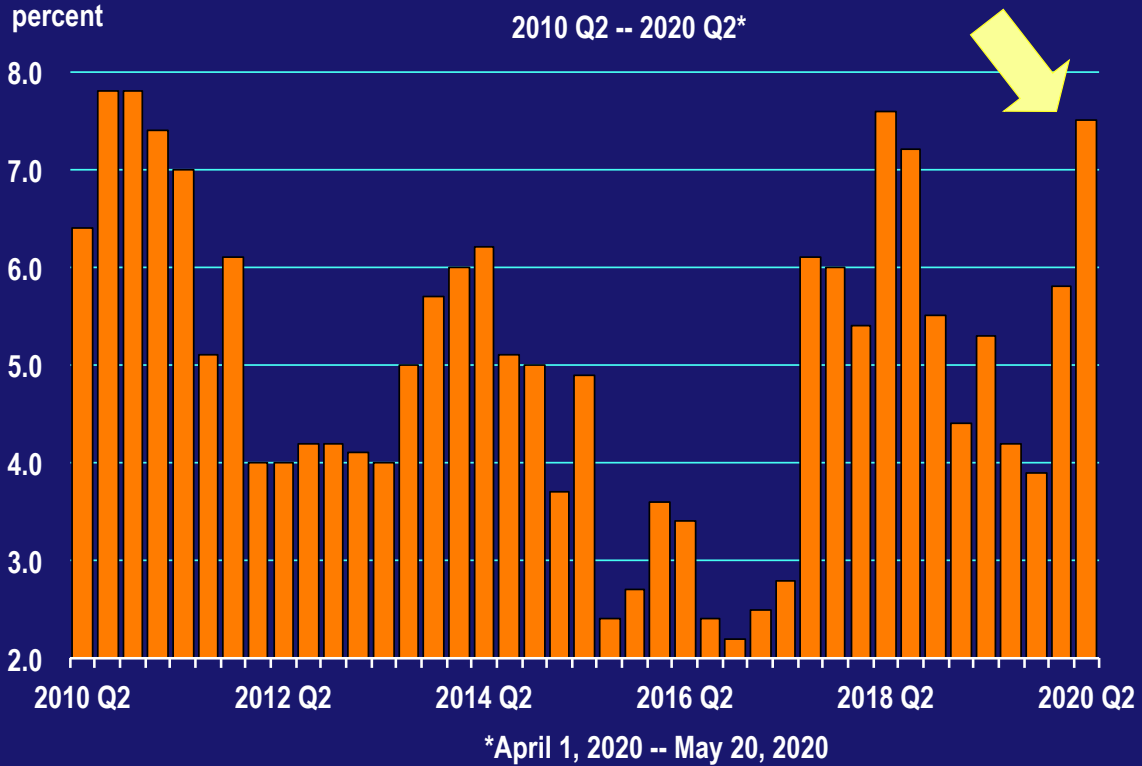


\*April 1, 2020 -- May 20, 2020\*

## Retail Vacancy Rate / Santa Clarita Valley



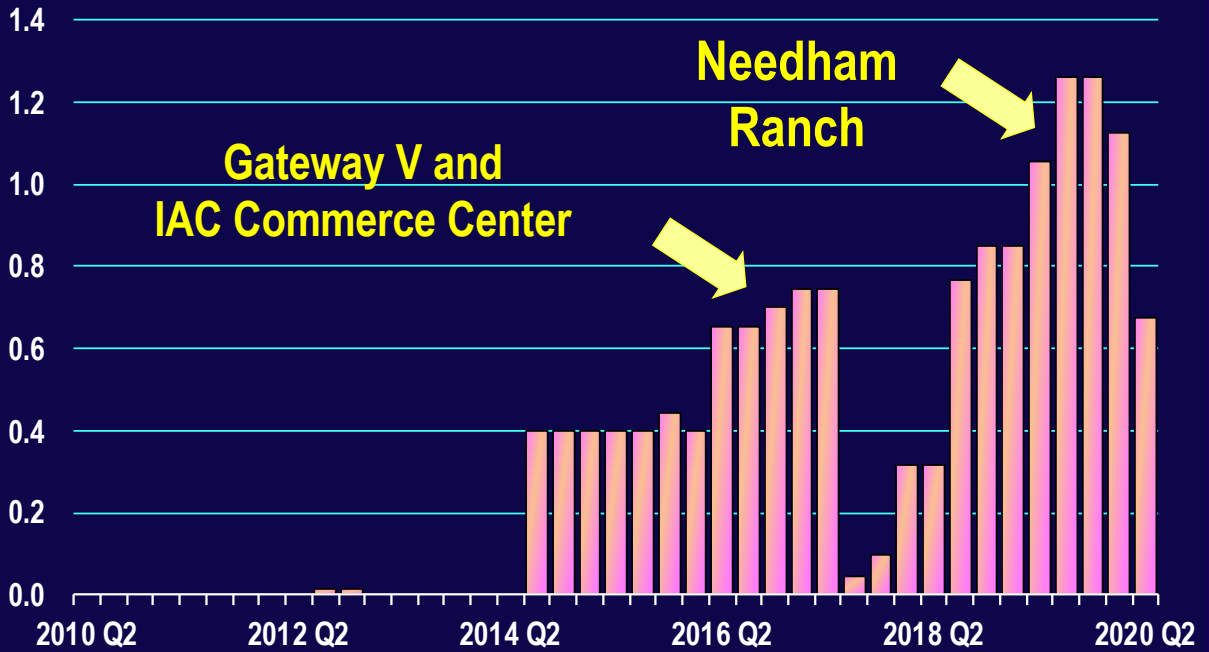
## Industrial Vacancy Rate / Santa Clarita Valley



