

Economic Outlook and COVID-19

presented to
Senate Republican Caucus

Steve Lerch
Chief Economist & Executive Director

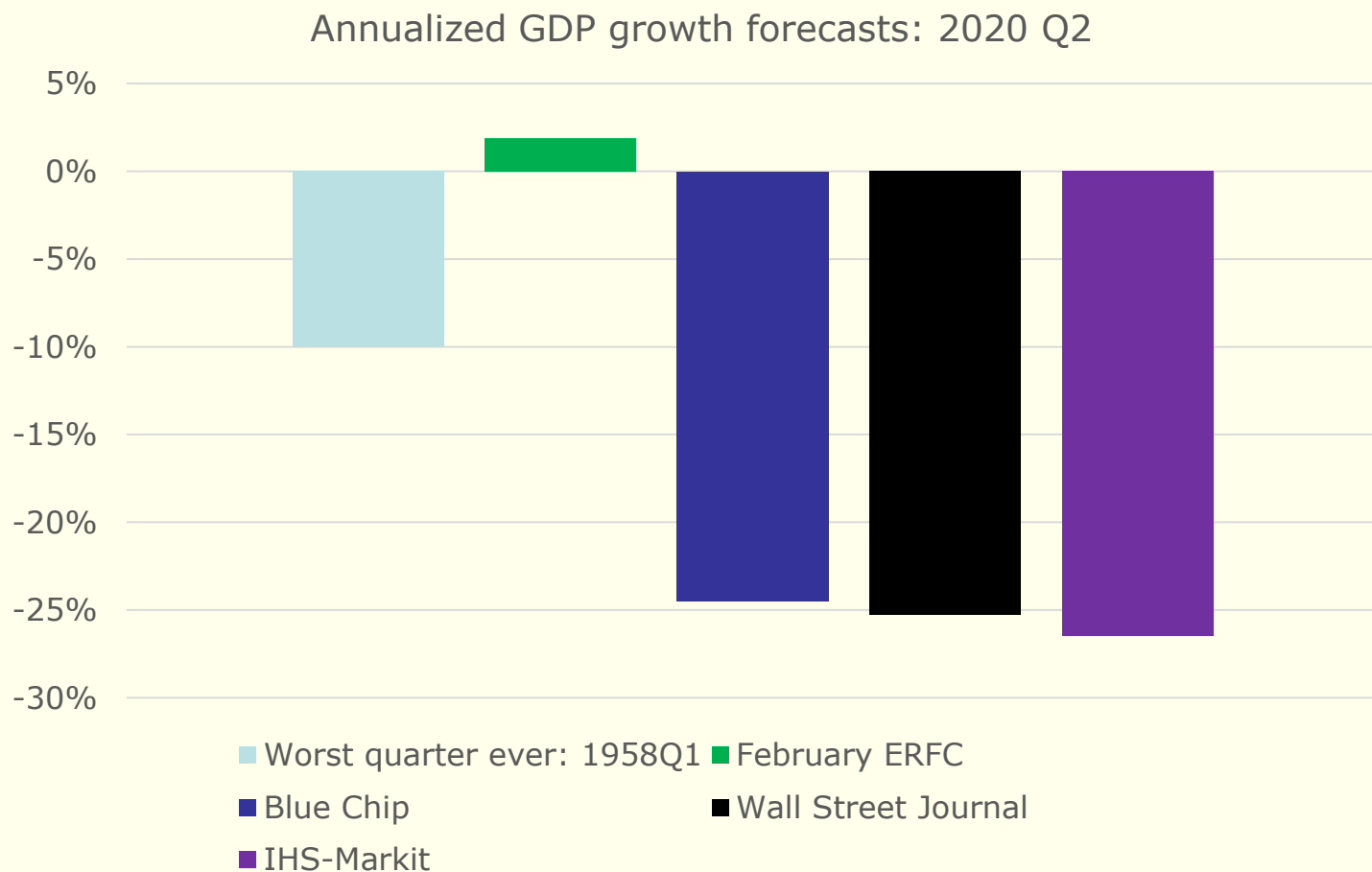
April 22, 2020



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Our Feb. forecast, pre-COVID-19, expected 1.9% GDP growth this quarter



April 23, 2020

Slide 1

Source: U.S. BEA, ERFC; April 2020 forecasts: Blue Chip, WSJ Economist Survey, IHS-Markit

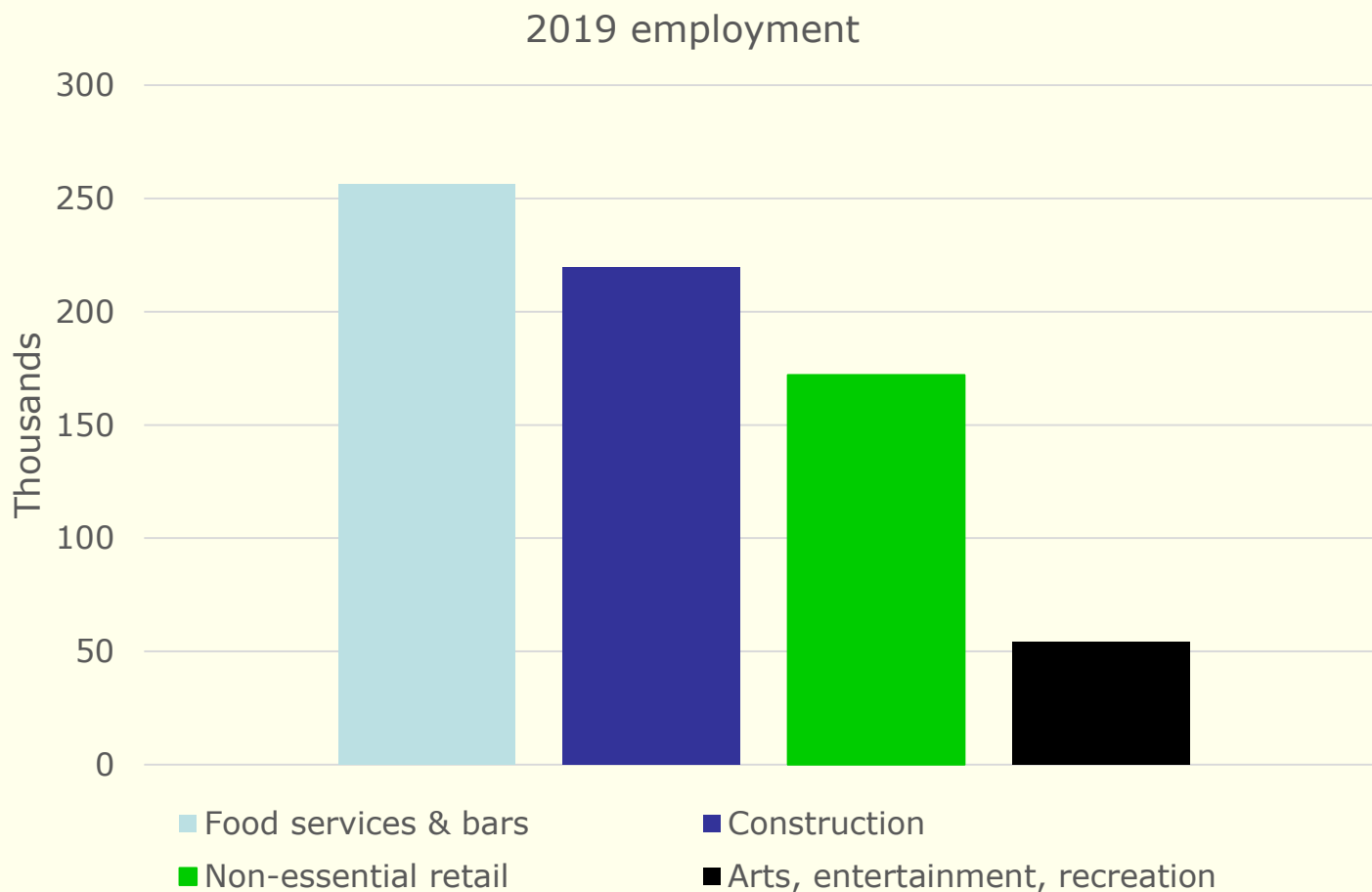
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Employment in “non-essential” industries in WA

