

The 2020 Economic Review and Outlook for



**Mark
Schniepp
Director**

**March 25,
2020**

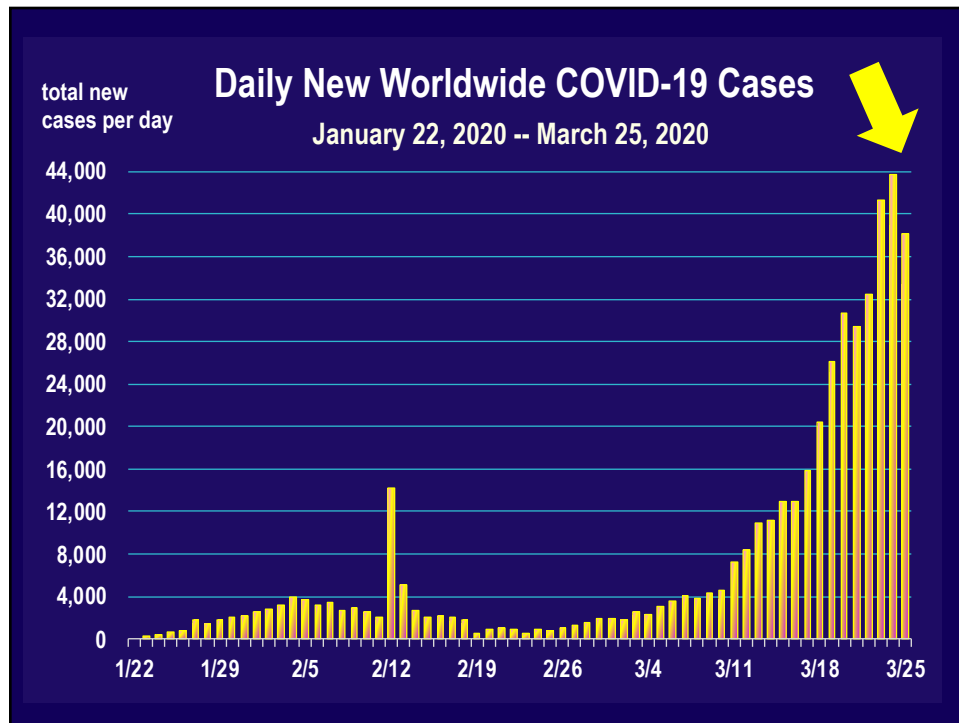
The U.S. and California

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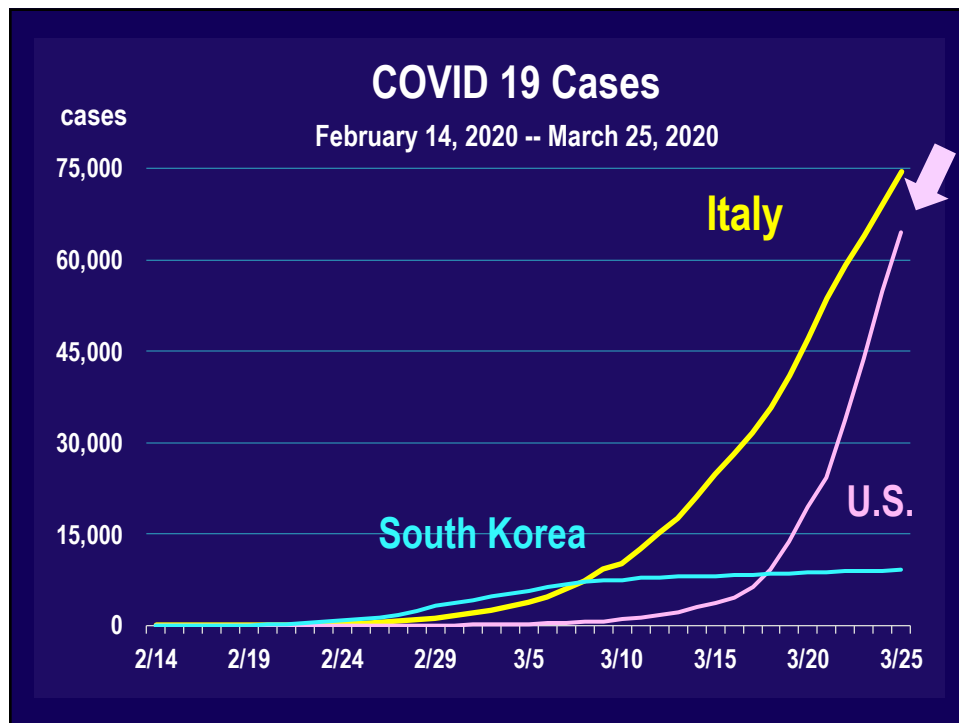
Agenda

- 1) What we know to date about
--- COVID 19
- 2) What's happening to the U.S.
and California economies
- 3) How long is the economic
damage: the outlook for 2020
--- given what we know as of 3-25-20
- 4) Risks for the Santa Clarita Valley

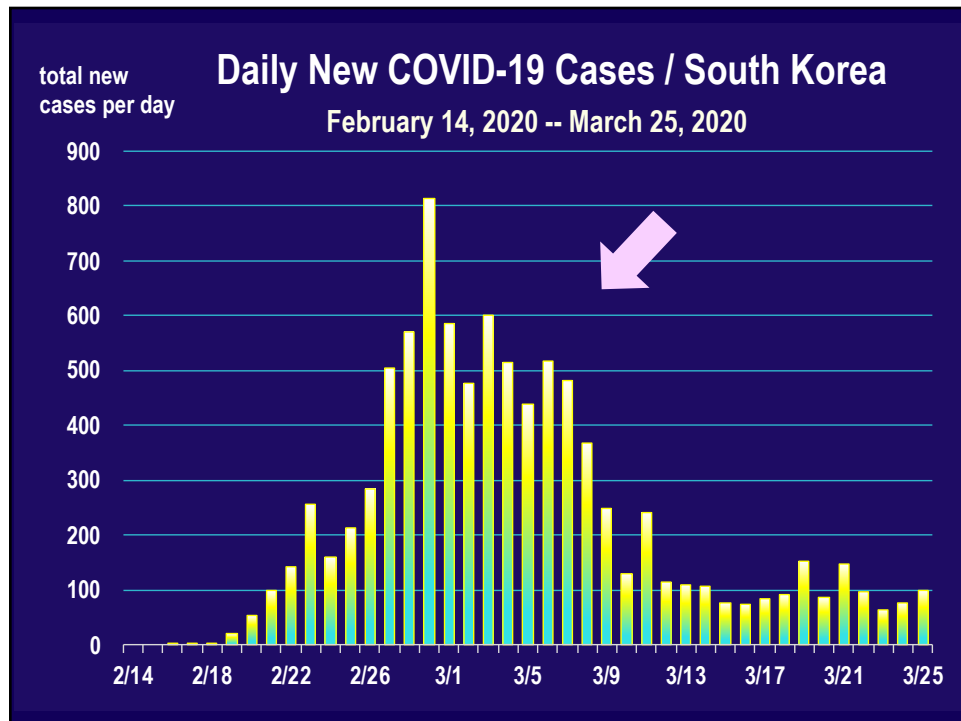
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Immediate Status of COVID-19

- We remain in a panic state
- The COVID-19 case growth rate in the U.S. continues to rise, exceeding the Italian growth rate of new cases
- Escalating in Europe: Spain and Germany
- Fastest case growth rate is in New York state
- Abating in South Korea and Singapore
- No new internal cases in China, last 5 days . . .

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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

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Status of COVID-19

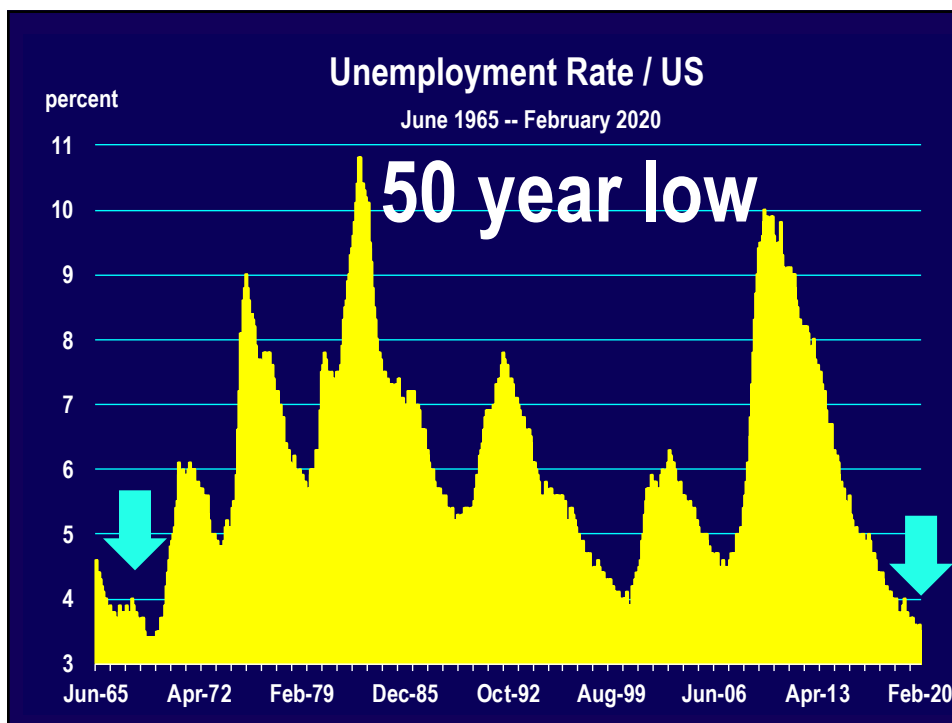
- In China, their economy is ramping up, first slowly but now more quickly
- More than 90% of all victims have recovered
- The supply chains are being restored
 - Over 95 percent of enterprises back in operation
- Apple has re-opened all 42 of it's stores in mainland China
- Starbucks re-opened in Wuhan and will have 90 percent of stores open by next week

