

Welcome to the Recession

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- Comparisons with Great Depression
- 1929-1933 3 years and 7 months -26.7%
- 1937-1938 1 year and 1 month -18.2%
- 1945 8 months -12.7%

- Q2 GDP 2020 forecasts???
- Somewhere between -20% and -40%
- Duration, 3-9 months starting March 2020

V shaped vs. U shaped

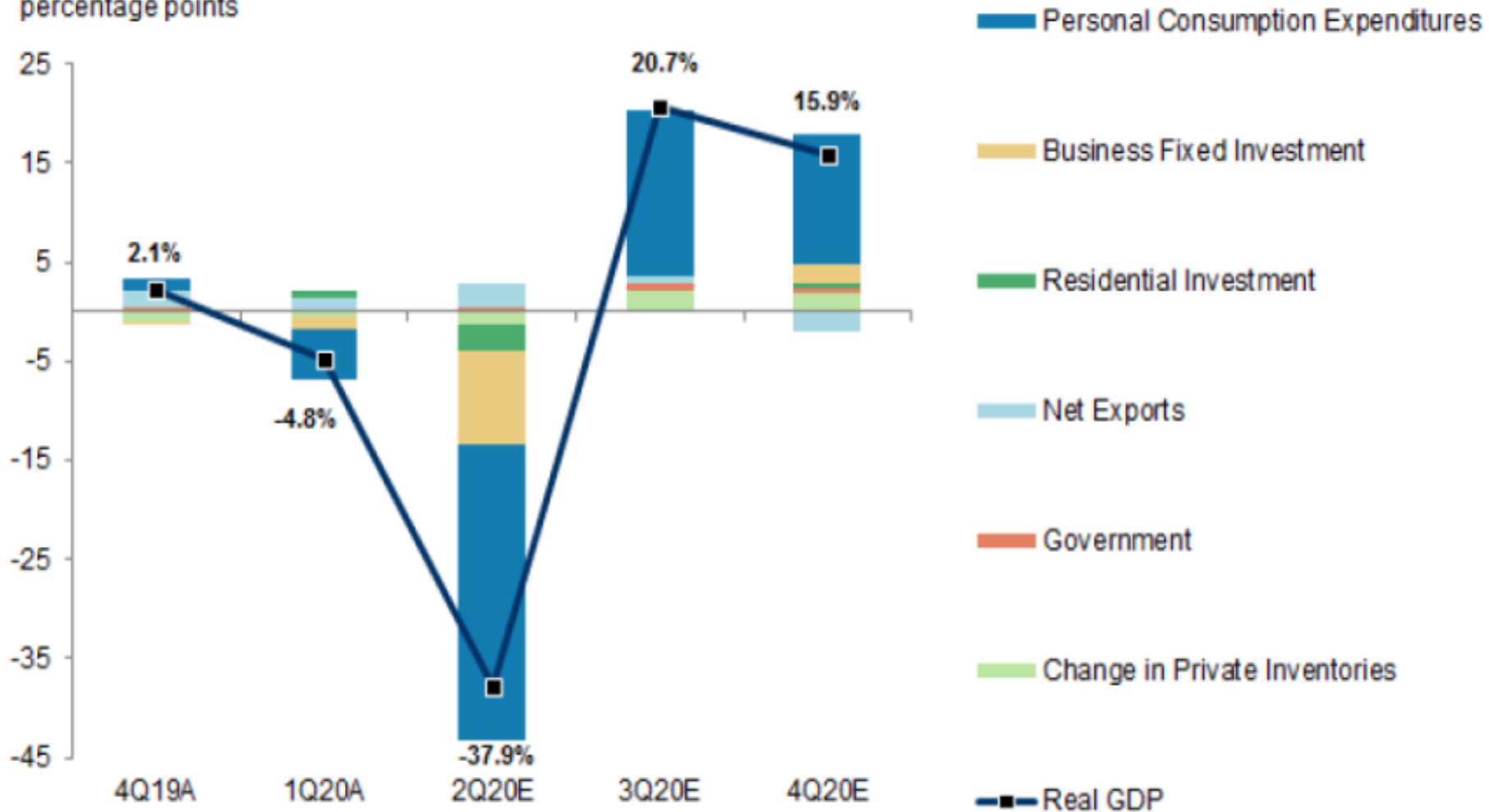


- Economists are divided as to what they believe the shape of the recession will look like
- In a V shaped scenario Q2 is very deep but it is immediately followed by a strong rebound
- In a U shaped scenario the downturn lasts several quarters but once the economy regains its footing growth accelerates quite rapidly