Total WA nonfarm employment = 3.5 million in 2019

Peak to trough employment decline during Great Recession = 192,000



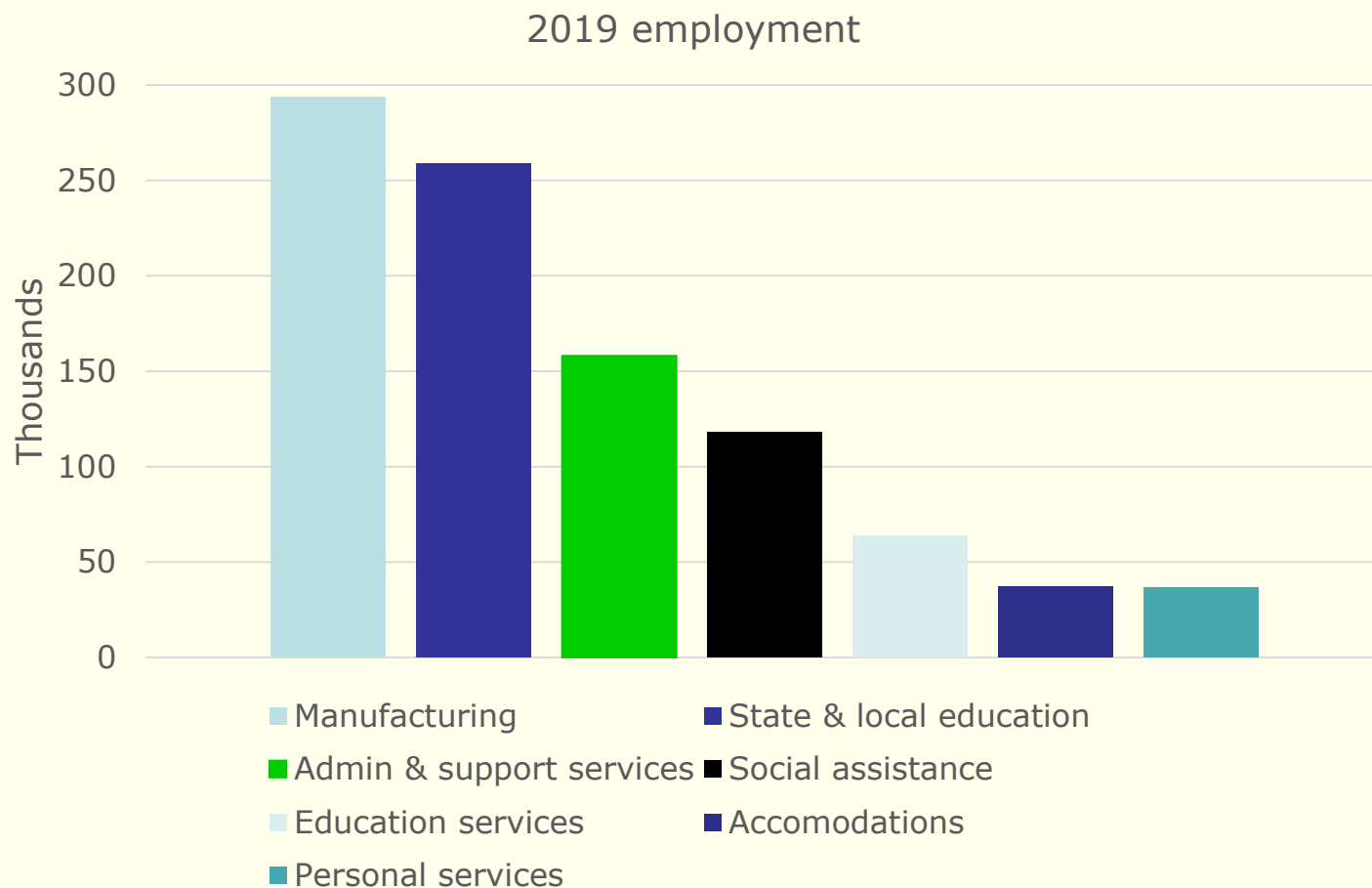
Source: ERFC, WA Employment Security Dept., 2019 annual averages

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Employment in other impacted industries

Industries with mix of essential and non-essential services or where some services can be provided on-line



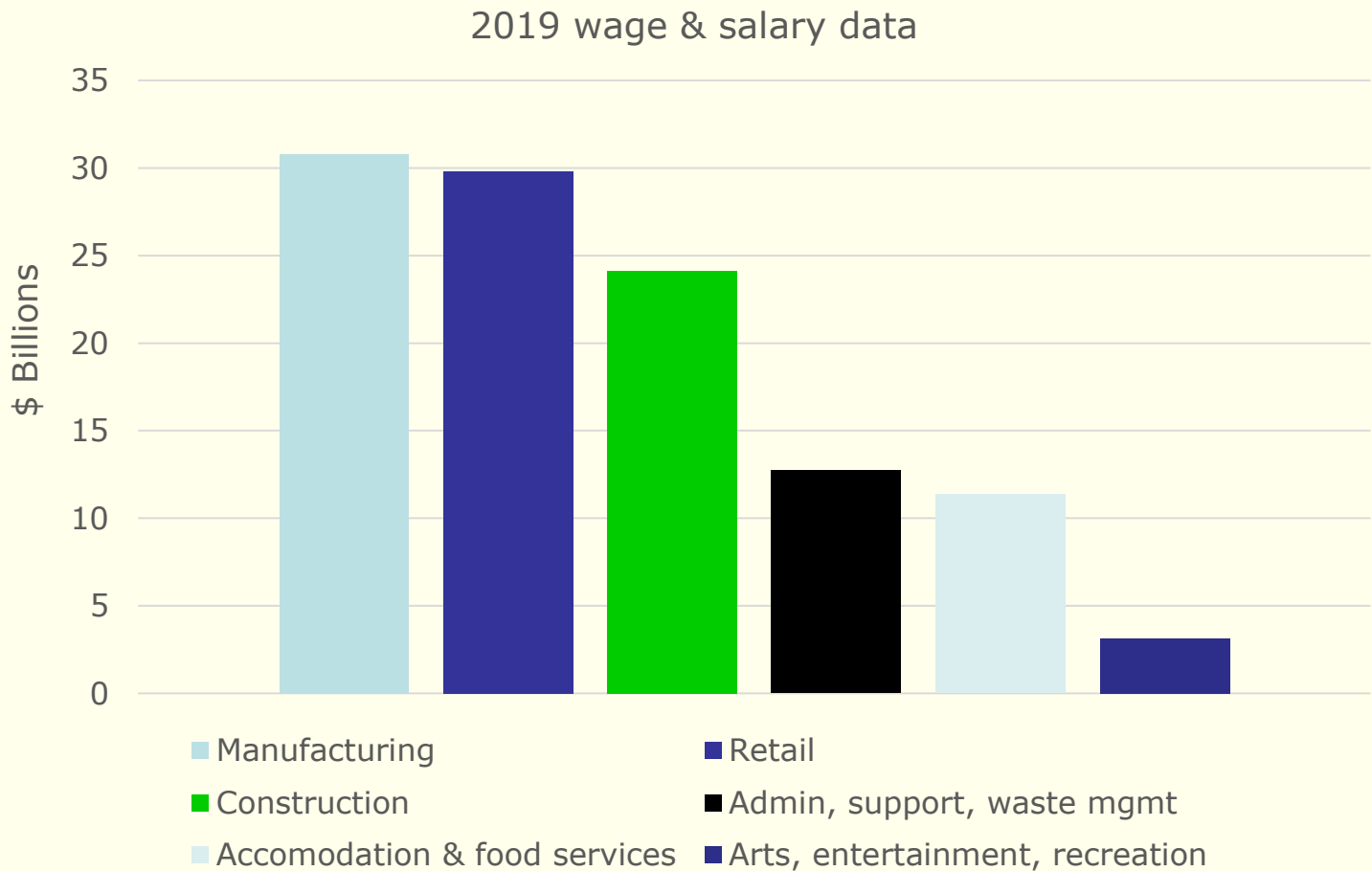
Source: ERFC, WA Employment Security Dept., 2019 annual averages