# Industrial Space Under Construction Santa Clarita Valley

millions of square feet

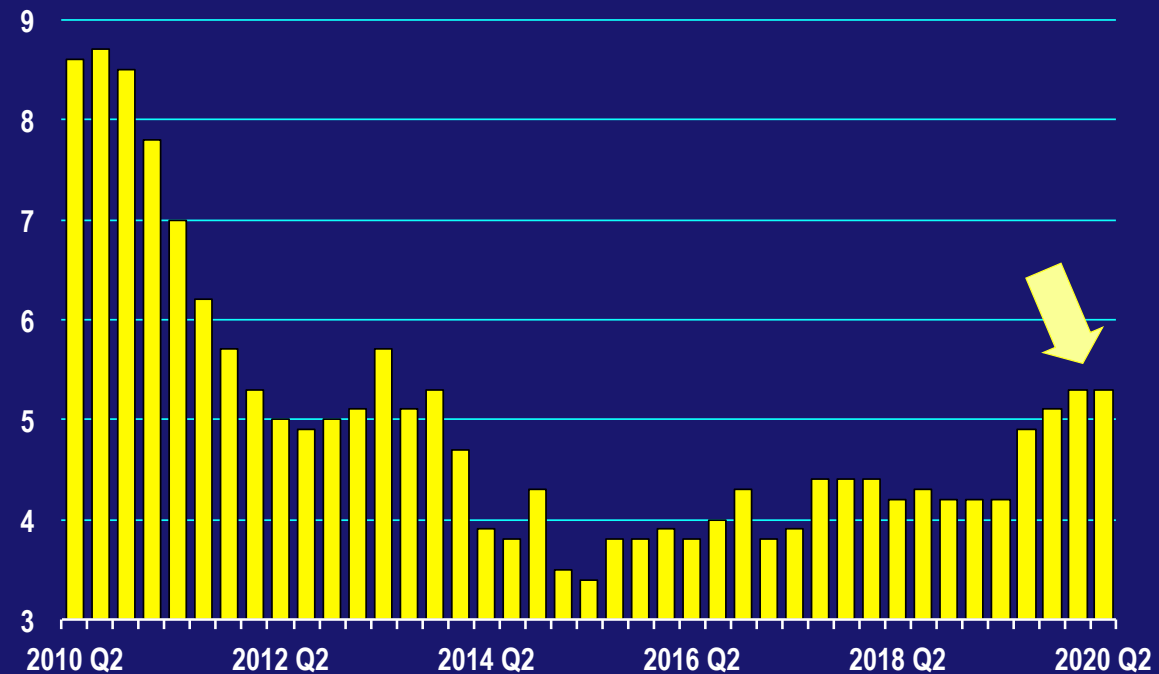
2010 Q2 - 2020 Q2



# Apartment Vacancy Rate / Santa Clarita Valley

percent vacant

2010 Q2 -- 2020 Q2\*

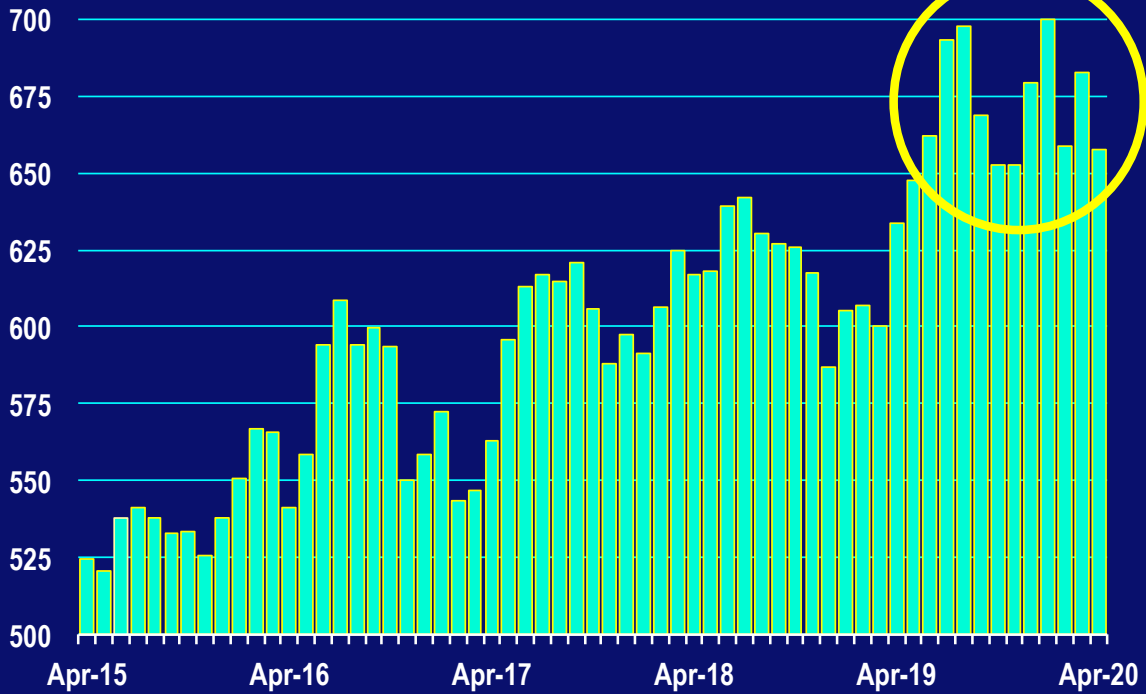


\*April 1, 2020 -- May 20, 2020

## Median Home Selling Price / Santa Clarita Valley

thousands  