V shaped Example



Contributions to % Change in Real GDP
percentage points

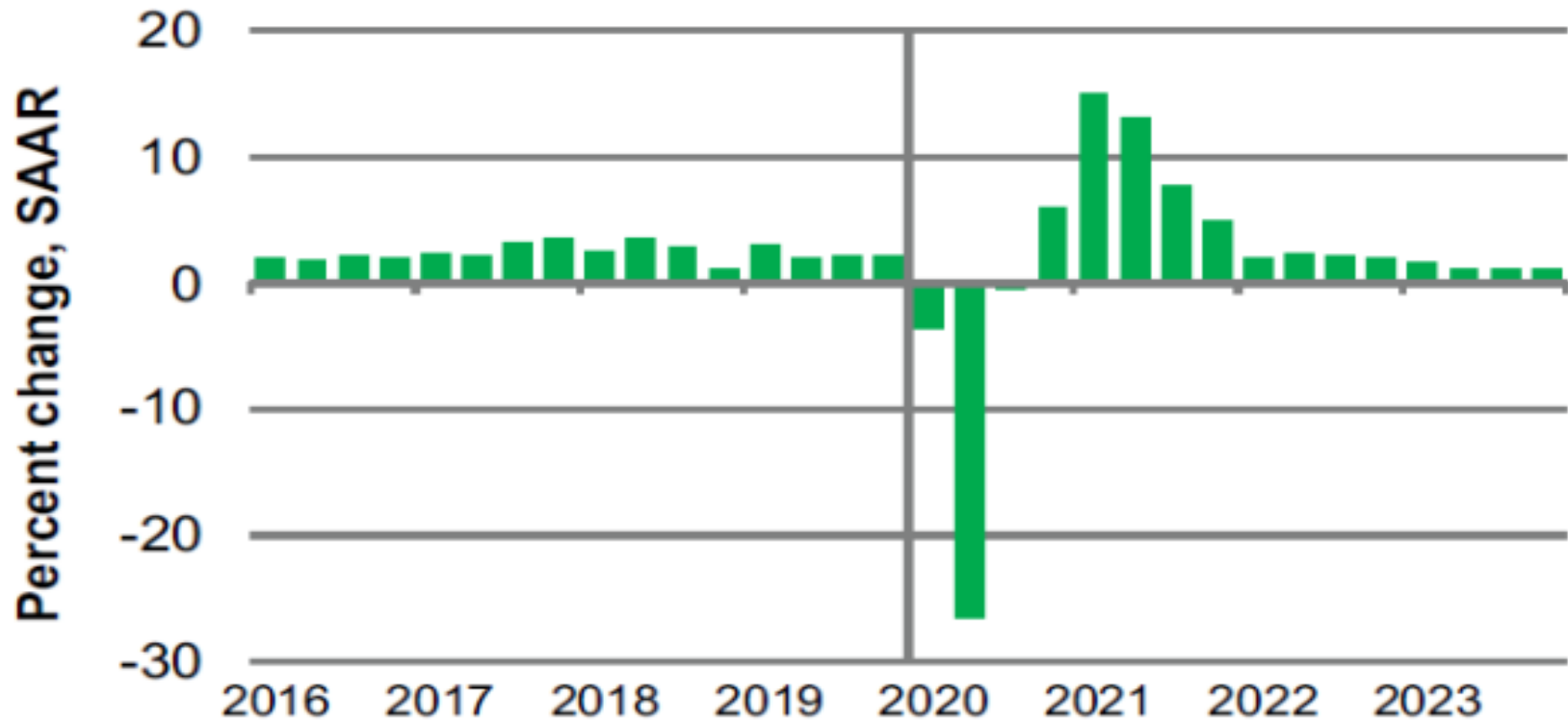


Source: Bureau of Economic Analysis, Morgan Stanley Research

U shaped Example



Real GDP growth



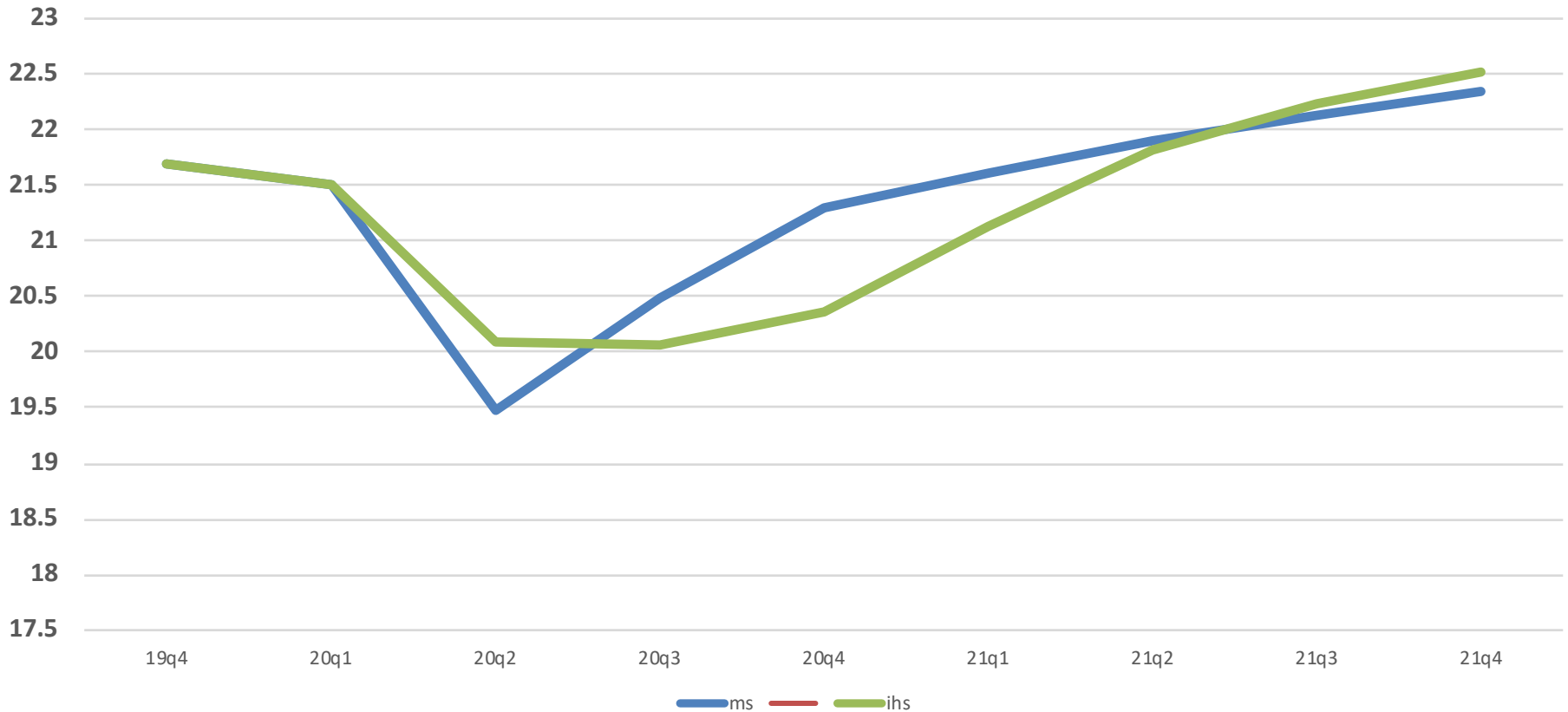
Source: BEA (history), IHS Markit (forecast)