Wages in potentially impacted industries

Total WA wages & salaries = \$253.6 billion in 2019

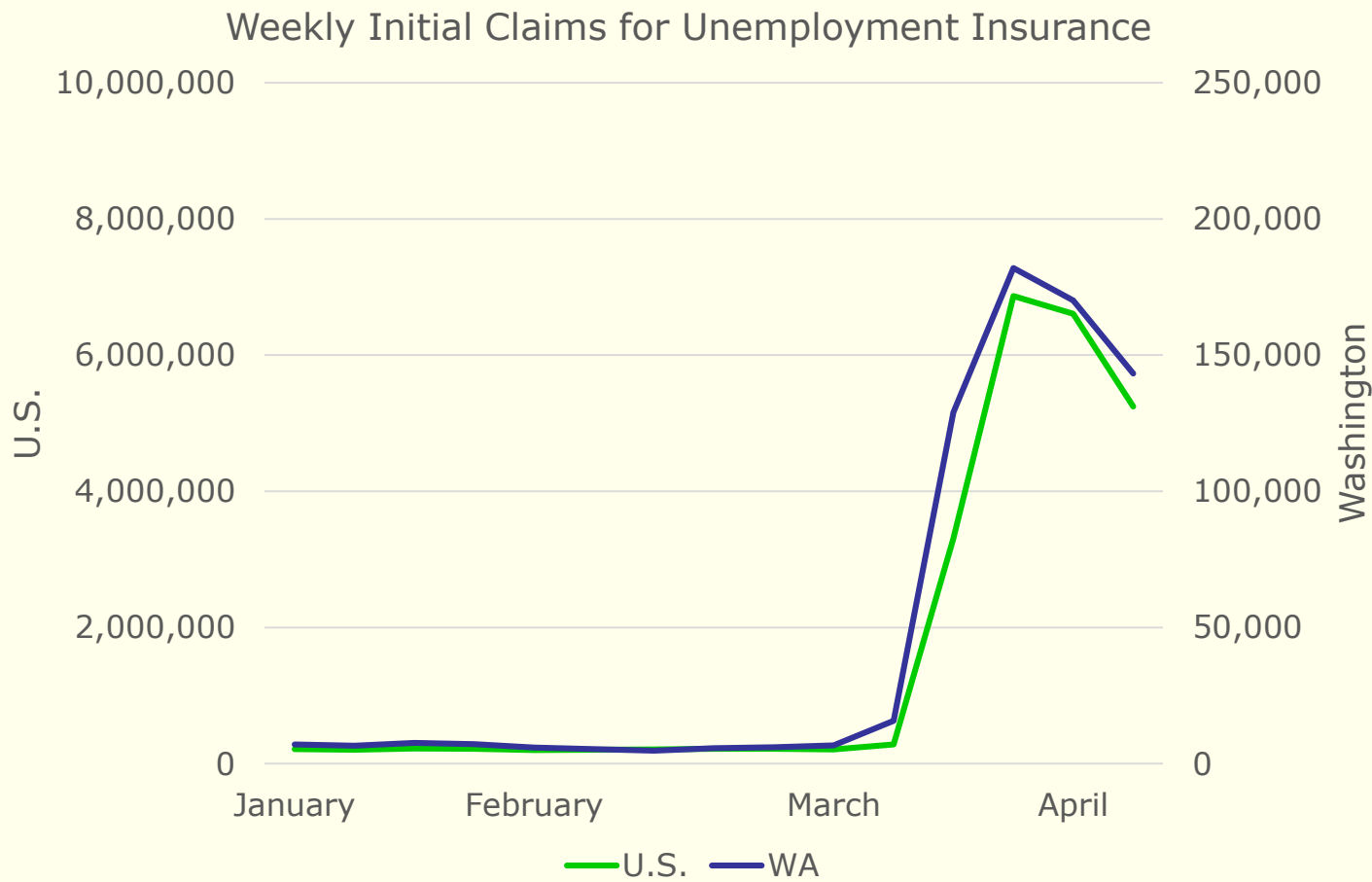
Peak to trough decline in wage & salary during Great Recession = \$6.5 billion



Source: U.S. Bureau of Economic Analysis, 2019



Initial claims for unemployment insurance have surged



April 23, 2020

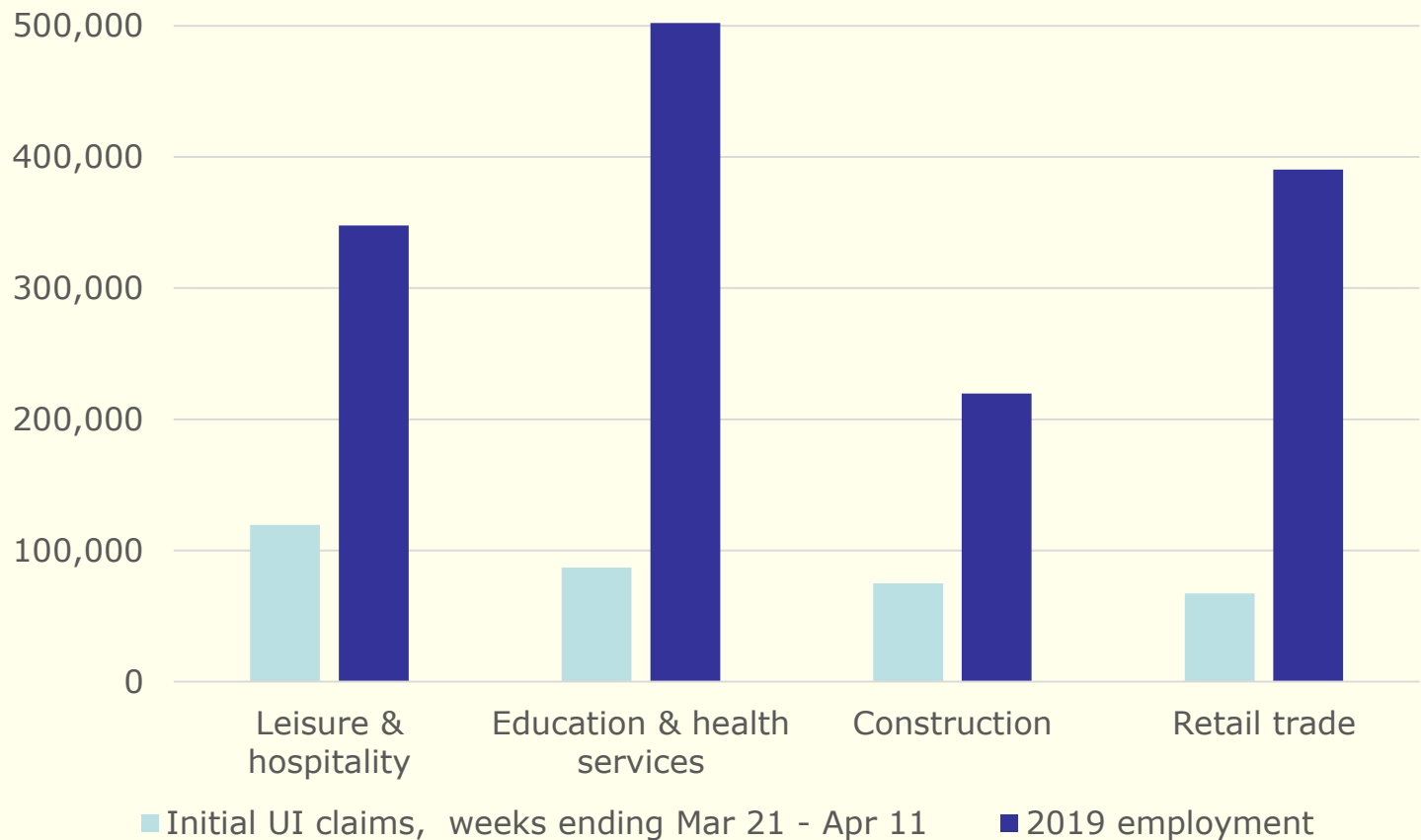
Slide 5

Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept., data through week ending April 11 2020

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA sectors with highest number of initial unemployment insurance claims in last four weeks



Source: ERFC, WA Employment Security Dept.