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What you should know about the U.S. Economy

- ☐ Pre-virus, there was not much negative economic news affecting the 2020 forecast
- ☐ The stock market recorded record highs
- ☐ The unemployment rate was at 3.5 %
- ☐ The economy was poised to only slow a little this year: to 2.0% (from 2.3% in 2019)
- ☐ Uncertainty from the U.S. China trade war was a dissipating cloud over the economy . . .
 - ☐ Especially after Phase I was signed on 1-15-20

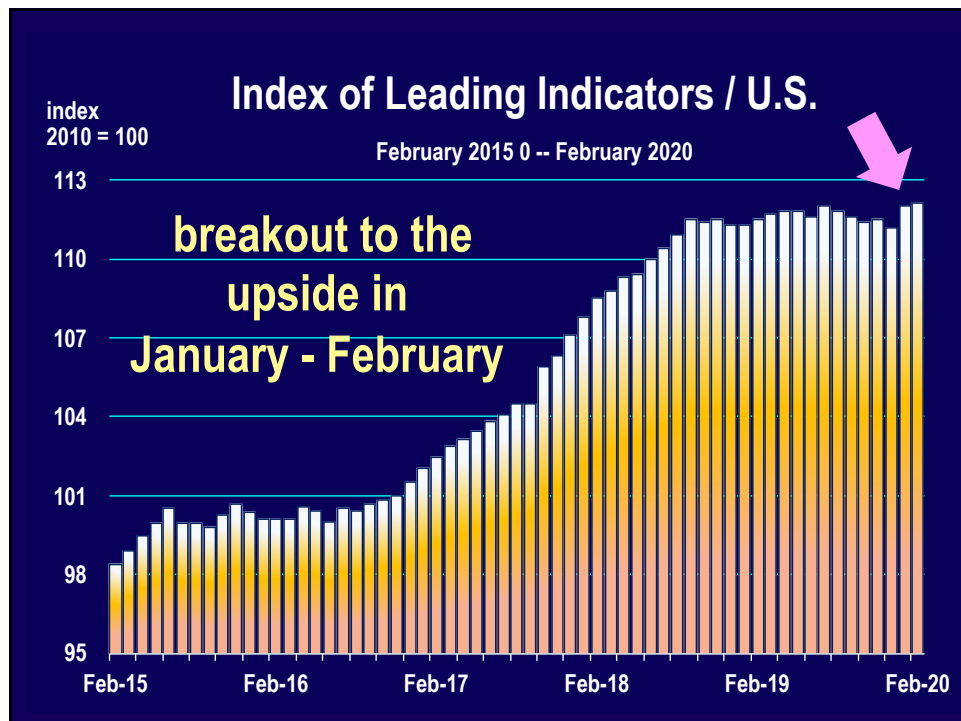
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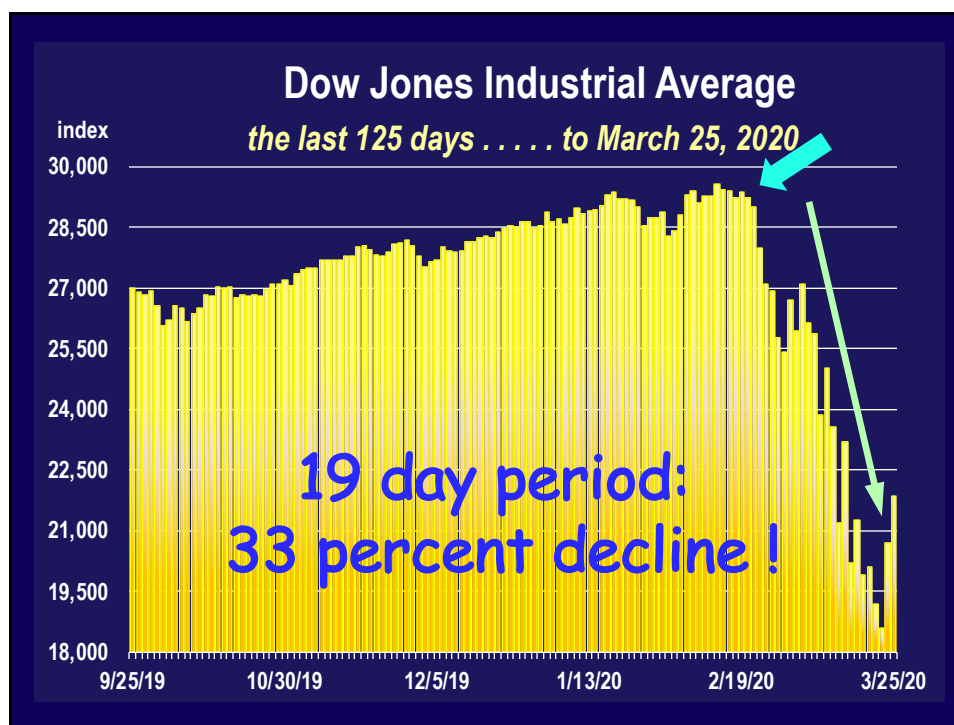


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But everything turned on a dime

- The economy faces an unprecedented shock, all within a 3 week period:
 - ❑ COVID 19 hit the Securities Market like a shock wave ! Now, it's the economy
 - ❑ Investors are spooked by the uncertainty of containment and unknown extent of economic damage
 - ❑ The Fed first did an emergency 50 BP FFR cut
 - ❑ Then another emergency cut to zero percent to ease credit demands during the crisis

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Supply and Demand Issues



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Supply and Demand Impacts

- ☐ We started with a supply issue
 - ☐ Shipping containers filled with products for American businesses not coming from China
 - ☐ Travel bans limiting tourists into the U.S.
 - ☐ Then the forced closures of businesses
- ☐ That evolved into a demand shock
- ☐ The stock market collapse affects household wealth; Consumers aren't spending due to
 - ☐ The wealth effect
 - ☐ Losing their jobs, and
 - ☐ just plain uncertainty about the future

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Supply and Demand Impacts

- ❑ Tourists aren't spending because
 - ❑ they're not here, and
 - ❑ everything is closed anyway
- ❑ Heavily impacted sectors include:
 - ❑ Airlines, hotels, restaurants, retail stores
 - ❑ All spectator entertainment venues
 - ❑ Truck drivers and warehouse workers
 - ❑ And now: bars, gyms, personal care

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What Impacts we can see to date

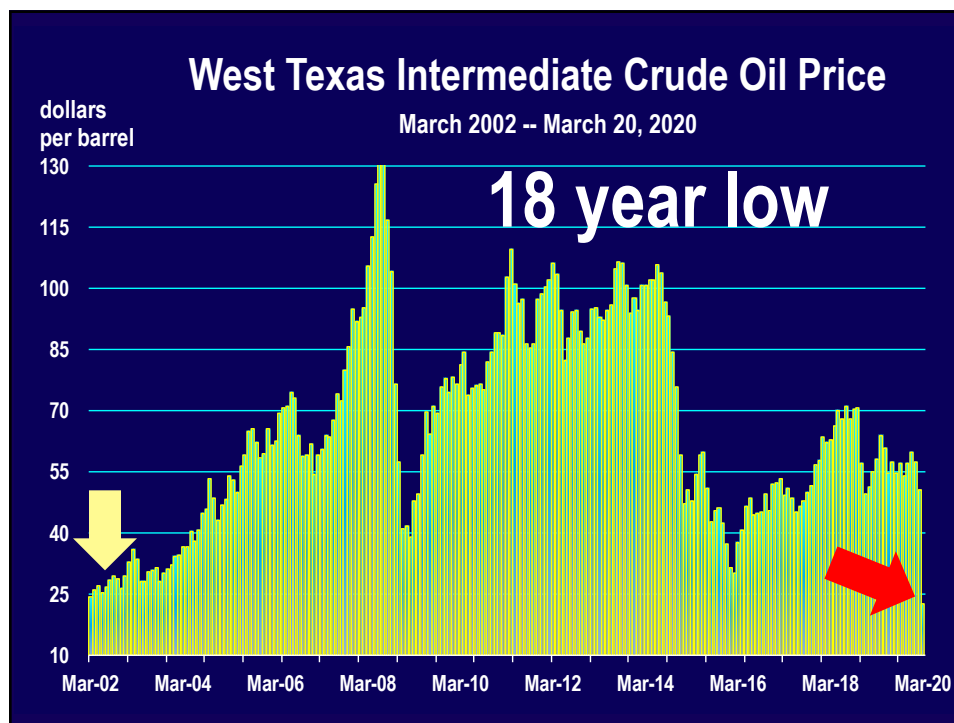
- ❑ A rapid 30 percent decline in the Stock Market
- ❑ Lack of travel and visitor spending
 - ❑ Planes less than half full, or not flying at all . . .
 - ❑ Tumbleweeds blowing through hotel lobbies . . .
- ❑ The great Coronavirus shutdown
 - of public events (more on this to come . . .)
- ❑ Fed cuts rates to near 0 percent
- ❑ Flight to safety sends long term interest rates to historical lows