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Illustrations of V and U shaped trajectories for GDP



Two Economic Scenarios



Some want to discuss L or W shaped recoveries



- I think both are simply illogical
 - L means a long long dark episode lasting years.
 - L is hard to envision without extended versions of mutated viruses with no remedy/vaccine for years
 - W means Q4 of 2020 looks like Q2.
 - W means we have failed to learn much of anything about how to respond to COVID-29, seems unlikely..

What do the current data suggest?



- Preliminary data has Q1 GDP down 4.8% slightly worse than many had predicted
- March labor report showed a loss of 700k jobs
- We know April will be worse and May certainly looks precarious at this point.

March Job Losses by State



State	Job Growth March 2020		
	Number	% Change	Initial Business Closure Order
Arizona	-7,200	-0.24	20-Mar-20
California	-99,500	-0.57	19-Mar-20
Colorado	-3,900	-0.14	17-Mar-20
Idaho	-1,000	-0.13	25-Mar-20
Montana	100	0.02	20-Mar-20
Nevada	-4,900	-0.34	21-Mar-20
New Mexico	1,700	0.2	16-Mar-20
Oregon	-4,800	-0.25	24-Mar-20
Texas	-50,900	-0.39	21-Mar-20
Utah	-1,000	-0.06	Varies by County
Washington	-11,100	-0.32	16-Mar-20
Wyoming	-100	-0.03	19-Mar-20
United States	-701,000	-0.46	

So what might April Look like



- ASU survey analysis for the May 8 jobs report
- Conducted a survey during the labor market sampling week
- We know there are millions of people who have filed unemployment insurance claims so how many millions of jobs were lost from March to April
- ASU profs are forecasting big losses

April Job Losses by State, proj.



Job Growth April 2020 (Estimated)	
Arizona	-349,215
California	-4,825,963
Colorado	-189,158
Idaho	-48,502
Montana	na
Nevada	-237,660
New Mexico	82,454
Oregon	-232,810
Texas	-2,468,759
Utah	-48,502
Washington	-538,374
Wyoming	-4,850
United States	-34,000,000