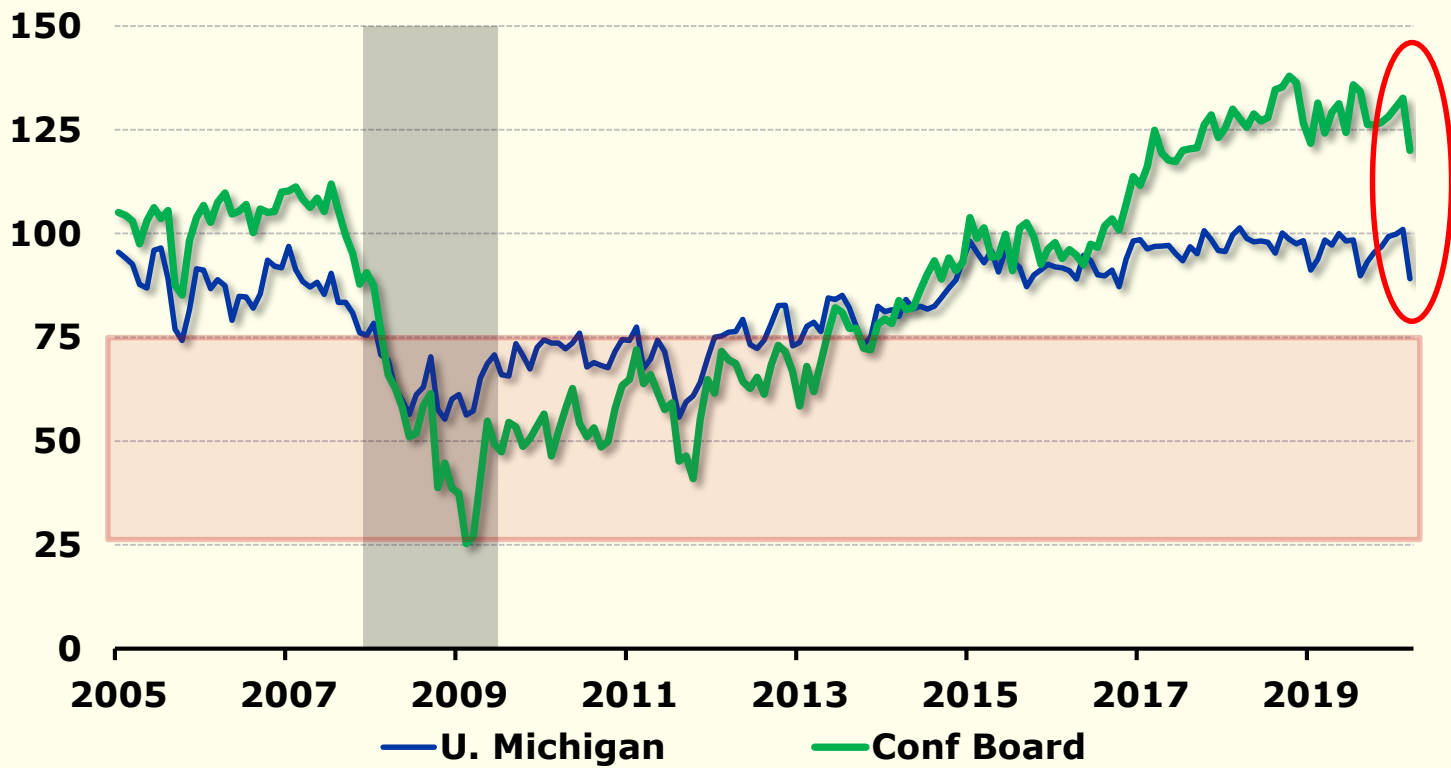
Consumer confidence declined in March

An early March survey by Boston Consulting Group found that 56% of consumers expect a recession due to the coronavirus

Index

Mich: 1966Q1 = 100, SA

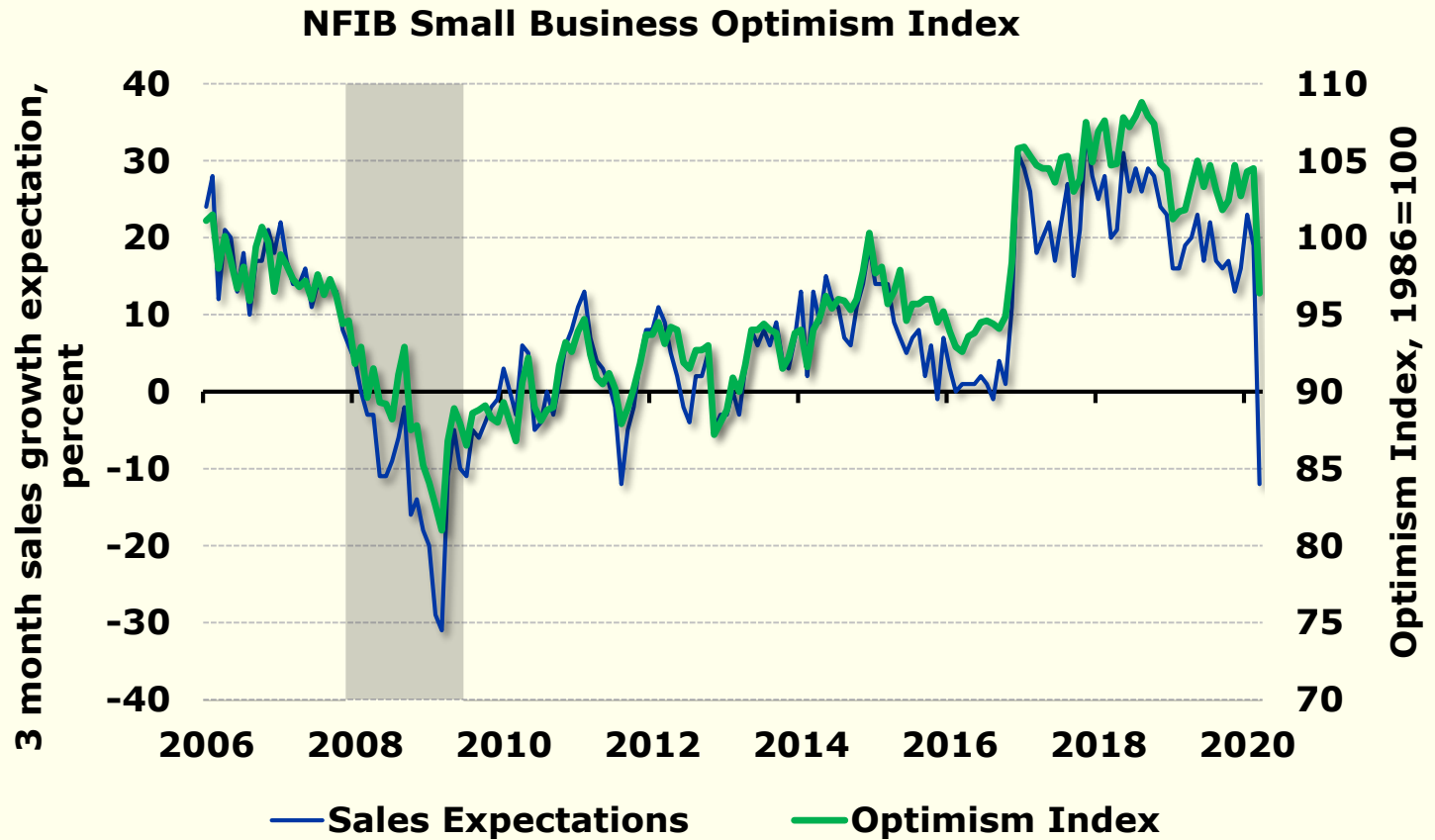
Conf Board: 1985 = 100, SA



Sources: University of Michigan, Conference Board data through Mar. 2020



Small business optimism declines as sales expectations go negative



April 23, 2020

Slide 8

Source: National Federation of Independent Business; data through March 2020

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



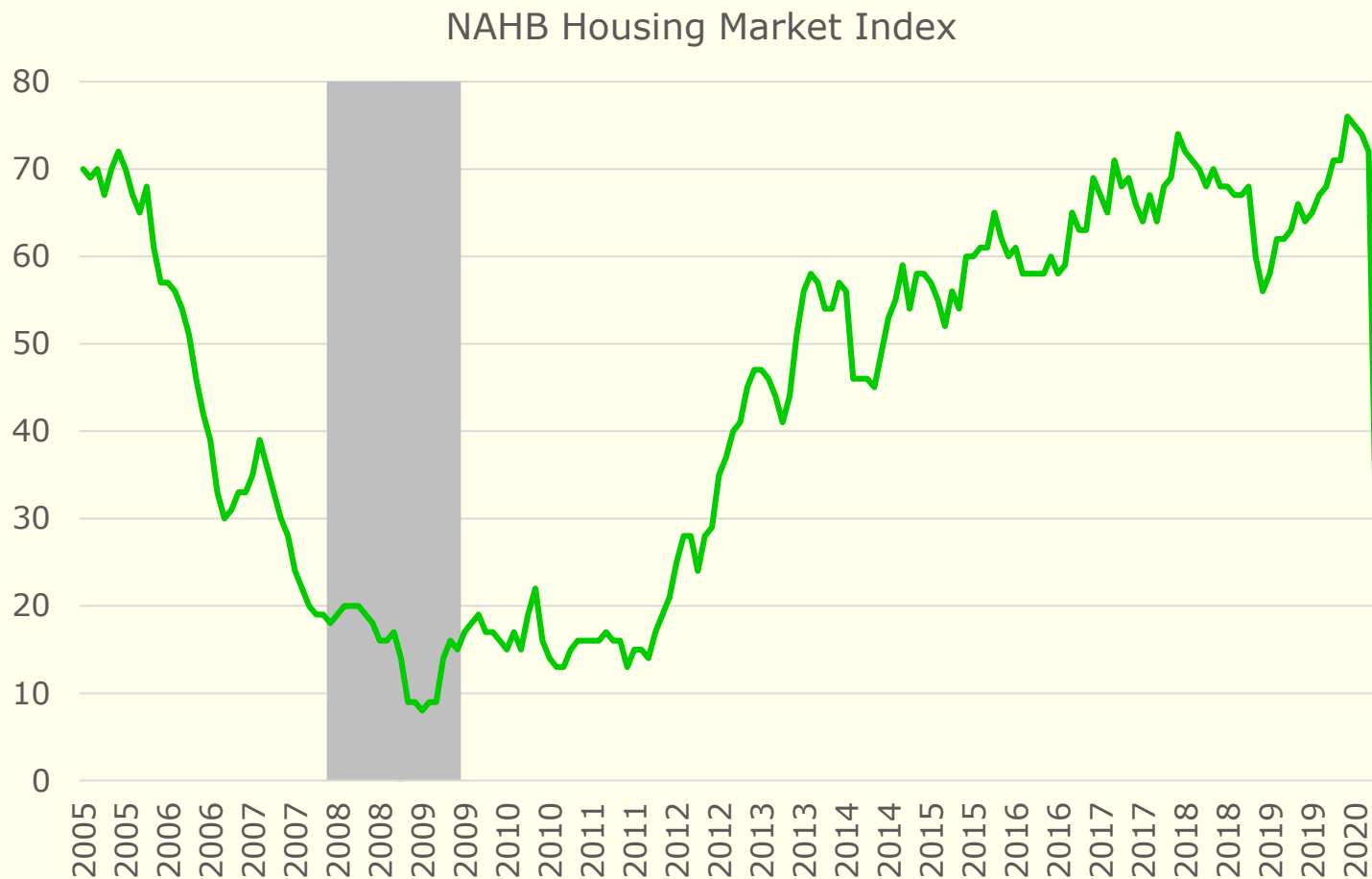
Small business risks: COVID-19 will make these issues worse

- 82% of businesses fail because of inconsistent or insufficient cash flow.
- Only 40% of small businesses are profitable.
- On average, one in 12 businesses closes every year.
- Only 35% of businesses in the construction industry survive their fifth year.