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What Impacts we can see to date

- ❑ Initial runs on Costco, Target and all grocery stores for toilet paper, canned goods, produce, fresh meat, bread, rice
- ❑ Continued empty grocery store shelves
- ❑ Empty stores, empty downtowns, no traffic
- ❑ Longer delivery times from Amazon
- ❑ Oil prices have tumbled !
- ❑ Oil company stock prices down 50 percent, right along with airline stock values

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The Great COVID 19 Shutdown

- ☐ NBA season suspended
- ☐ March Madness cancelled
- ☐ All California schools closed - next 3 weeks
- ☐ All high school sporting events suspended
- ☐ UC System in-person classes cancelled
- ☐ Disneyland theme parks closed, CA and Florida
- ☐ New York Broadway shows closed
- ☐ Major League Baseball season delayed

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The Great COVID 19 Shutdown

- ☐ 2020 Summer Olympics postponed to 2021
- ☐ Music festivals like Coachella postponed
- ☐ Other entertainment events cancelled
- ☐ Conventions cancelled
- ☐ Conferences cancelled or postponed
- ☐ Travel from Asia, Europe into US, banned
- ☐ All Bars, restaurants, wineries, breweries
- ☐ Shelter-in-place enacted in ½ of U.S. so far . . .

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Jobs most at risk

- ☐ Food services and drinking places
- ☐ Most of the retail trade sector
- ☐ Amusement and recreation
- ☐ Spectator sports, sporting goods
- ☐ Motor vehicle parts dealers
- ☐ Accommodation and Hospitality
- ☐ Health and personal care stores
- ☐ Air, water, and ground transportation
- ☐ Trucking
- ☐ Business and administrative support services

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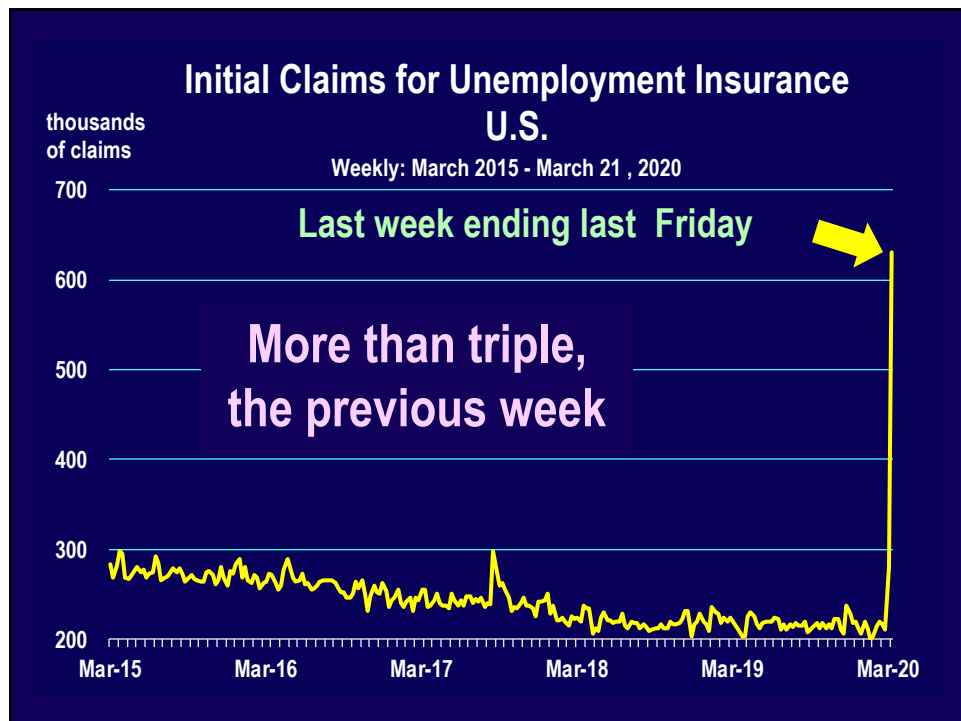
Observed Layoffs to date

- ☐ At airlines, airports, hotels, restaurants and bars, at all public meeting places
- ☐ All staff at all sports venues, their suppliers, food concessions, fitness centers, salons
- ☐ Layoffs of trucking and warehousing workers due to less imported products from China and fewer deliveries to restaurants, hotels, and bars
- ☐ Because of all the closures, there is less to transport, store, and deliver
- ☐ Idled workers from shelter-in-place mandates

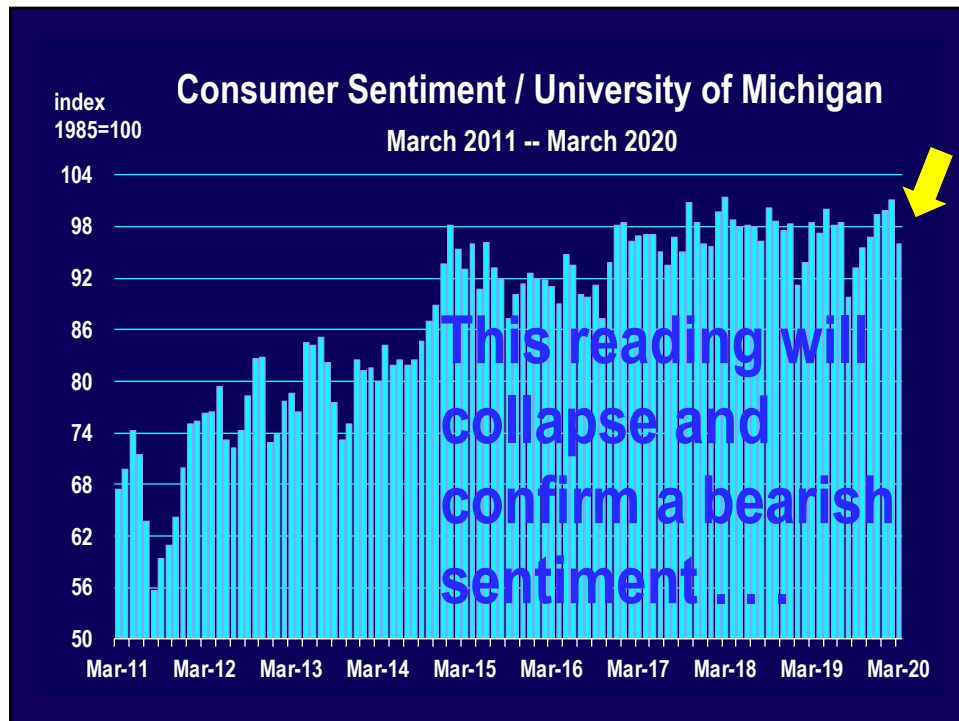
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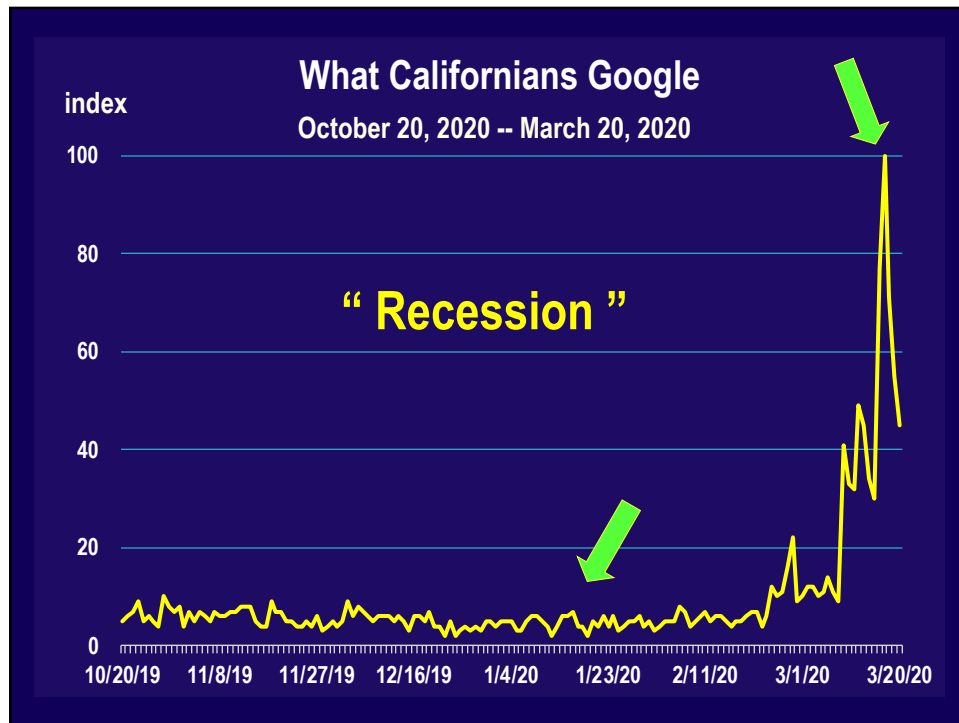


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Observed Impacts we are seeing

- ❑ Sharp and sustained declines in consumer spending are occurring now due to staying at home, being out of work, and/or the wealth effect
 - ❑ most travel and all recreation, amusement
 - ❑ In-store retail goods/services, x food, medicine
 - ❑ → automobiles, and larger durable goods
- ❑ A recession occurs if these effects on demand are severe or prolonged
 - ❑ Severity rises with the length of the shut down period deemed necessary for containment

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Further Impacts we WILL see

- ☐ Interruptions of durable good supplies
 - iphones, other electronics, farm equipment
- ☐ Construction delays from interrupted supplies of building materials from China
- ☐ Small and mid-size business bankruptcies
- ☐ Continued “shortages” at grocery stores
- ☐ Oil and gas facility shutdowns all over the country and more layoffs
 - of oil and gas extraction workers and support crews

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Are there any Benefits ?