Most other Economics are not so dire

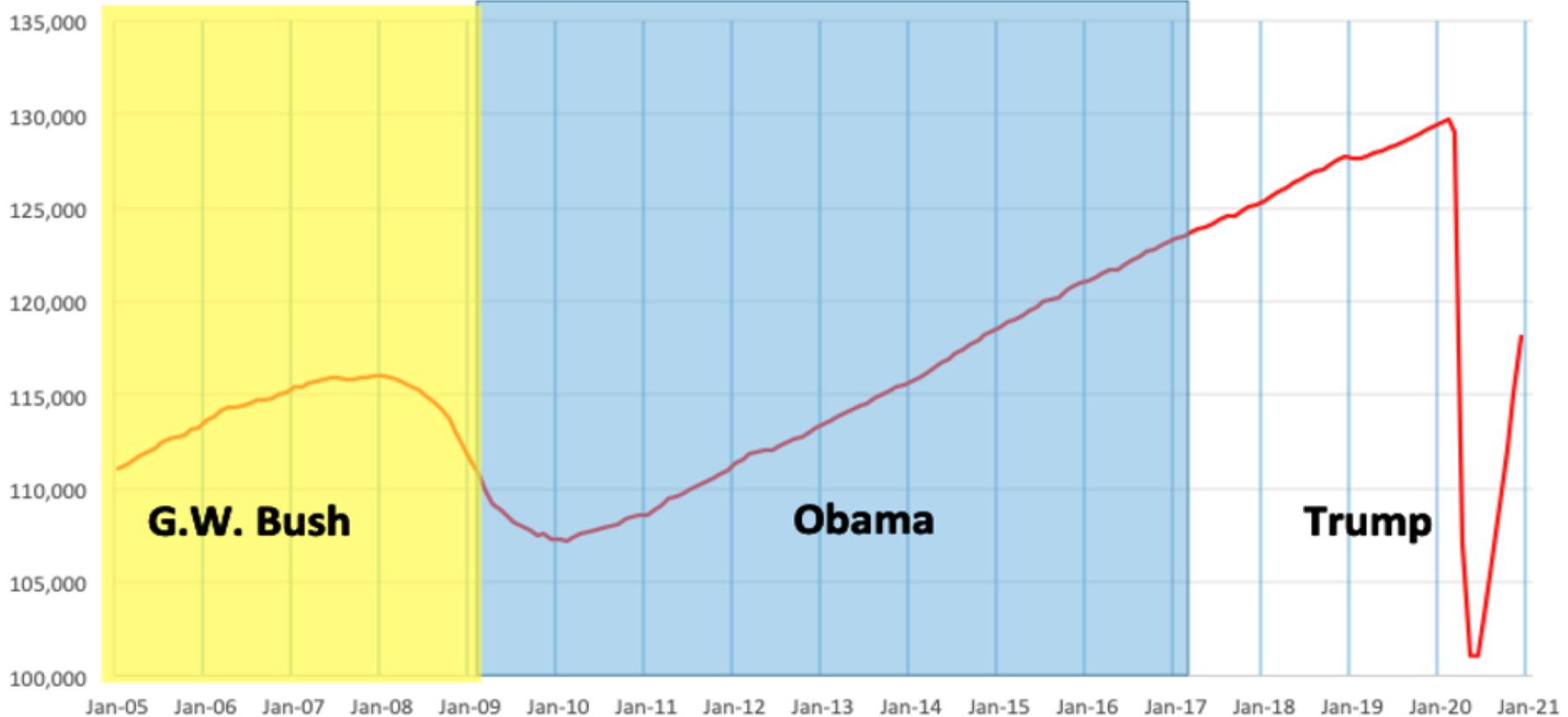
- Job loss predictions range between 22 and 27 mill
- So Az losses could be anywhere from several hundred thousand to over half a million
- Regardless, losses today will be replaced by gains tomorrow under most likely scenarios



How will this look historically

This reflects a partial U shaped recovery so by January 2022 (not shown), we are back on trend

Total private sector employment (in thousands), seasonally adjusted



So was the Economy the “Best Ever” prior to COVID-19 ??



- Labor Market??
- GDP Growth ??
- Unemployment Level ??

Evidence on the “Best Ever” Economy



- Monthly job creation from 2017-2019 was slightly slower than job creation from 2013-2016
- GDP growth from 2017-2019 was about the same as GDP growth from 2013-2016
- Both GDP and job creation was much faster during several episodes in the 60s, 70s, 80s and 90s...
- Stock prices reached all time highs but the % growth from 2017 to 2019 was at about the same average annual clip as it was from 2013-2016.
- Unemployment rates continued to decline from 2013-2019 as they often do in late cycle expansions

The Economy was NOT growing Unsustainably prior to COVID-19



- Setting political rhetoric aside, if the economy was not frothy prior to the onset of the virus that is probably a good thing
- When economies with excesses fall into recession it lasts until the excesses are exhausted.
- The 2020 recession occurred because the government shut the economy down. The absence of excesses coming into the downturn may lead to a shorter time to recovery.

But when will we recover and what will the newly recovered economy look like??



- If V, next spring in Arizona may look much like a “normal” spring
- If U, it will take until fall 2021 for us to achieve “normality.”
- And timing matters for the State Budgets and then for the US in delivering support
- And of course there is considerable variance in the health of State Budgets across the Country pre COVID

Particular State Budget Challenges



- FY 20 will have no final payment periods for the IIT while 21 will have two and 22 will have one
- What will happen with capital gains income? It is currently 20b accounting for 800m per year in revenue
- If V sales tax recovers a lot in 2021.
- If U sales tax recovery occurs in 2022
- And how much will all of this cost in AHCCCS, DES, and DHS budget increases?