Sources: Fundera, FundEdu, SmallBiz Trends



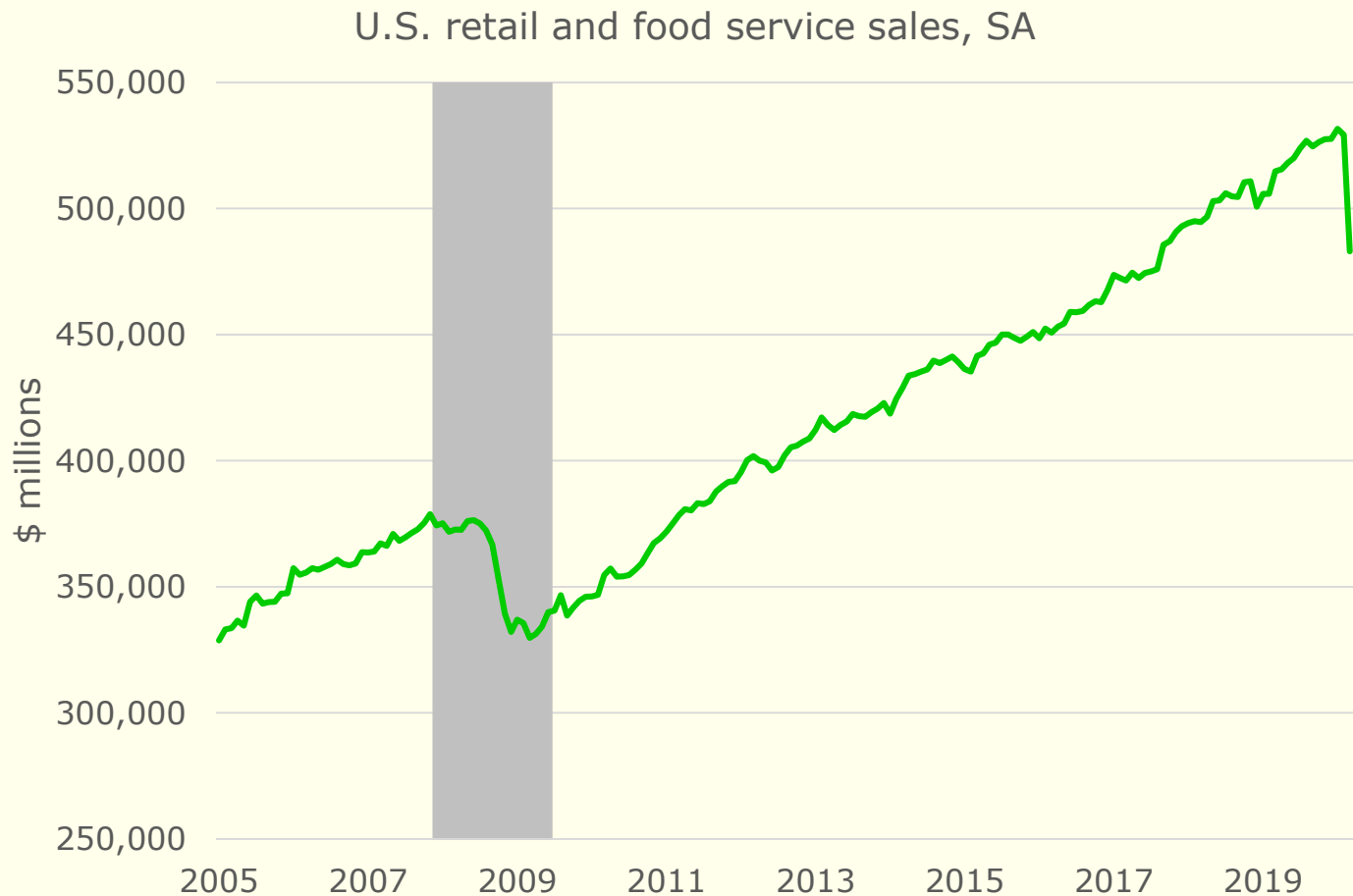
The outlook for the single family housing market collapsed in April



Source: National Association of Home Builders; data through April 2020



U.S. retail sales in March fell 8.7% compared to February



April 23, 2020

Slide 11

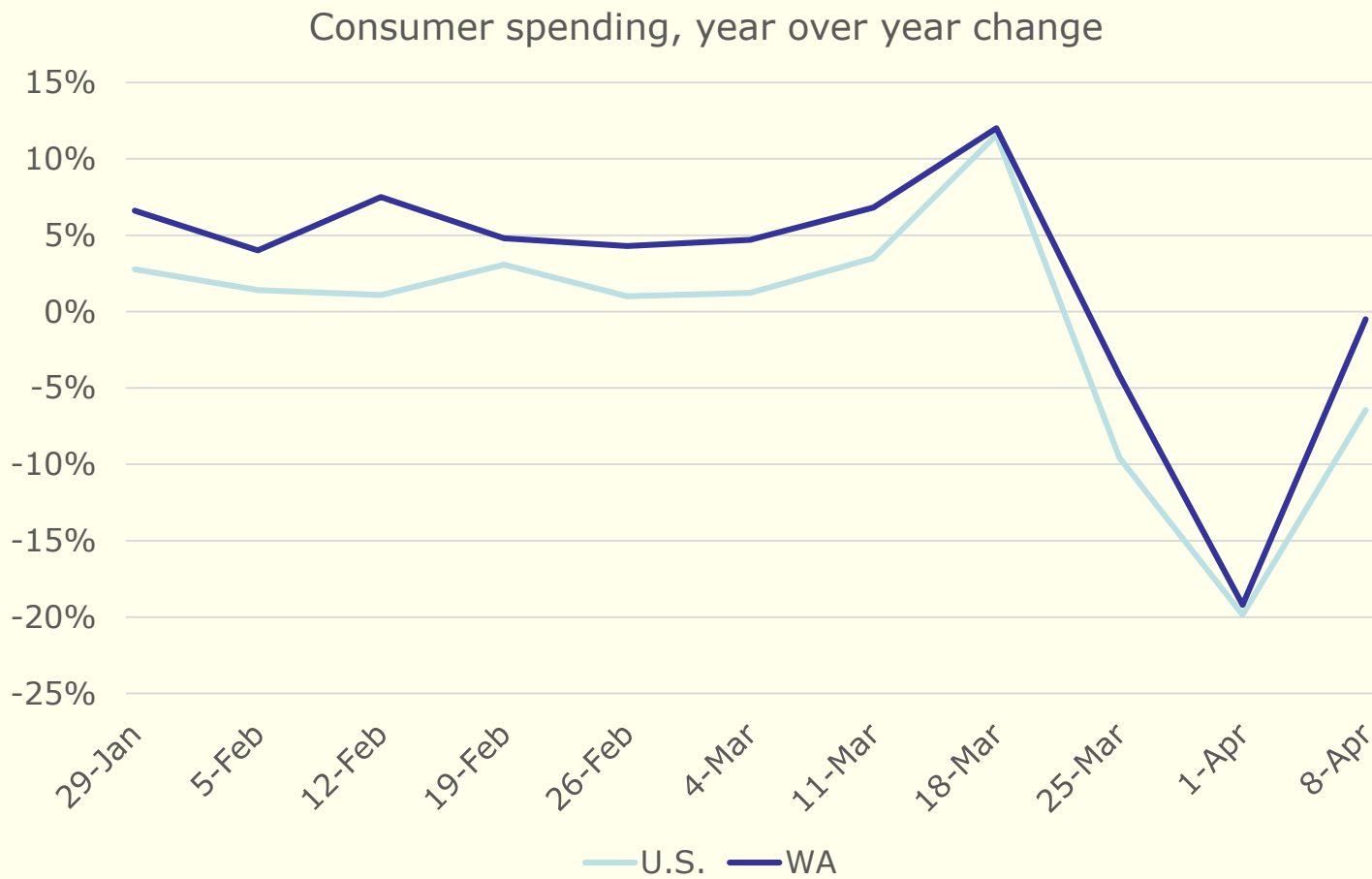
Source: U.S. Census Bureau; advanced data through March 2020