- ❑ Major runs on stores for food and toilet paper are boosting retail food store revenues
- ❑ Lower oil prices are a big positive for the American consumer
 - ❑ And low oil prices are still a negative to the U.S. economy impacting taxes, revenues and jobs
- ❑ Amazon is hiring 100K workers to facilitate the rapid and massive switch to online purchases

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Are there any Benefits ?

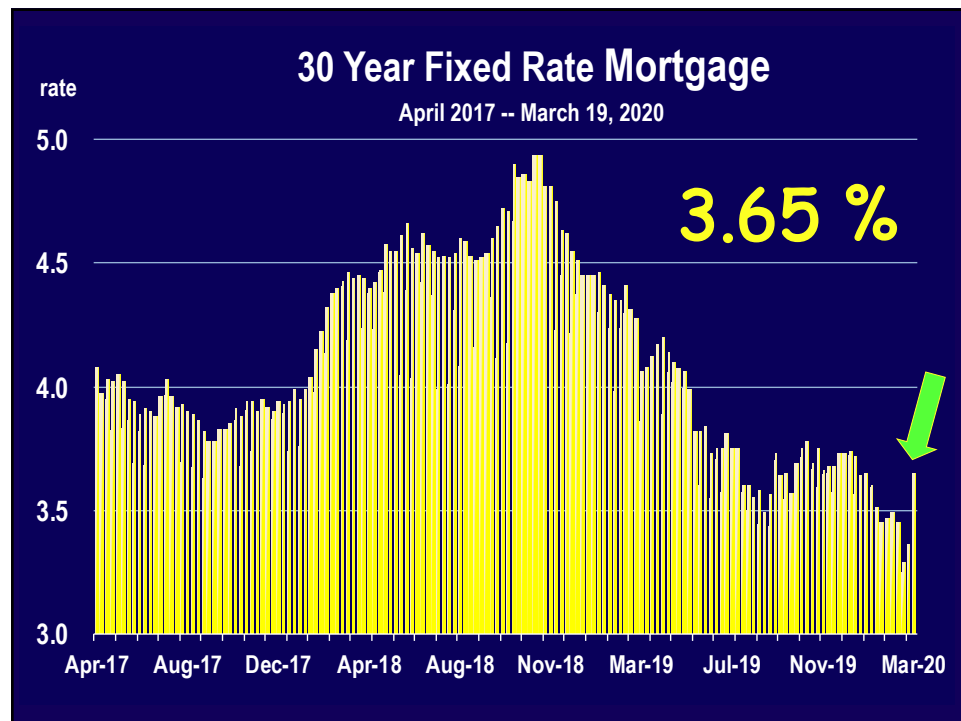
- ❑ 7-11 hiring 20,000 workers, and Kroger, 10,000
- ❑ CVS announced plans to hire 50,000
- ❑ Pizza Hut, Papa Johns and Dominos need 20,000 delivery drivers badly
- ❑ Healthcare industry is ramping up in overdrive
 - ❑ Healthcare is larger than retail trade, hospitality, airlines, or recreation
- ❑ Demand for respiratory equipment is generating hiring in manufacturing

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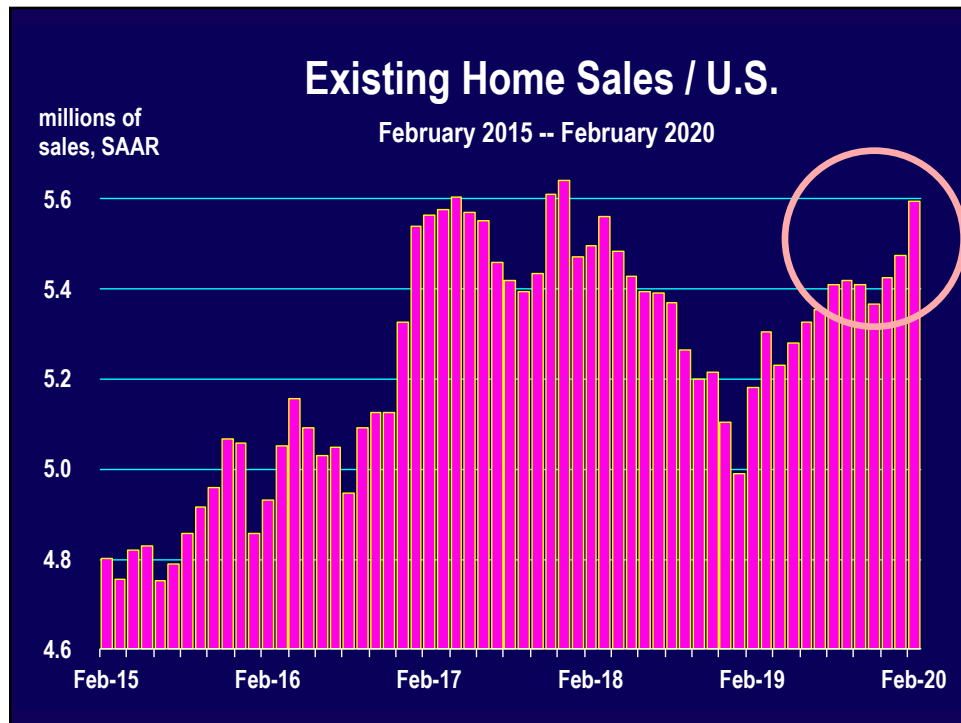
Are there any Benefits ?

- ❑ Census is hiring 500,000 workers
- ❑ Stay at home workers are creating record surges in Internet demand. **Sonic, Cox, Comcast**
- ❑ Census is hiring 500,000 workers
- ❑ Lower interest rates will ultimately boost the housing market further . . . will stay low