And of course questions will linger

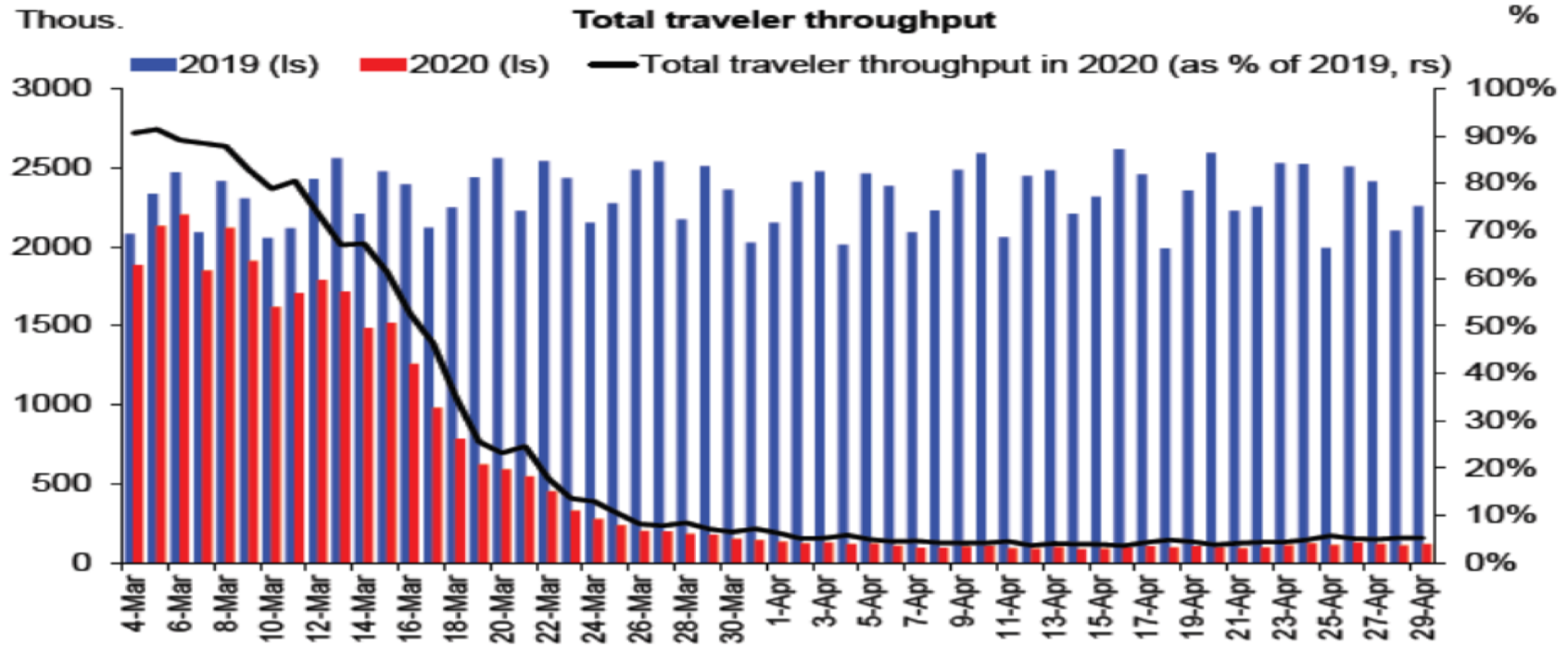


- Will preferences for travel be permanently altered?.. Especially cruise ship, urban center, or Asian travel
- What is the future for live spectator attended sporting events or plans for any large gatherings?
- How will commercial (office/retail) fare vs. residential?
- Will preferences for senior living facilities be permanently altered?

How Long before this recovers??



Still no signs of a rebound in US air traffic



Source: TSA, DB Global Research

Is working remotely part of the new normal?

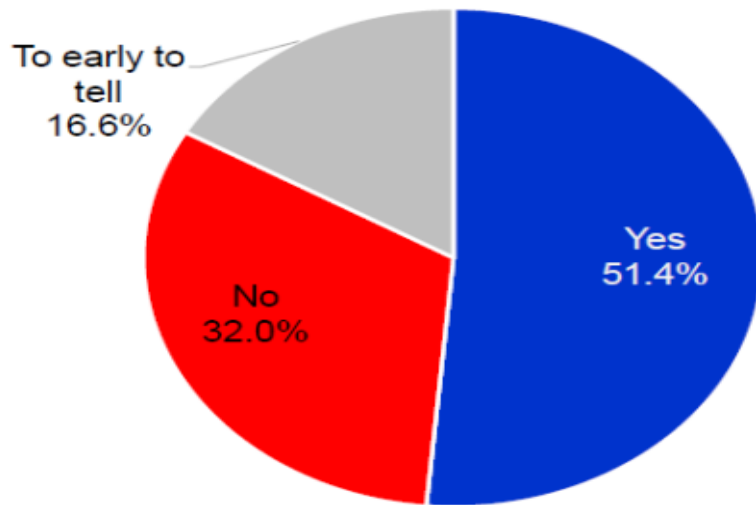


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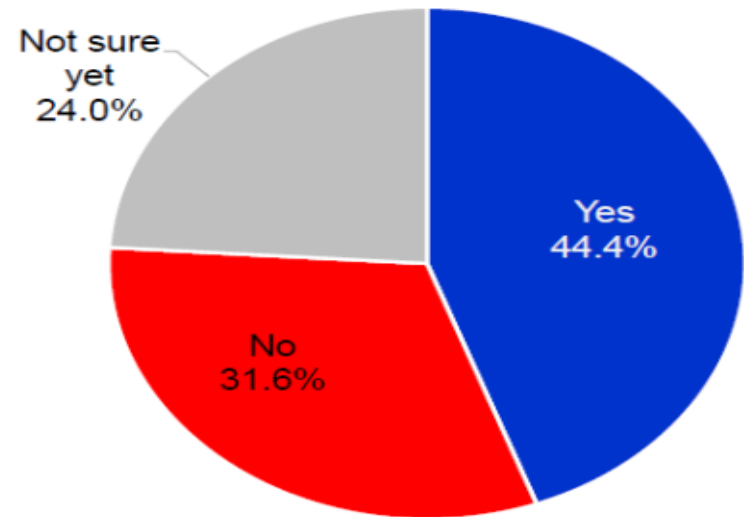
More people would prefer to work from home permanently



Zippia Poll Survey : Would you rather work from home full time moving forward



Zippia Poll Survey : Are you more productive working from home



What about living/working trends



- Will Urban centers lose some of their luster?
- Will new domestic migration trends emerge?
- Will suburban “foody islands” pop up in Queen Creek, Casa Grande or Surprise to accommodate new suburban residents?
- Will this “lock down” experience coupled with advances in remote connectivity fuel the demand for remote “recreational” property?
- We will have to see what unfolds