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Compared to the same week last year, consumer spending declined starting the week of March 25th

Earnest Research tracks a subset of credit and debit card transactions for large national chain stores and businesses



April 23, 2020

Slide 12

Source: Earnest Research COVID-19 tracker, data through week ending April 8 2020

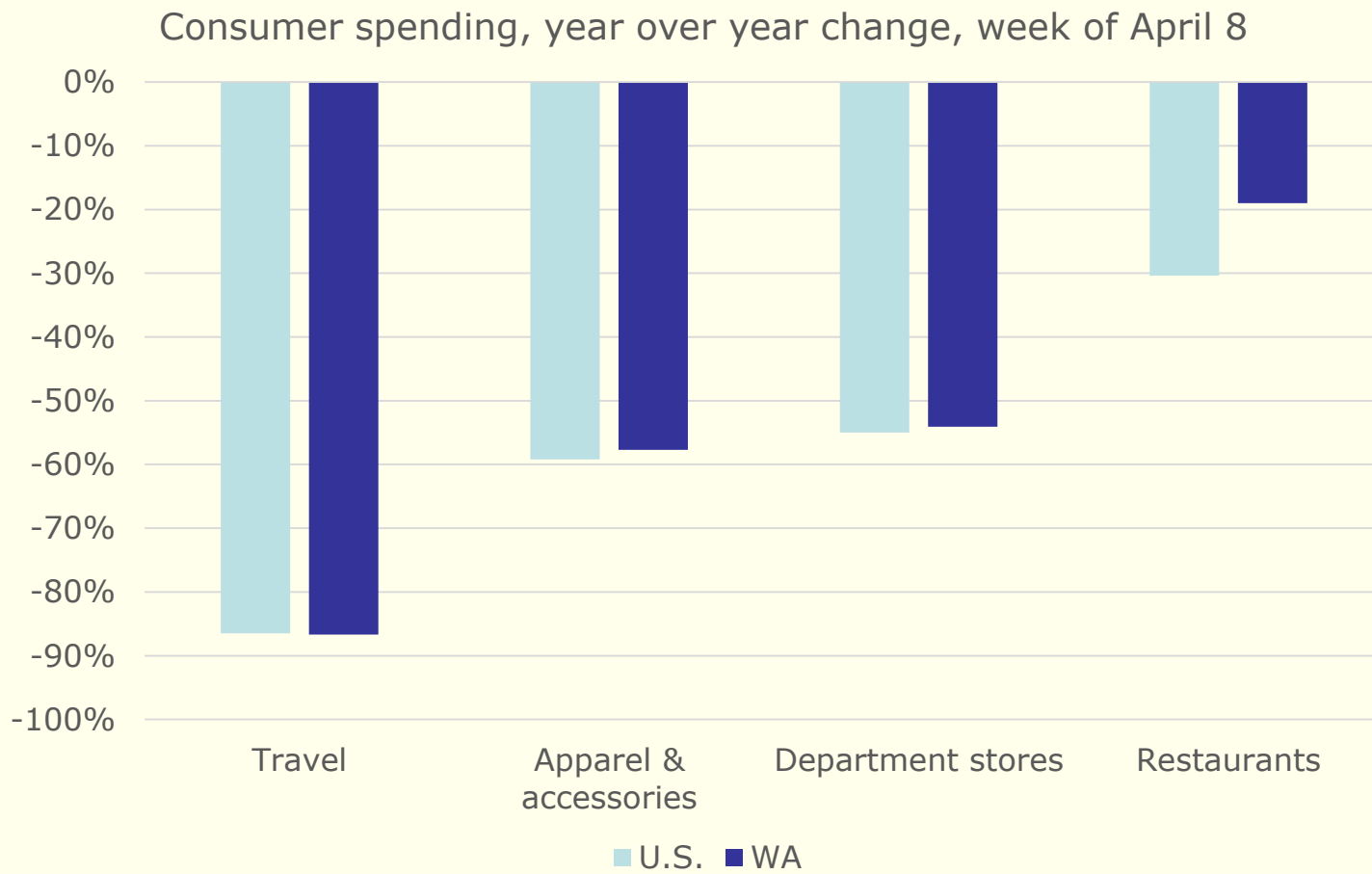
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Selected categories: Change in spending for week of April 8th

Travel category:

Airlines, cruises, lodging, online travel agencies, rental cars



April 23, 2020

Slide 13

Source: Earnest Research COVID-19 tracker, data through week ending April 8 2020

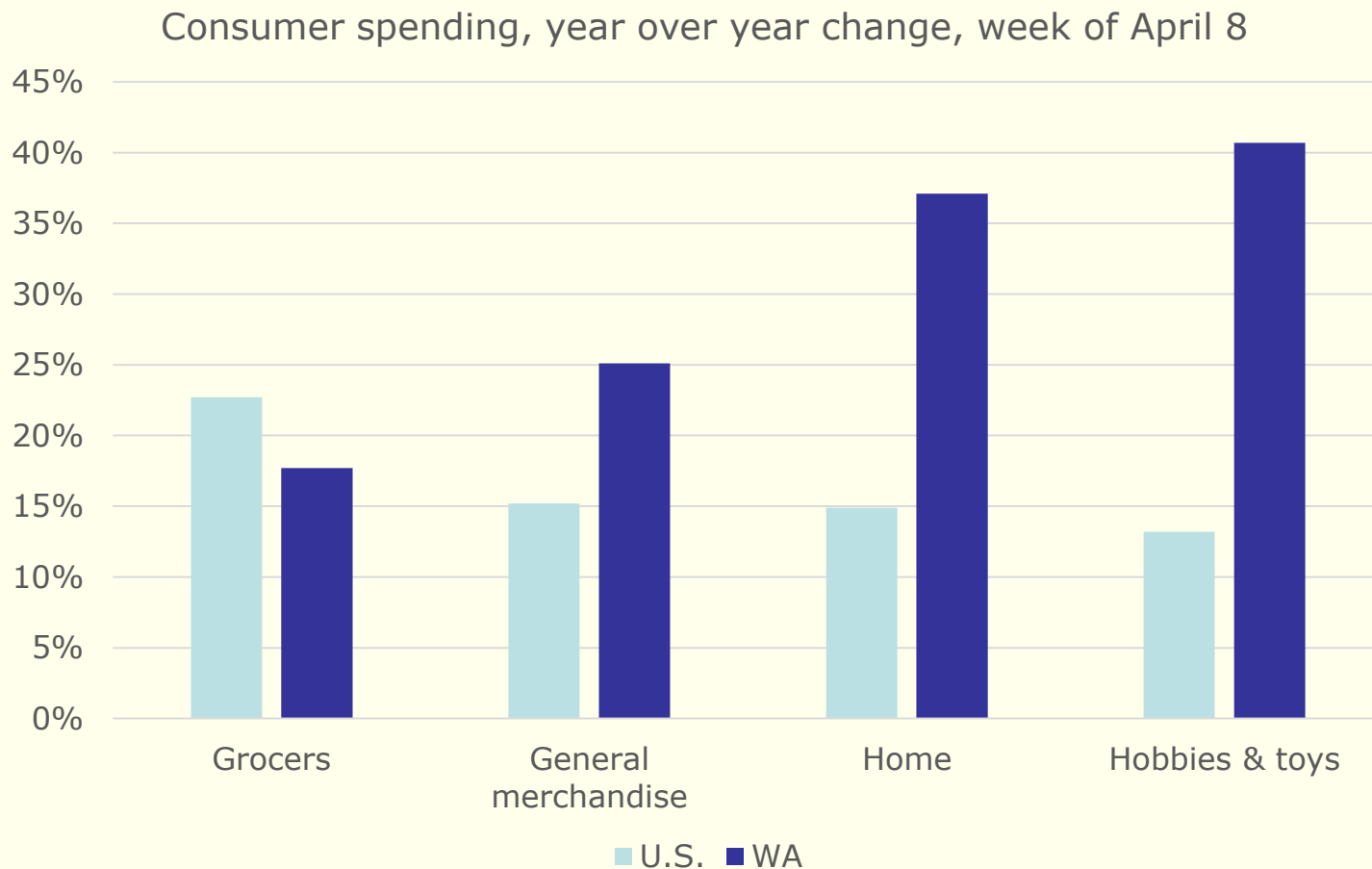
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Selected categories: Change in spending for week of April 8th

Home category:

Furnishings, hardware and home improvement, home security and storage



Source: Earnest Research COVID-19 tracker, data through week ending April 8 2020

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Federal assistance to individuals, businesses (CARES Act)

Industry specific assistance to airlines, aviation industry, businesses important for national security

Expanded unemployment insurance benefits

- Extends UI to self-employed, independent contractors
- Adds additional \$600/week in benefits

Direct cash payments to households

- \$1,200 to individuals with income <\$75,000, phasing out to zero at \$99,000

Small business assistance

- Forgivable loans to maintain existing workforce, pay rent, other expenses

Sources: National Law Review, Mar. 29 2020



Immediate and near-term vs. long-term impacts

Will COVID-19 have lasting impacts on consumer behavior?