of dollars

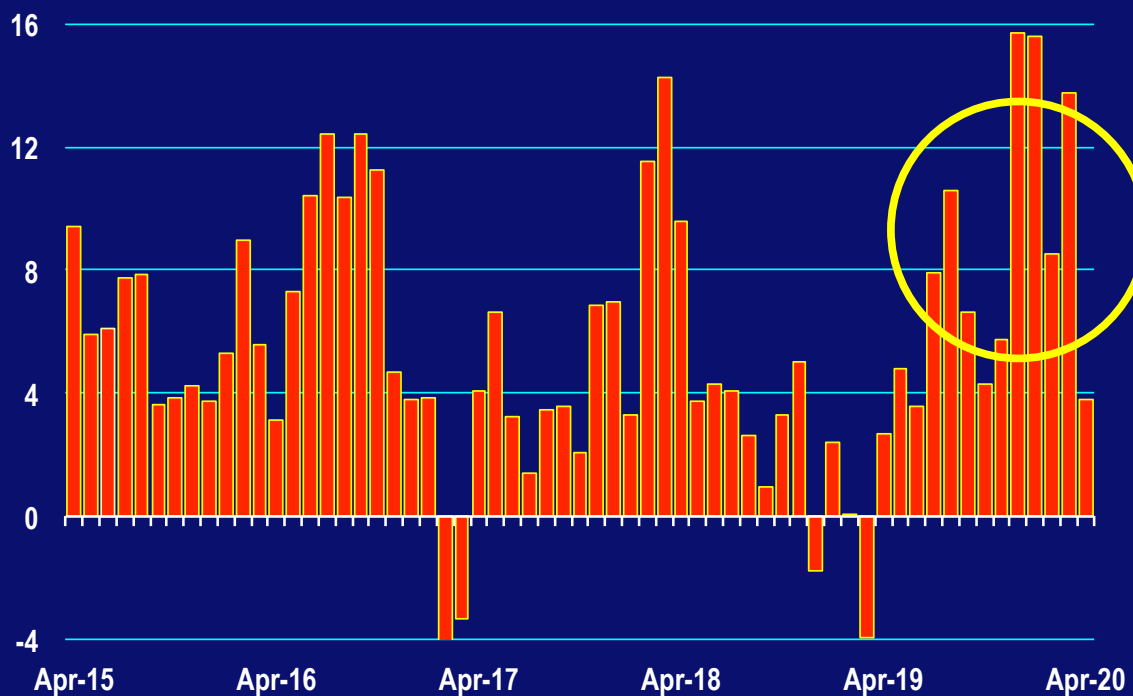
April 2015 -- April 2020



## Home Price Appreciation / Santa Clarita Valley

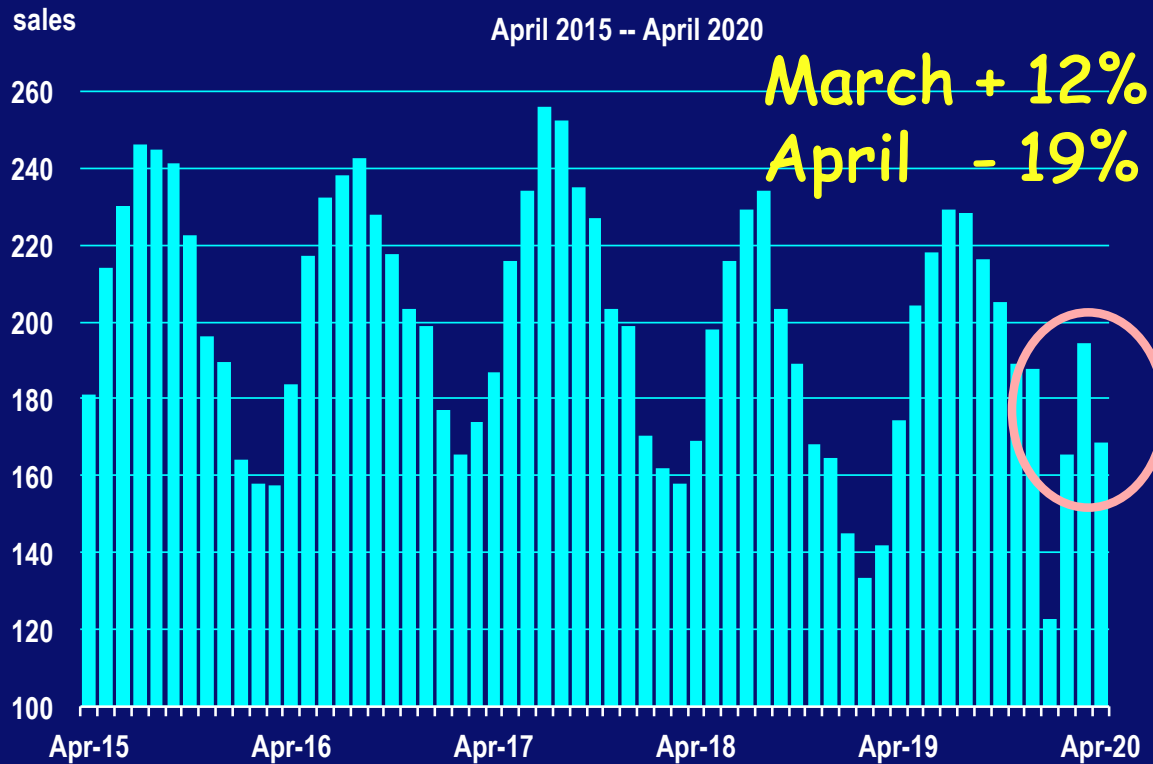
year-over-year  
percent change

April 2015 -- April 2020





## Home Sales / Santa Clarita Valley



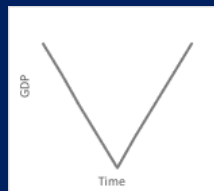
## Housing in the SCV

- Home values have yet to show any adverse effects of the pandemic
- Low mortgage rates and tight inventory support home prices
- Sales off near 20 percent in April
- Demand for housing may be impacted going forward
- However, jobs held by typical buyers of homes in the SCV have not been that affected by layoff