Feeling uncomfortable in normal activities

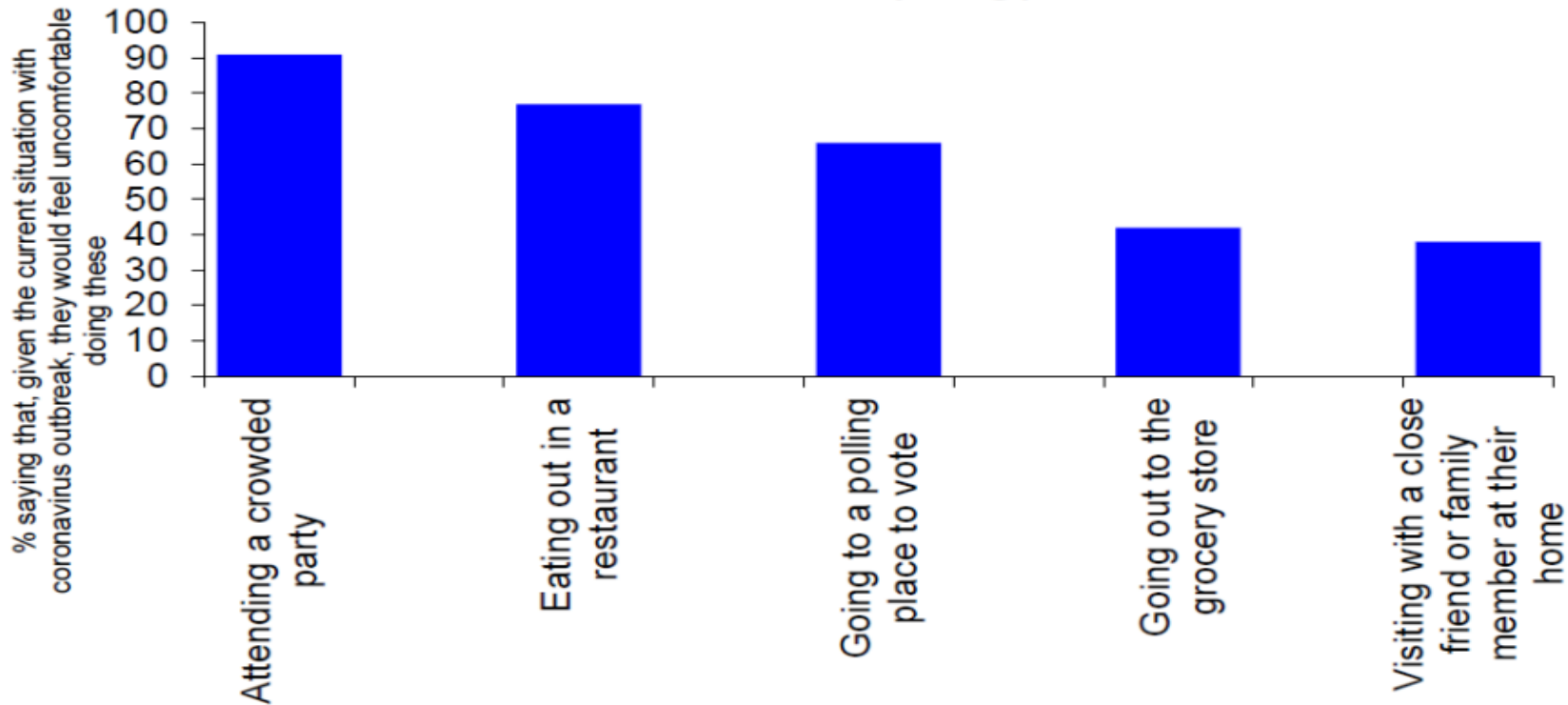


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Consumer behaviors are changing

Amid coronavirus outbreak, most Americans uncomfortable going to a party, restaurant or polling place