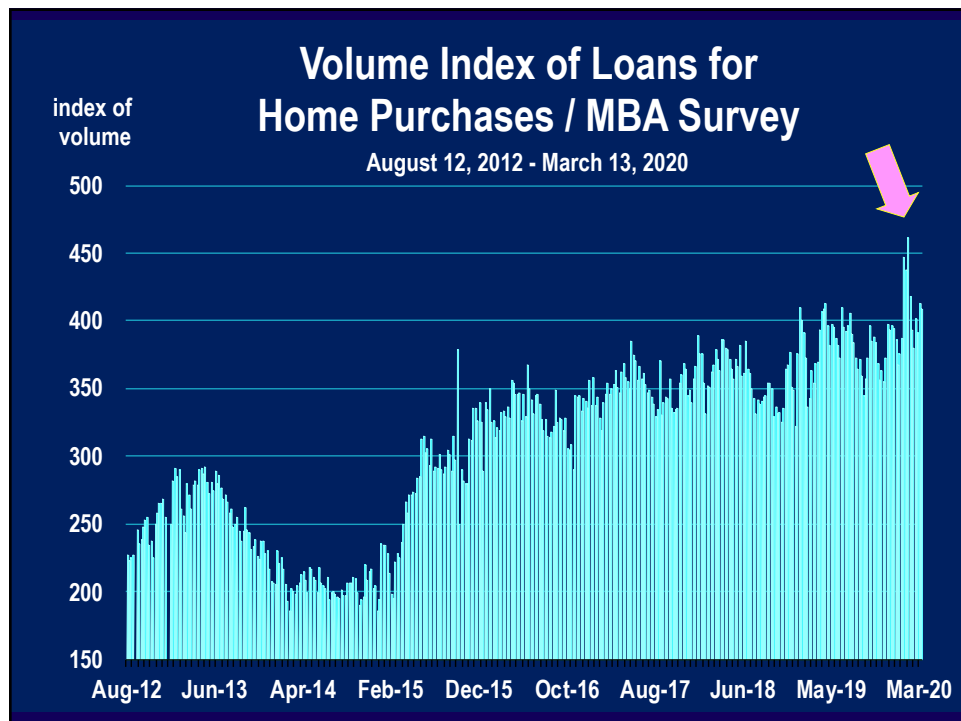
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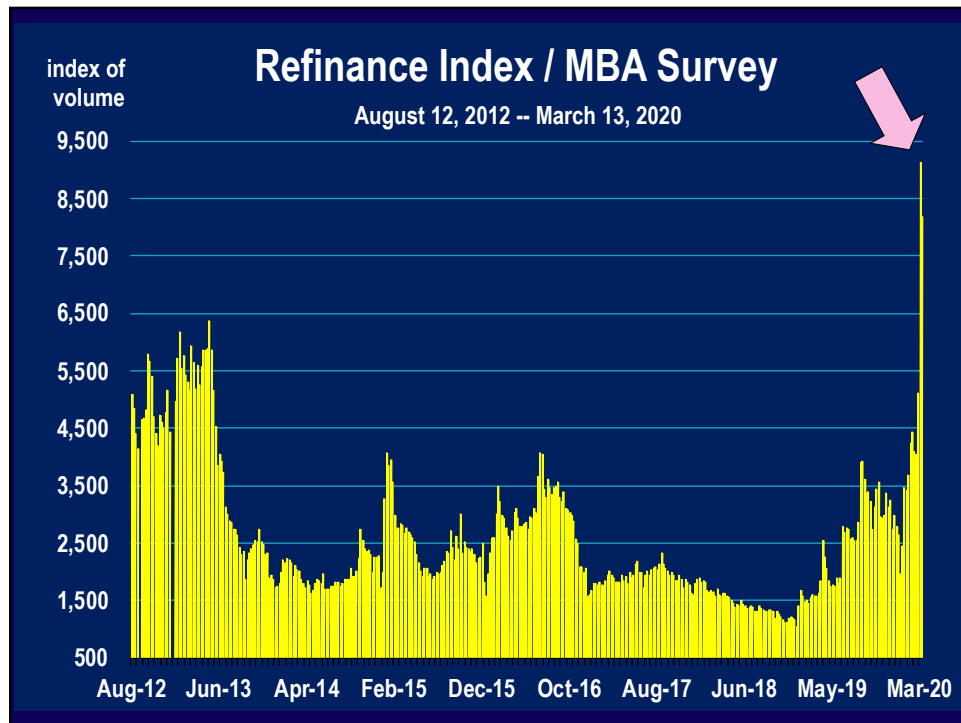
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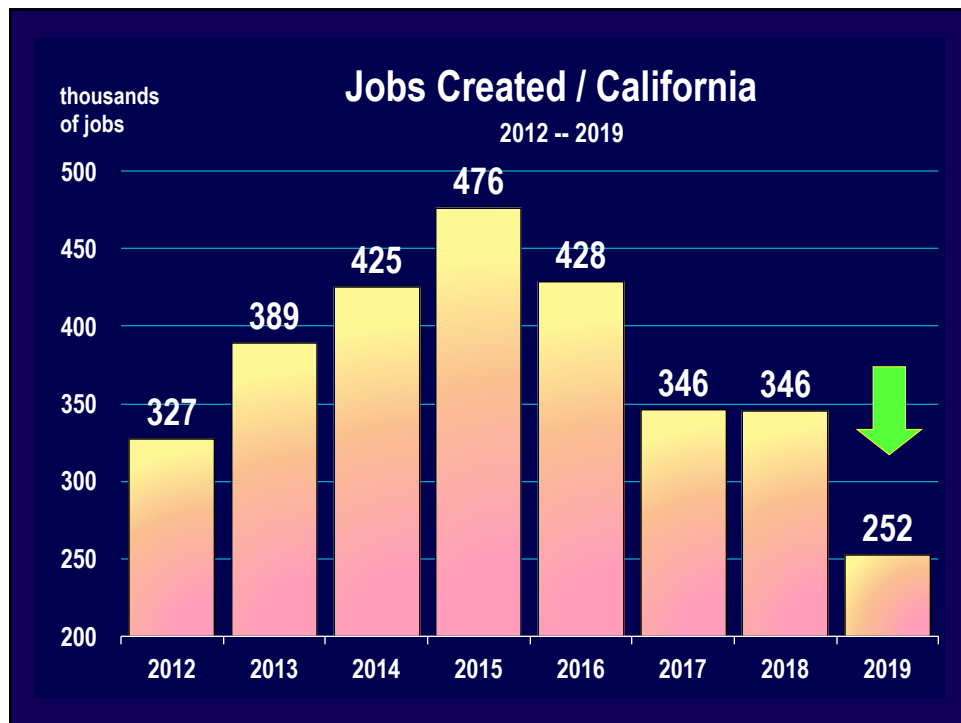
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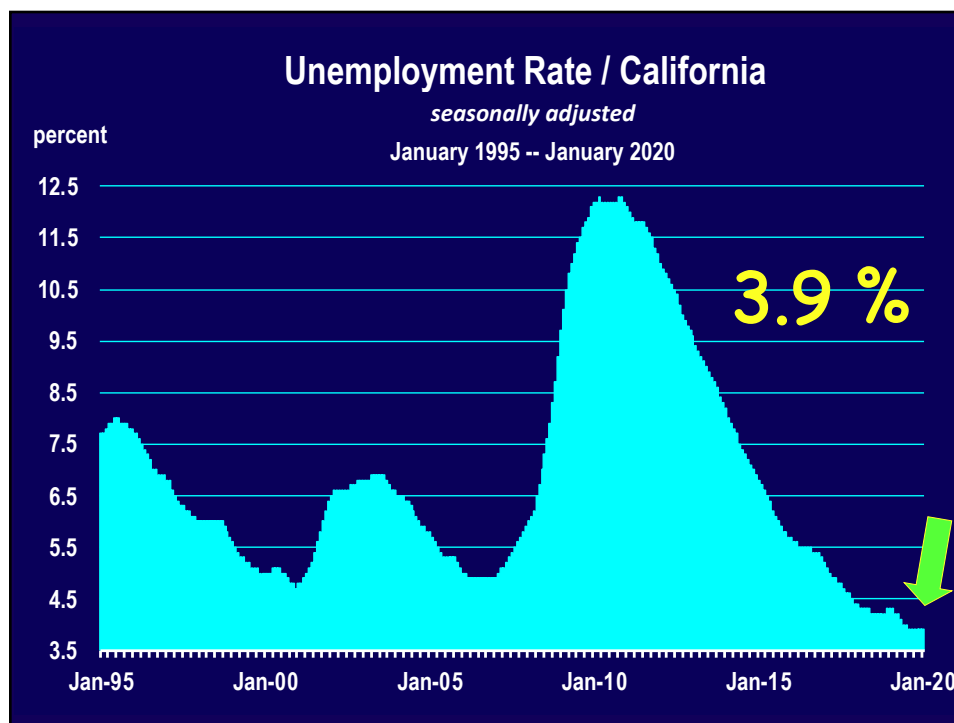
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California: Just before the outbreak

- ☐ The economy was strong and vibrant
- ☐ Lowest unemployment rate on record
- ☐ Existing home sales rising again
- ☐ Home prices also rising after 2019 respite
- ☐ Tourism was surging . . . with a rising share attributed to foreigners including Chinese
- ☐ Lodging Occupancy at record levels in San Francisco and Los Angeles Counties

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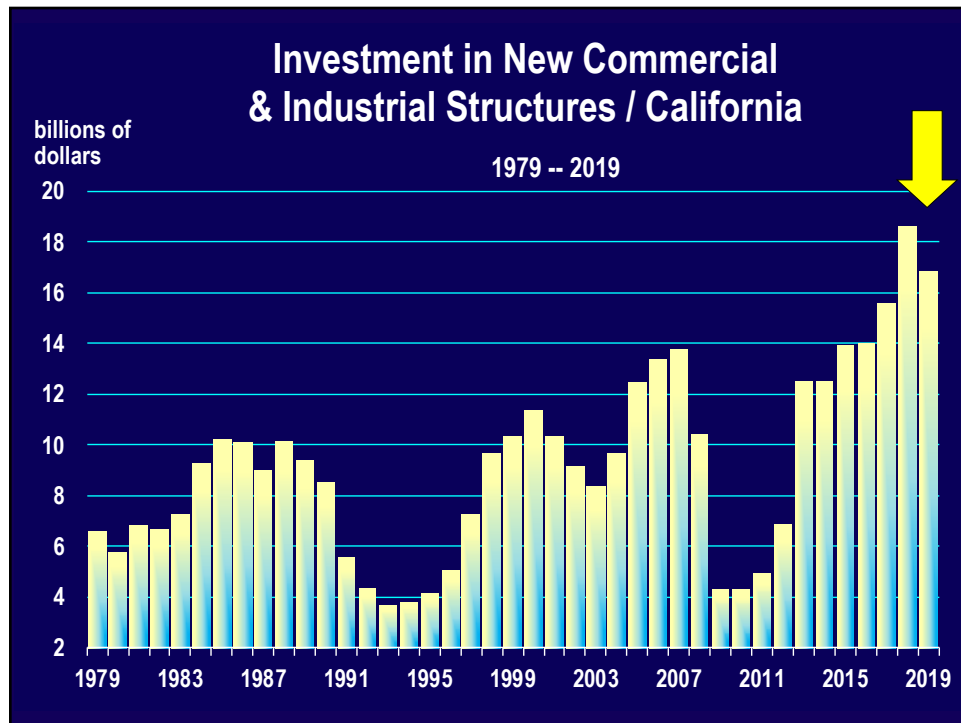