# How the Economy Recovers

- We are now in recovery
- This does not mean the recession is over
- We assume that a V-shaped recovery will not occur due to the manner in which the economy is being allowed to open
  - capacity limitations
  - social distancing
  - phased openings of sectors and regions, and . . . .
  - large public events are not in the early phases

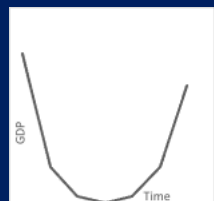
## The Alphabet Recovery: *which letter*



**V shaped cycle**  
*Rapid recovery*



**W shaped cycle**  
*Recovery with fits  
and starts*



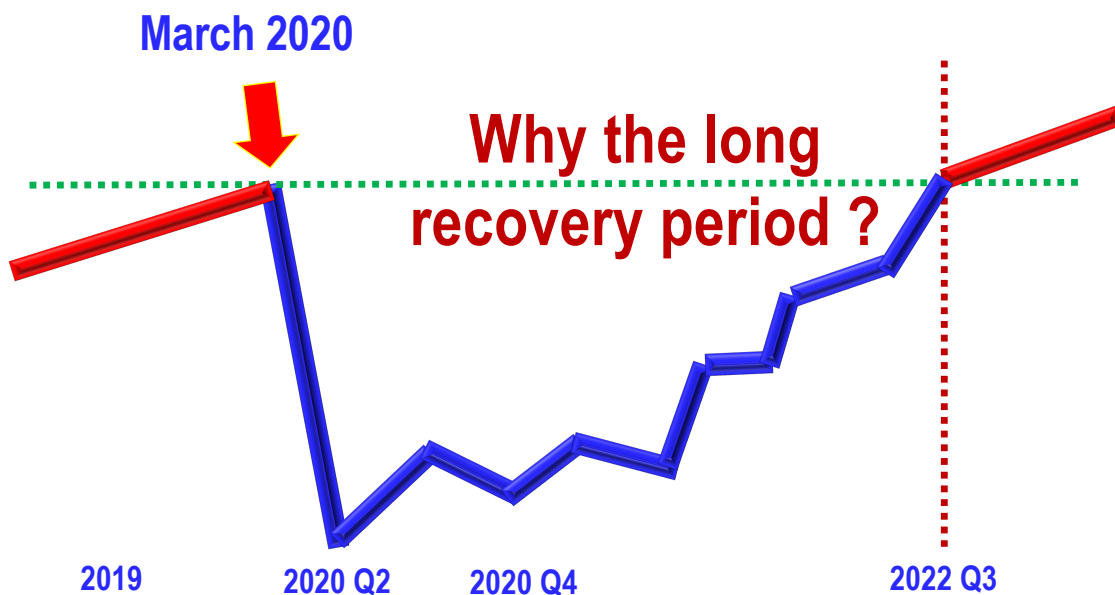
**U shaped cycle**  
*lengthier deterioration  
along the bottom*



**L shaped cycle**  
*Protracted recession*

- We are entirely dismissing V
- We are more in alignment with W
- There will be some growth in the economy during the restart
- Therefore , U, L not a high probability

The shape of Recovery:  
 "tilted L"



# Why does the recovery drag on ?

---

- 1) Deferrals of loan payments by lenders expire
- 2) Deferrals of lease or rent payments by landlords expire
- 3) Deferral programs of car loan payments end
- 4) The unemployment insurance bonus check expires; State UI benefits expire
- 5) The Gov't stimulus monies are exhausted
- 6) Capacity limitations, slow ramp up of events, and restoration of consumer confidence