Will COVID lead to permanent job destruction

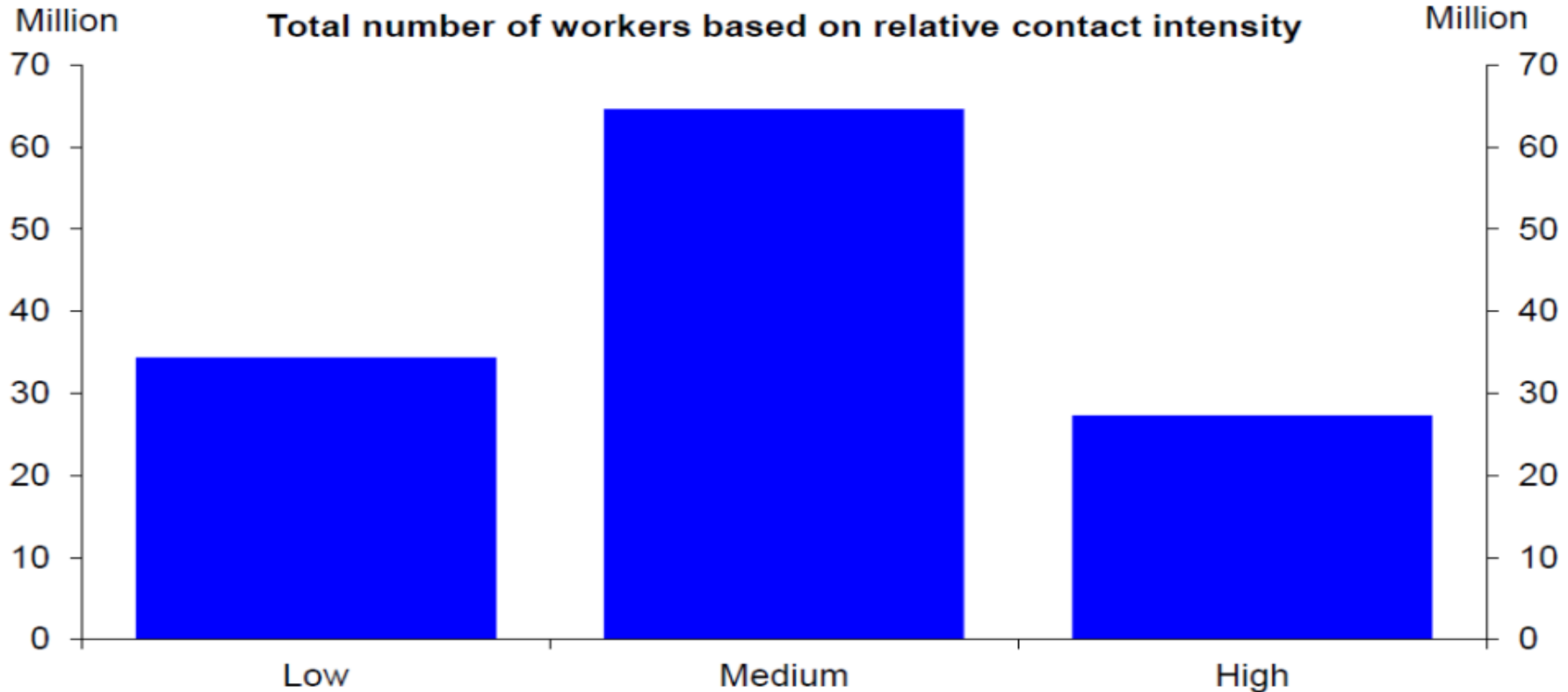


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There are 27mn US workers in high contact intensity occupations



Total number of workers based on relative contact intensity



Note: Low, medium & high contact-intensity categories are classified according to index scores of 0 to 50, 50 to 75, and 75 and above. This index score is based on extent to which the job requires the worker to perform job tasks in close physical proximity to other people. The corresponding scores are defined as follows: •I don't work near other people (beyond 100 ft.): 0; •I work with others but not closely (e.g., private office): 25; •Slightly close (e.g., shared office): 50; •Moderately close (at arm's length): 75; •Very close (near touching): 100

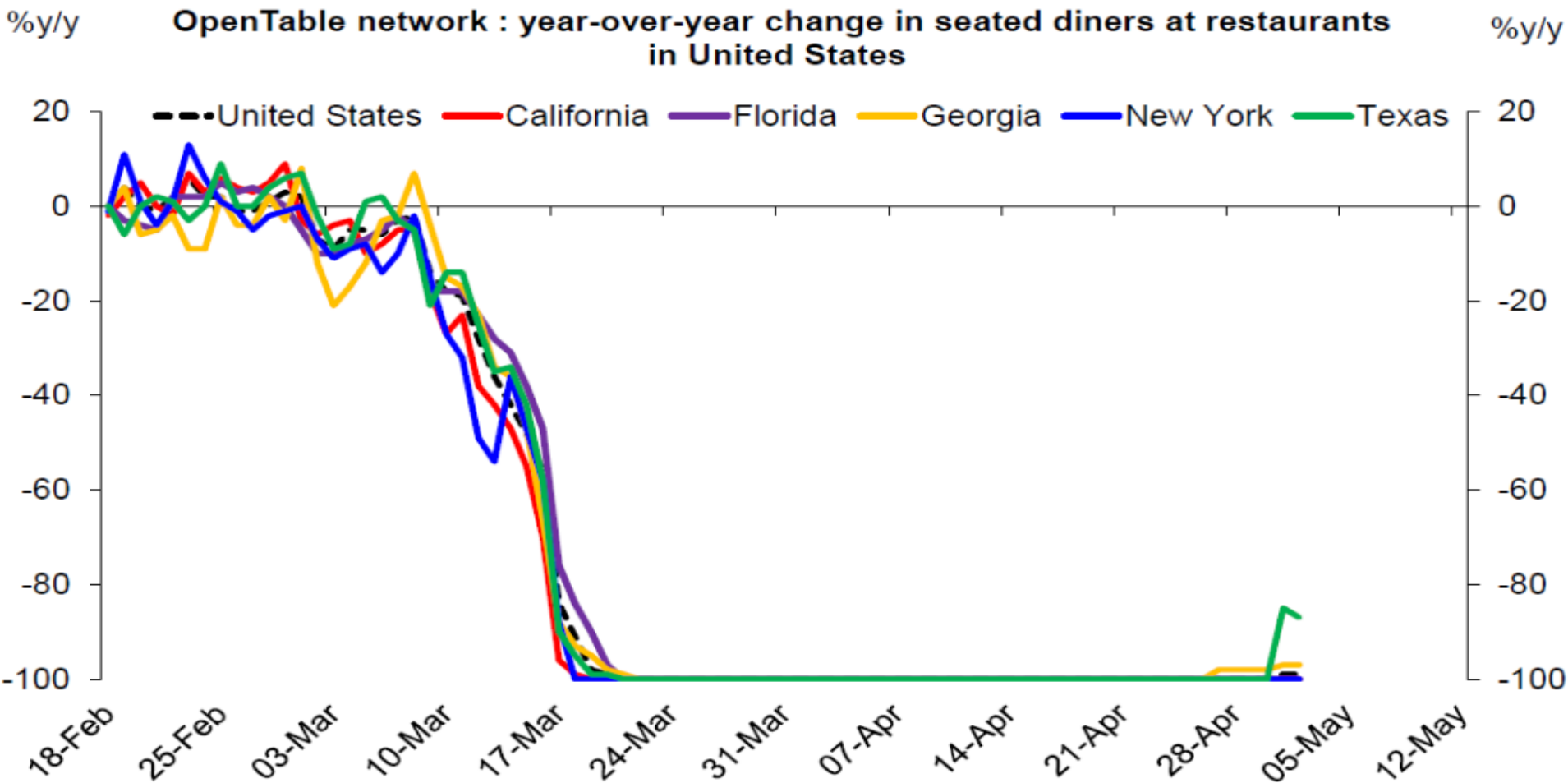
Source: St. Louis Fed, 2017 American Community Survey, O*NET, DB Global Research