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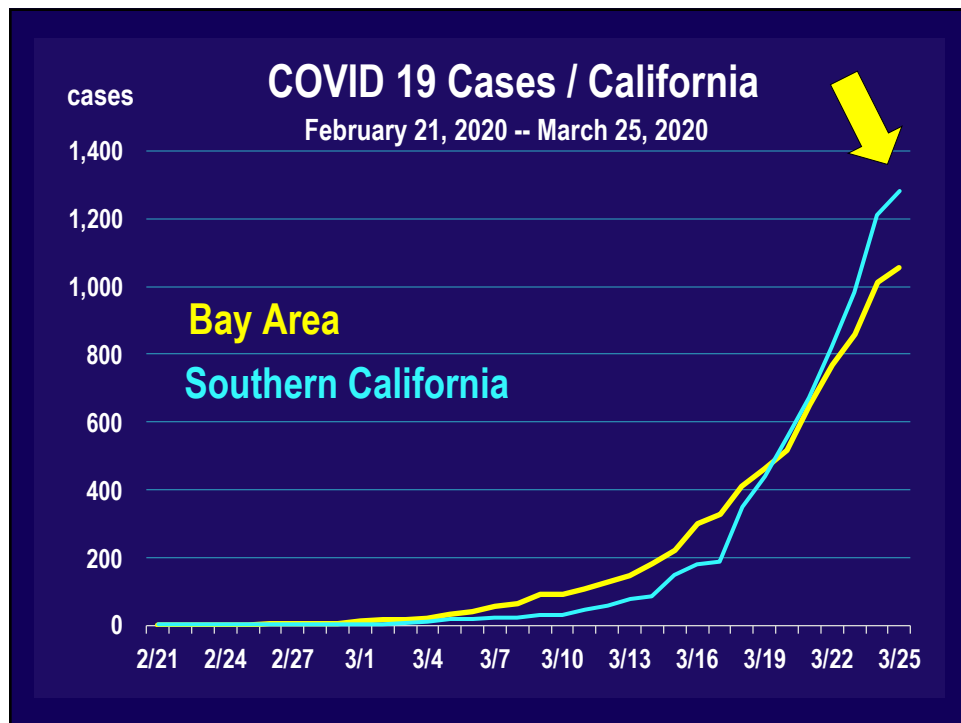
California: Engines of Growth

- ❑ Broad-based job creation from all sectors
- ❑ Technology is the principal engine
 - ❑ Bay Area and LA Metro regions
- ❑ New Development extraordinarily strong
 - Apartment building in principal metro areas
 - Office and Hotels surge in No & So California
 - High Speed Rail project continues
 - Fire rebuilds in Northern California

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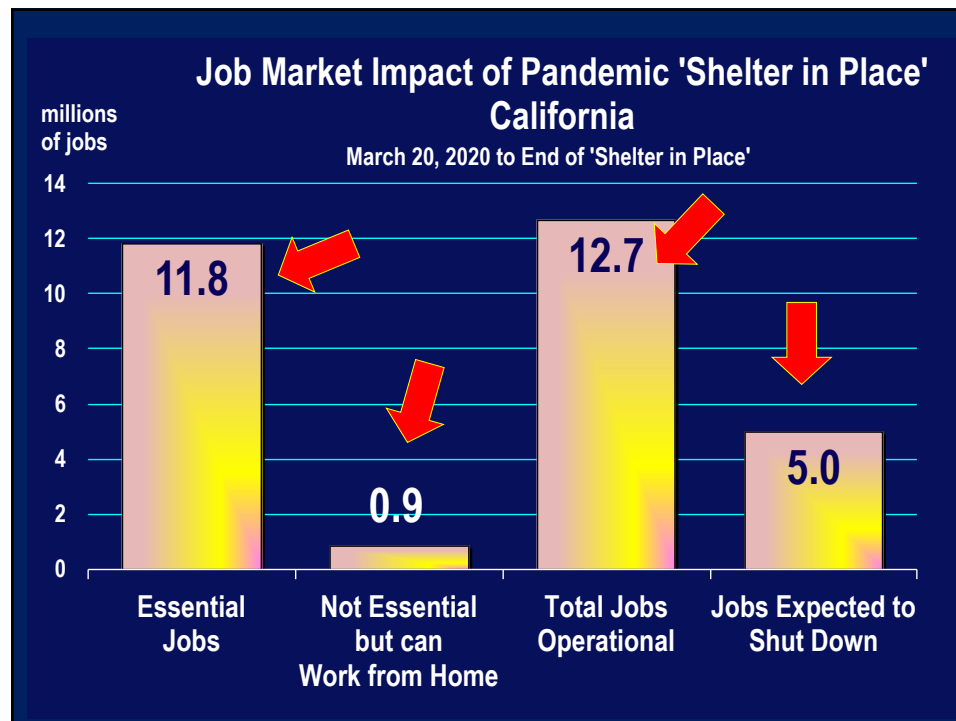


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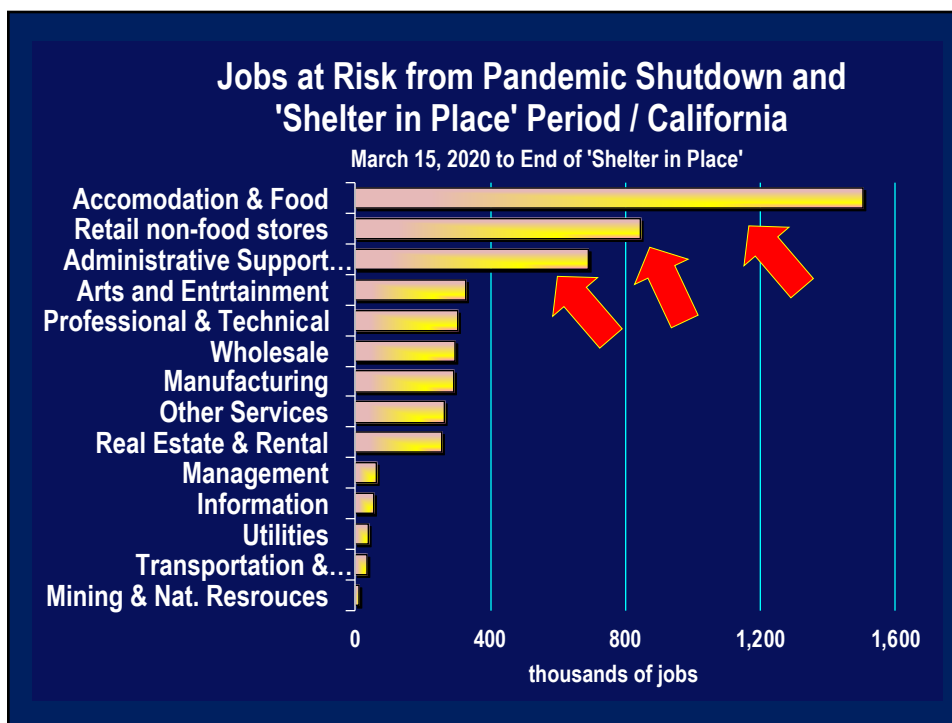
Who's Impacted in California ? ↓

- All restaurants, bars, wineries, breweries, closed for public gathering on March 15
- Governor Newsome orders shelter in place for Bay Area on March 15
- Rest of California is "shut in" on March 19
- Only the **"essential critical infrastructure workforce"** can remain at work
- How many people are impacted ?

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What and how long is the damage?

- The current extent and expected length of the economic damage is entirely driven by the public health issue
- Tell me how long until containment or for how long we're at home, and I'll give you a reasonable assessment of the damage
- Right now, it's speculation based on our own assumptions of the great pandemic shut down

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This year's Outlook



Are we in a Recession ?

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Initial Forecasts through March 20

- | | |
|--|---------------------|
| 1) JP Morgan: | - 3 percent in Q2 |
| 2) Deutsche bank: | - 13 percent in Q2 |
| 3) IHS Markit: | - 8.3 percent in Q2 |
| 4) UCLA Anderson: | - 6.4 percent in Q2 |
| 5) UBS: | - 10 percent in Q2 |
| With 7 percent unemployment | |
| 6) Goldman Sachs: | - 24 percent in Q2 |
| 7) Bank of America | - 12 percent in Q2 |
| Also: 1 million jobs lost in Q2 alone | |

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COVID-19 Scenarios

- 1) Virus appears contained by mid- April
with much fewer daily case outbreaks
 - 1) -- Supply chains restored by late April
 - 2) -- Travel bans lifted in May
 - 3) -- Spectator events resume in May
 - 4) -- People rush to plan their summer travel
- 2) Pandemic Peaks in late April; with containment
achieved by late May
 - 1) Shelter-in-place orders removed in May
 - 2) Airlines, other travel, all events restored in June

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COVID-19 Scenarios

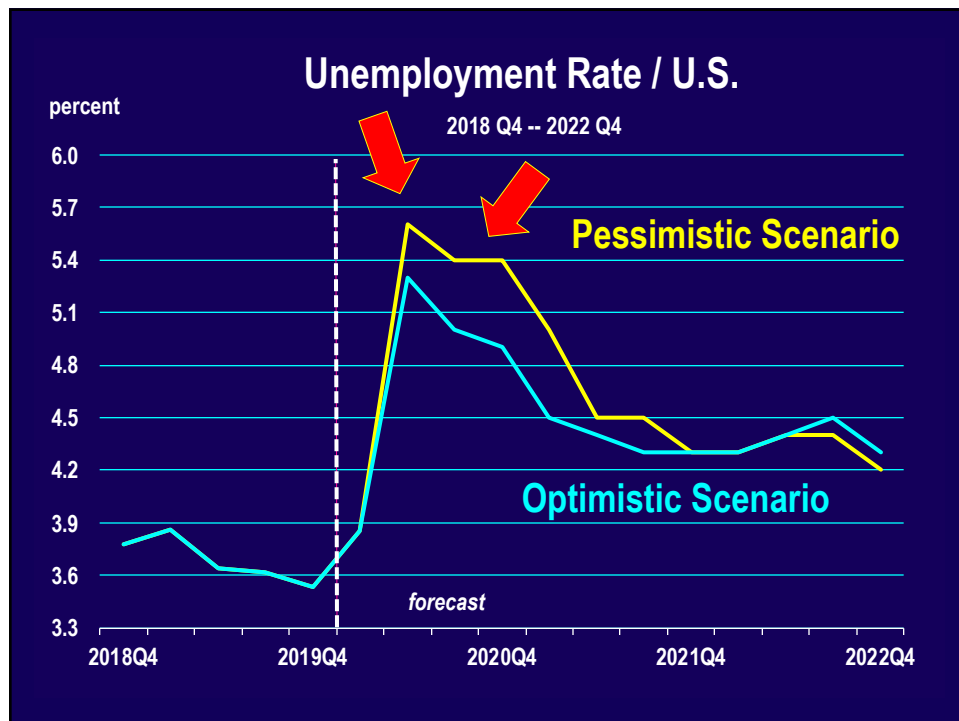
- 3) Pandemic Peak: June 1
Containment by end of June
Restoration of economy by August 1
 - U.S. suffers negative GDP growth in 2020 Q2
 - and likely 2020 Q3

The decline in the stock market alone will
reduce GDP growth this year by more than
1 percentage point.