## The Current COVID-19 Forecast Scenario

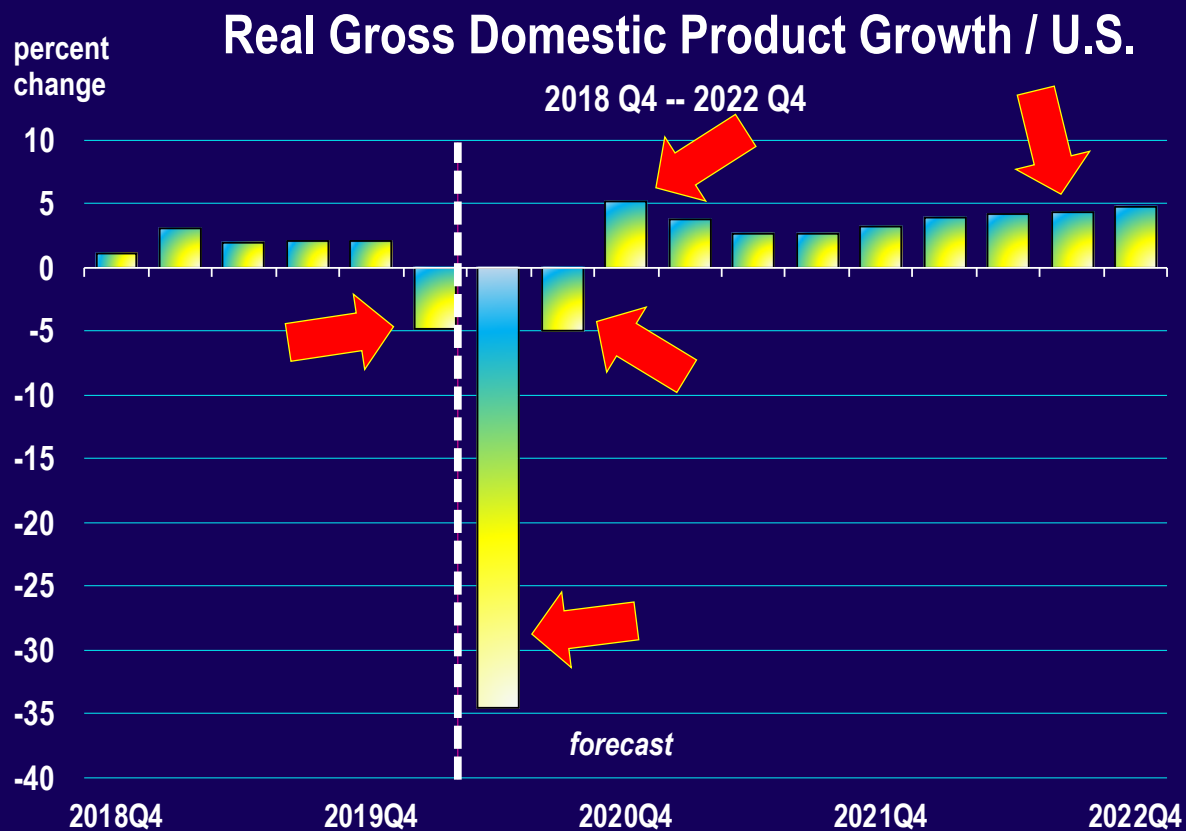
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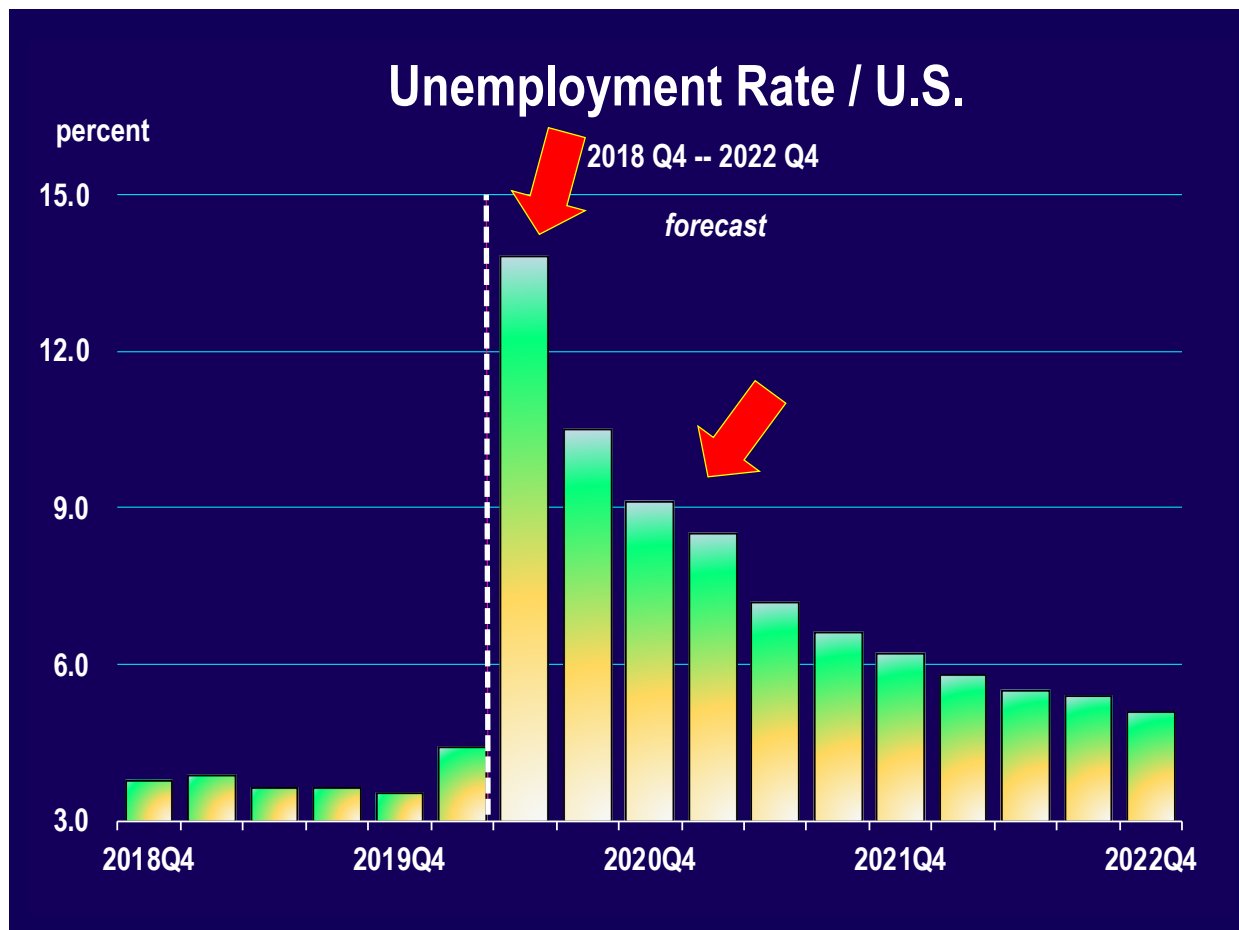
Pandemic peaks in mid April; with clear signs of fewer infections in May for all States