- How long will the pandemic last?
- What is the future of tourism and leisure activities: air travel, cruise ships, sporting events, concerts, hotels/motels, restaurants, nightlife
- Will the trend towards greater online shopping be accelerated, resulting in a faster decline in brick and mortar retailers?
- Will working from home become the new normal in some industries?

April 23, 2020

Slide 16



Data issues and coronavirus

Data measurement issues (examples):

- Potential biases in sample-based employment, personal income data
- Initial UI claims underreported when online systems overloaded

Seasonal adjustment:

- Most economic data is adjusted to account for regular seasonal fluctuations
- COVID-19 impacts will overwhelm these patterns, adding to data interpretation issues



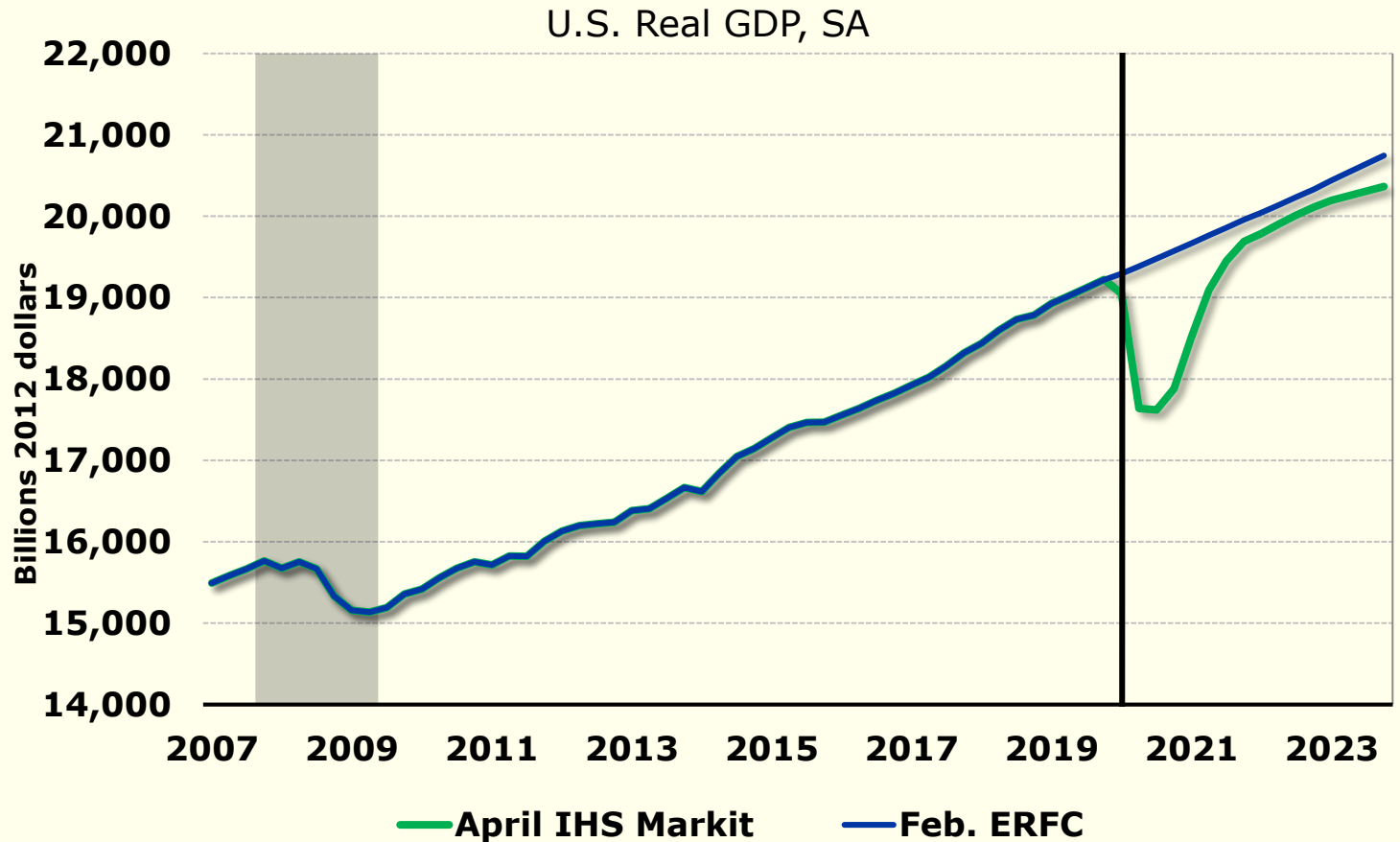
Data issues and coronavirus

Data lags (examples):

- Personal income: roughly 3 month lag
 - 2019 Q4 data became available March 24th
 - 2020 Q1 data will be available June 23rd, after out June forecast update
- WA revenue collections: available 4-6 weeks after end of month
 - Collections data for March won't be available until early May



The most recent IHS-Markit forecast expects GDP to decline in Q1, Q2 and Q3 this year; recovery starting Q4



April 23, 2020

Slide 19

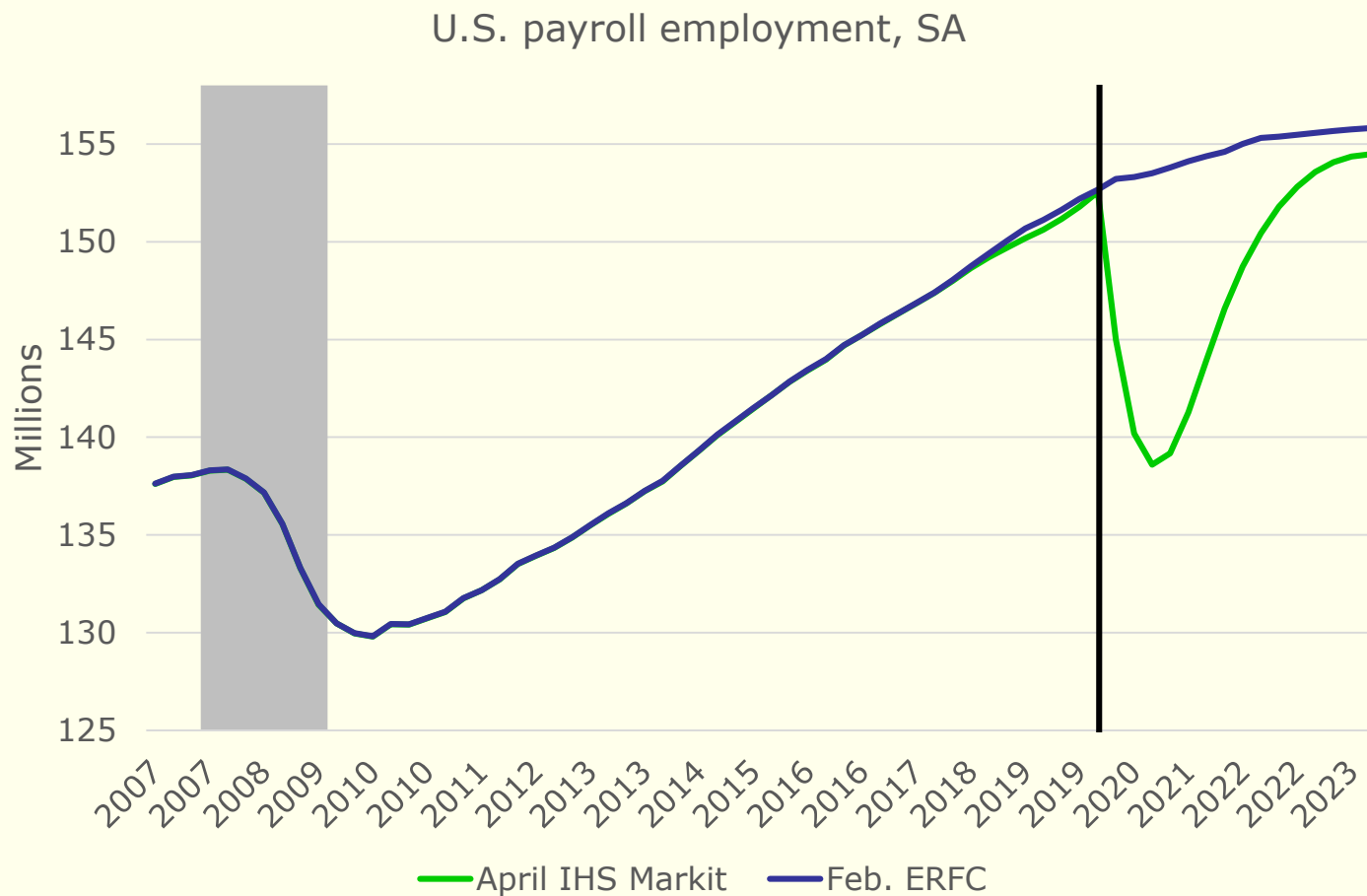
Source: U.S. BEA, IHS Markit; data through Q4 2019