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2020 Economic Forecast Summary

- 2 principal scenarios: optimistic and pessimistic
 - *Even if the shutdown was called off on April 1, there would be much slower growth*
 - *There are serious supply limitations but the attendant decline in demand from consumer-workers losing their jobs, income and wealth is staggering*
- It's clearly a mega-contraction in the economy
- But is it a recession?

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2020 Economic Forecast Summary

- That's up to the NBER
- But because this shut down is unprecedented and so severe, it's likely they will call one beginning now and continuing until the contraction is clearly over
- However, an official recession could potentially be averted if we ramp up enough in May and June to overcome the current *bloodbath* that is impacting half of March and likely most of April

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2020 Economic Forecast Summary

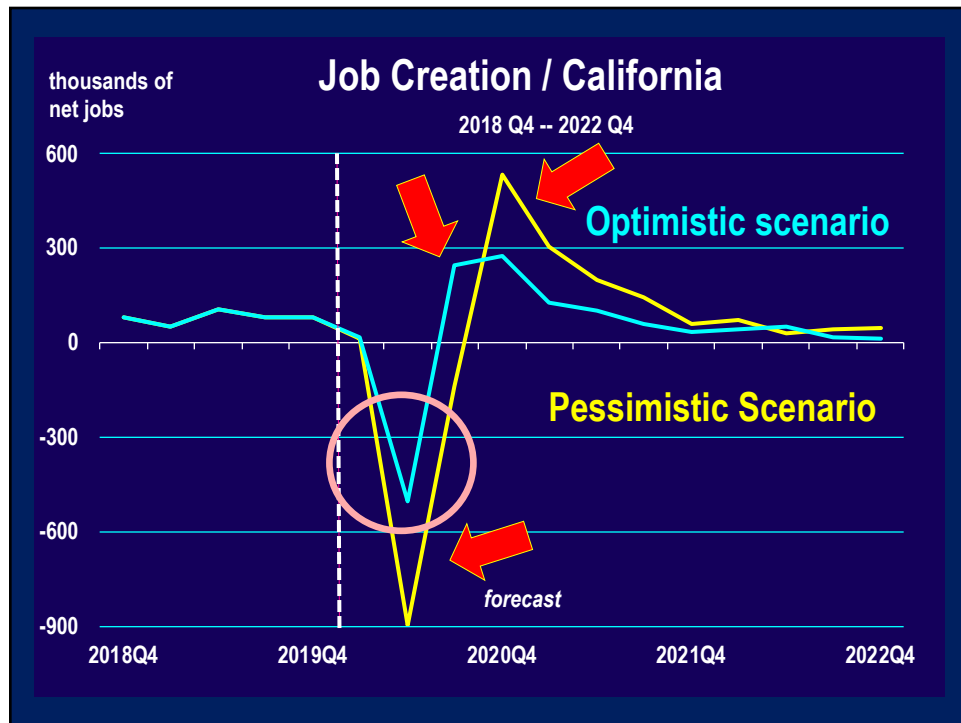
- Because interest rates will remain low through 2020 this *will help housing and other interest rate sensitive sectors lead the recovery. . .*
- Inflation remains a non-issue
- Construction (which there is a lot of right now) is less impacted by supply chain and will also help to power regional economies back to life
- Layoffs persist from between 6 weeks and 4 months pushing the unemployment rate sharply higher

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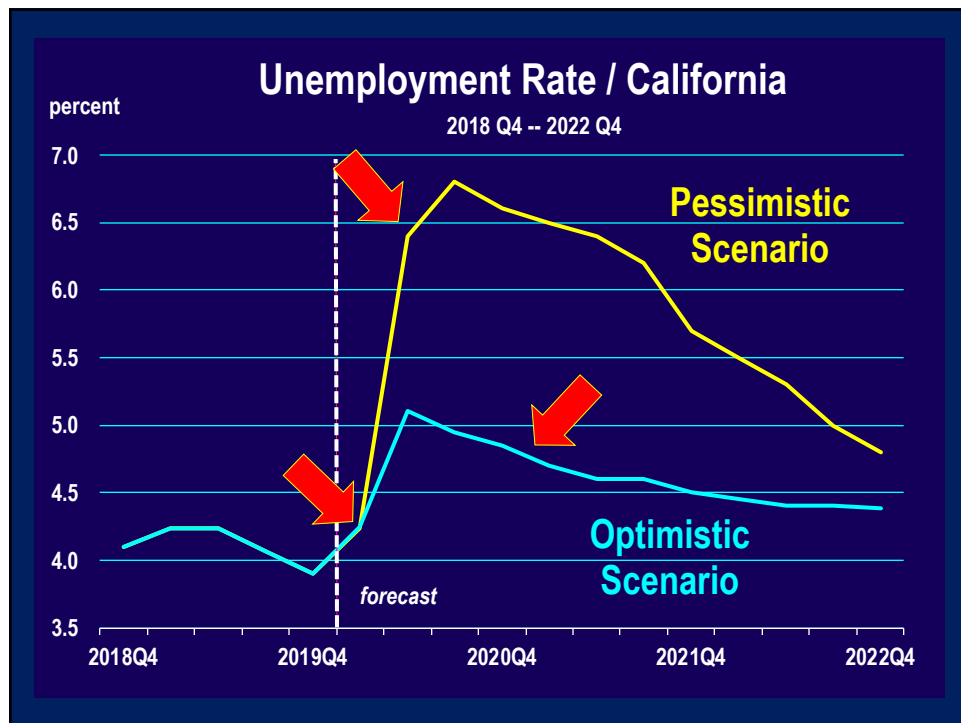
California Forecast Summary

- Workers in transportation, retail and leisure/hospitality sectors significantly impacted
 - *Job layoffs, furloughs or suspensions could affect up to 5 million workers*
- Logistics jobs decline but less severely
 - *There will product delays to consumers in Q2*
- Unemployment rises to near 7.0 percent by the end of 2020

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Good news: Stimulus/Rescue Package

- The deal was made just last night . . .
 - \$2 trillion: unprecedented in size and scope
- \$ 1,200 in helicopter money to most adults
- \$ 367 billion in loans to small business
- \$ 500 billion in loans to distressed companies
- \$ 500 billion in loans to cities and states
- \$ 600/week additional unemployment benefit
- \$ 130 billion to hospitals

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More Good News



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Potential Delays to the Recovery

- ☐ A V-shaped recovery does not mean immediately
- ☐ The economy is like an ecosystem: ramping up from devastation could take 6 months
- ☐ Can prior airline itineraries be reestablished quickly?
- ☐ The converted supply chains have to be reconverted back
 - ☐ From trucking to grocery stores and Costco to trucking back to Red Lobster and Applebees

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Potential Delays to the Recovery

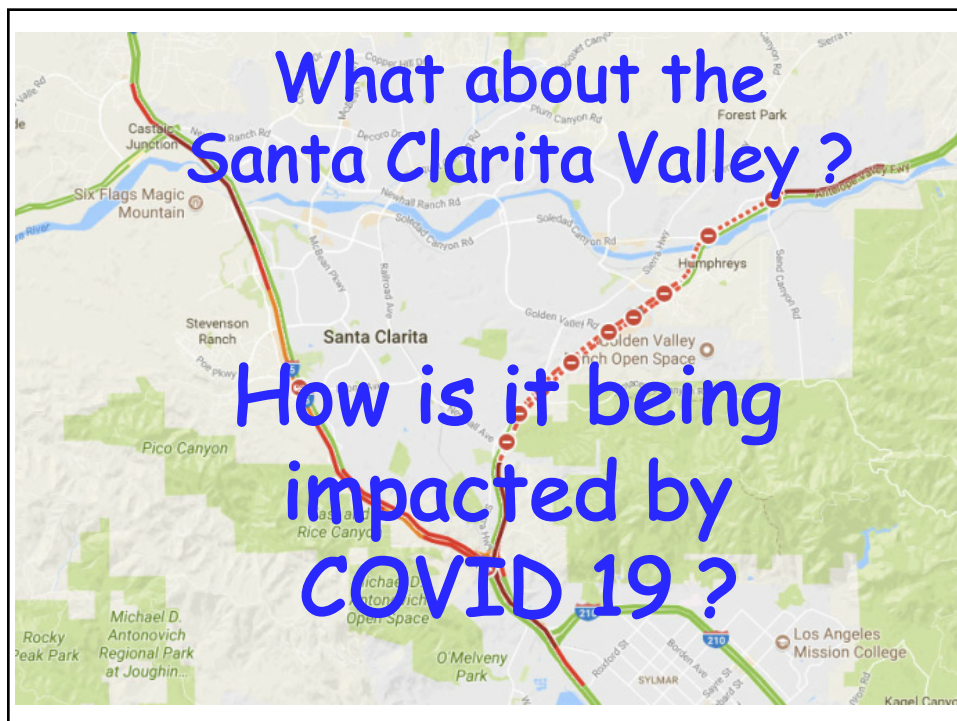
- ☐ Supply chains need to be restored from China
 - Will the network be in place to reabsorb the surge of inbound products to distribution centers?
- ☐ What about the demand ?
- ☐ Re establishing worker supply chains internally
 - Will everyone be available to return to their old job ?
 - Will there be delays due to worker quarantines?