- 1) Shelter-in-place orders eased in May
- 2) Airlines, other travel, and some events restored in June
- 3) There will have been business failures but most businesses survive through May
- 4) Workers return to their previous jobs but much fewer workers are needed than before
- 5) Why ?

# The Current COVID-19 Forecast Scenario

- Consumer behavior likely to be “reticent”
- Distancing and capacity constraints
  - some schools will open in the fall
  - large events unlikely to occur
    - ~ baseball, football on TV only ?
  - restaurants face half or less capacity
  - retail stores will also limit shoppers inside
  - airlines and hotels face very slow return of customers
  - Is this the new normal for rest of 2020 ?





## 2020 Economic Forecast Summary

- Even though the lockdowns are being eased, the economy faces much slower growth
- There are serious supply limitations
- The elimination of large events limits significant consumer spending and revenue
- There will be an attendant decline in demand from households who have
  - lost their jobs, lost significant business revenue,
  - and / or who alter their preferences to maintain distancing and avoid crowded spaces

## 2020 Economic Forecast Summary

---

- Consequently, the recession persists into the summer months
- Depending on how the limiting protocols persist through the restart, the recession could endure into September
- Joblessness persists for the remainder of the year keeping the unemployment rate high and consumer demand muted

## 2020 Economic Forecast Summary

---

- Because interest rates will remain low through 2020 *this will help housing and other interest rate sensitive sectors lead the recovery. . .*
- Inflation remains a non-issue
- Construction is less impacted by supply chains and will also help to power regional economies back to life
- Automobile and home sales not as impacted

For Economic Updates  
Regarding the Coronavirus



[www.californiaforecast.com](http://www.californiaforecast.com)

*COVID 19 Updates*

The June 2020 Economic Update  
in a world with COVID 19



Thank you