Note: Vertical black line indicates last actual

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



U.S. employment is expected to drop by 14 million jobs by 2020 Q3



April 23, 2020

Slide 20

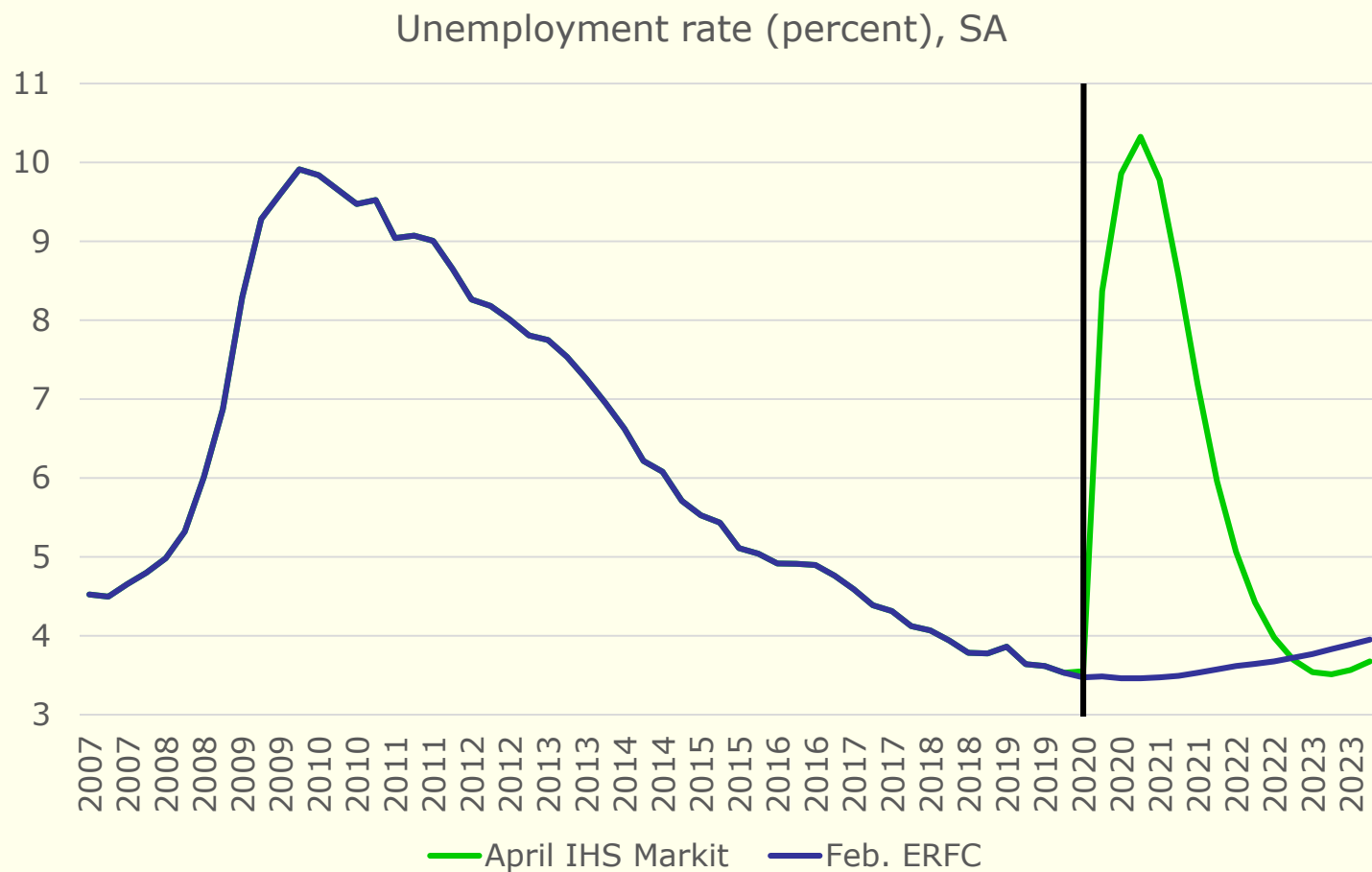
Source: U.S. BLS, IHS Markit; data through Q4 2019

Note: Vertical black line indicates last actual

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



The U.S. unemployment rate is expected to peak at 10.3%



April 23, 2020

Slide 21

Source: U.S. BLS, IHS Markit; data through Q4 2019

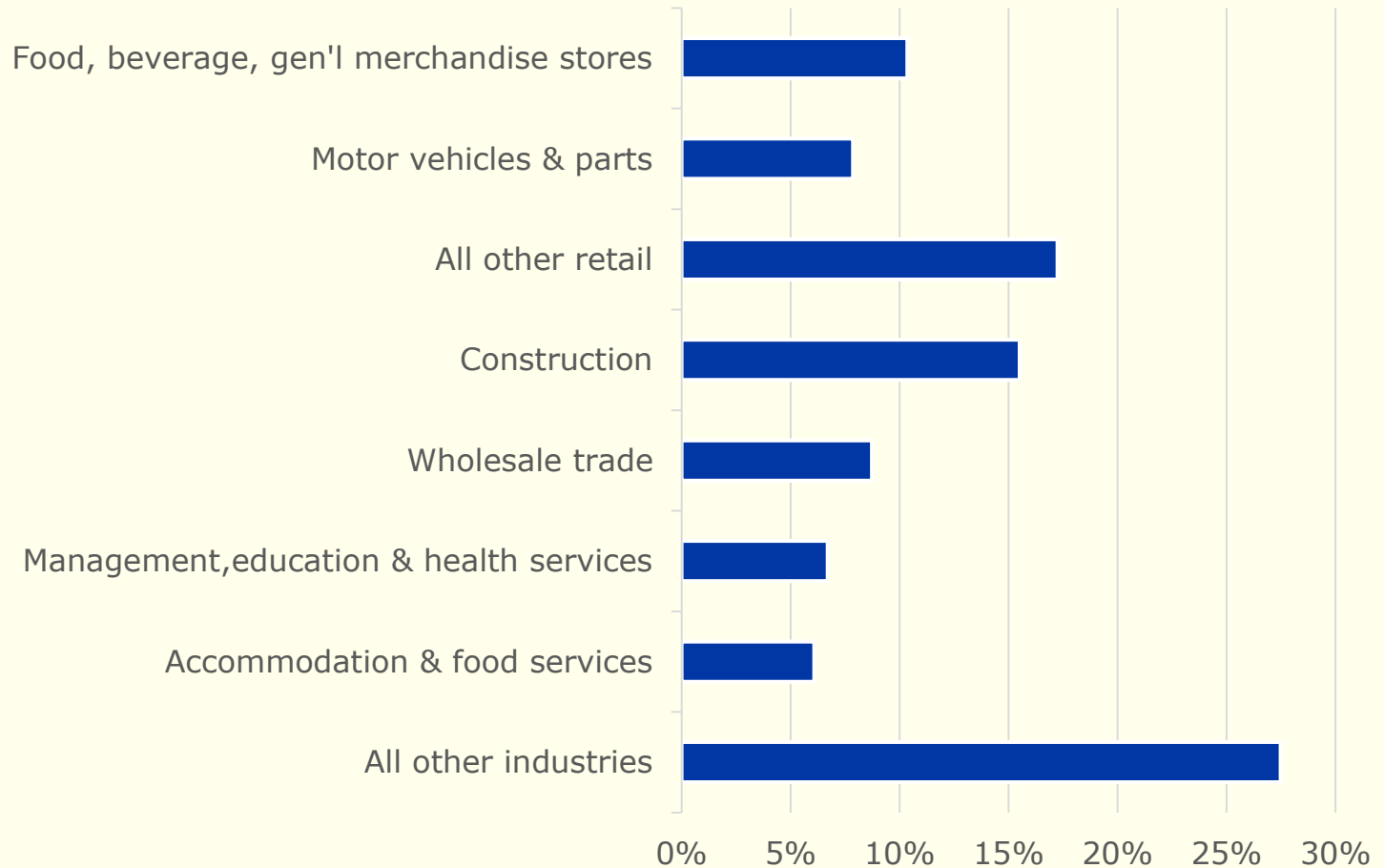
Note: Vertical black line indicates last actual

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Distribution of state and local excise tax payments by industry, Feb. 2020 taxable activity

Primarily state sales and B&O taxes but also includes state public utility, hazardous substance and local sales taxes among others.



Source: Dept. of Revenue, ERFC

April 23, 2020

Slide 22



Questions



Economic & Revenue Forecast Council
www.ercf.wa.gov
360-534-1560

April 23, 2020

Slide 23