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Potential Delays to the Recovery

- ❑ Can construction projects resume seamlessly? what about new projects in which plans for Q3 and Q4 starts were delayed by stay-at-home workers ?
- ❑ What about supply and demand coming from small and medium size businesses that were forced to quit during the shutdown ?
- ❑ 2 to 3 months = some form of normality
 - ❑ But full efficiency = 6 to 9 months

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What about the Santa Clarita Valley ?

- ☐ The largest employer is shut down
- ☐ Princess Cruises shut down
- ☐ Healthcare like Henry Mayo and COC are included in the essential workforce
- ☐ Manufacturing enterprises in the Santa Clarita Valley are also mostly essential, and largely exempt from shelter in place

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Santa Clarita Valley

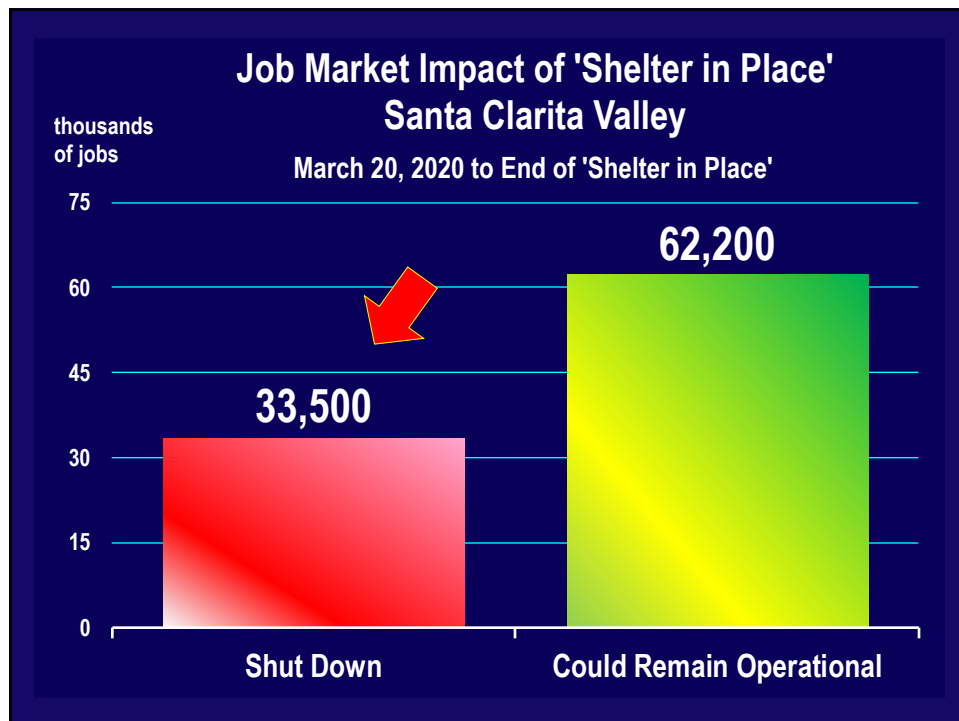
- ☐ Less traffic on interstate 5
- ☐ City will incur significant losses of sales taxes, bed taxes, parking fees, film revenues
- ☐ retail and recreation sector suffer largest impacts
- ☐ Warehousing for e-commerce is benefitting
- ☐ Because new development was a meaningful engine of current growth, this interruption is especially significant;

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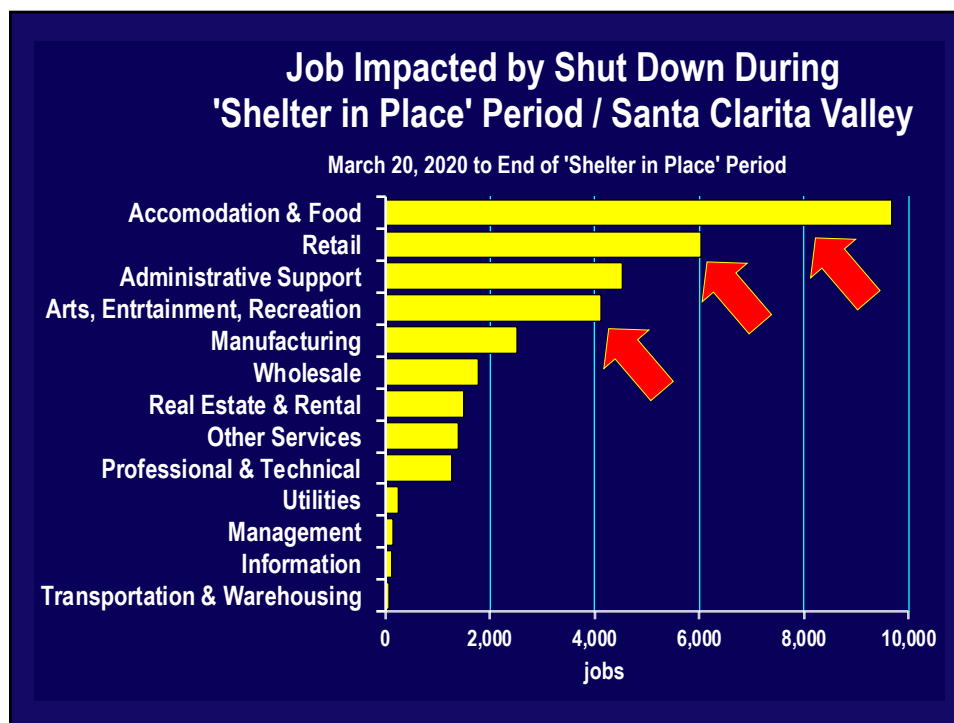
Santa Clarita Valley

- However ALL construction is part of the essential critical infrastructure workforce
 - “Construction Workers who support the construction, operation, inspection, and maintenance of construction sites and construction projects (including housing construction)”
- ❑ Where are the job impacts by sector; what kind of dollar loss is at risk ?

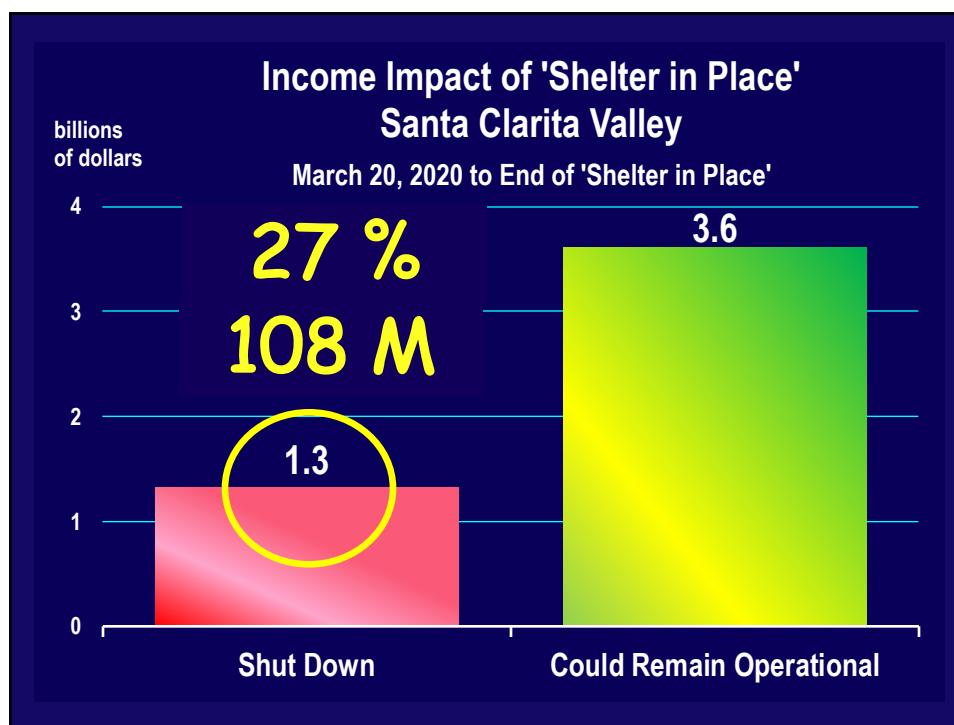
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For Economic Updates
Regarding the Coronavirus



www.californiaforecast.com

COVID 19 Updates

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The Economic Impact to date of
COVID 19



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