Restaurants hit hard.. Will it last??



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Green shoots in restaurant bookings?



Source: OpenTable, DB Global Research

Shut Down?? Was there an alternative?

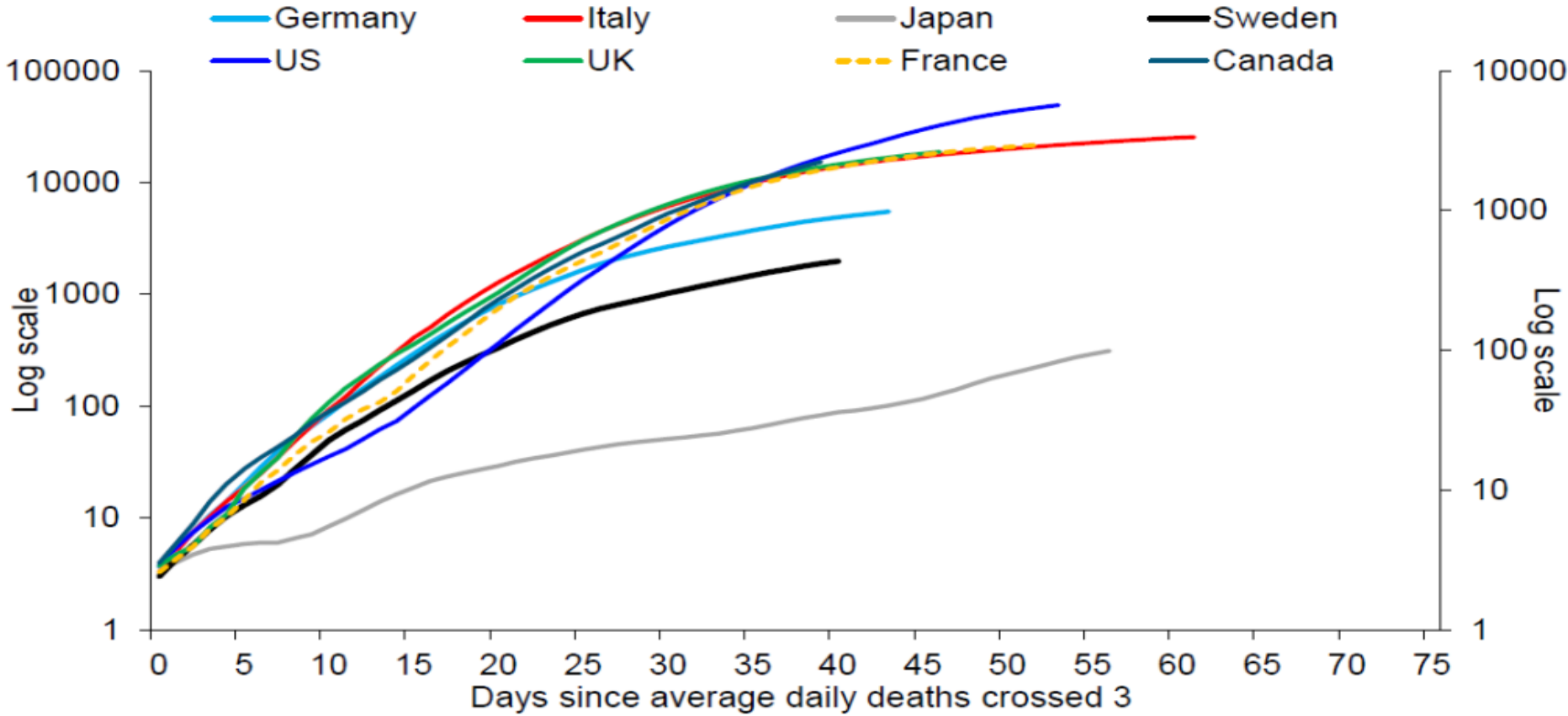


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Sweden kept stores and schools open and still saw a flattening out of the virus curve



Cumulative deaths from COVID-19 in G7 and Sweden, 7-day moving average



Source: JHU, DB Global Research

In the interim



- Stay safe and Be well!! And think about the future
- And for Arizonans, the future is always bright !!

- Next up is Lee for a look at Arizona