

# Return of the Economist



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On Behalf of  
ABC's 2020 Mid-Year Construction  
Economic Forecast

June 10<sup>th</sup>, 2020

## Ring Verse

*Three Rings for the Elven-kings under the sky,  
Seven for the Dwarf-lords in their halls of stone,  
Nine for Mortal Men doomed to die,  
One for the Dark Lord on his dark throne,  
In the Land of Mordor where the Shadows lie,  
One ring to rule them all, one ring to find them,  
One ring to bring them all and in the darkness bind them*

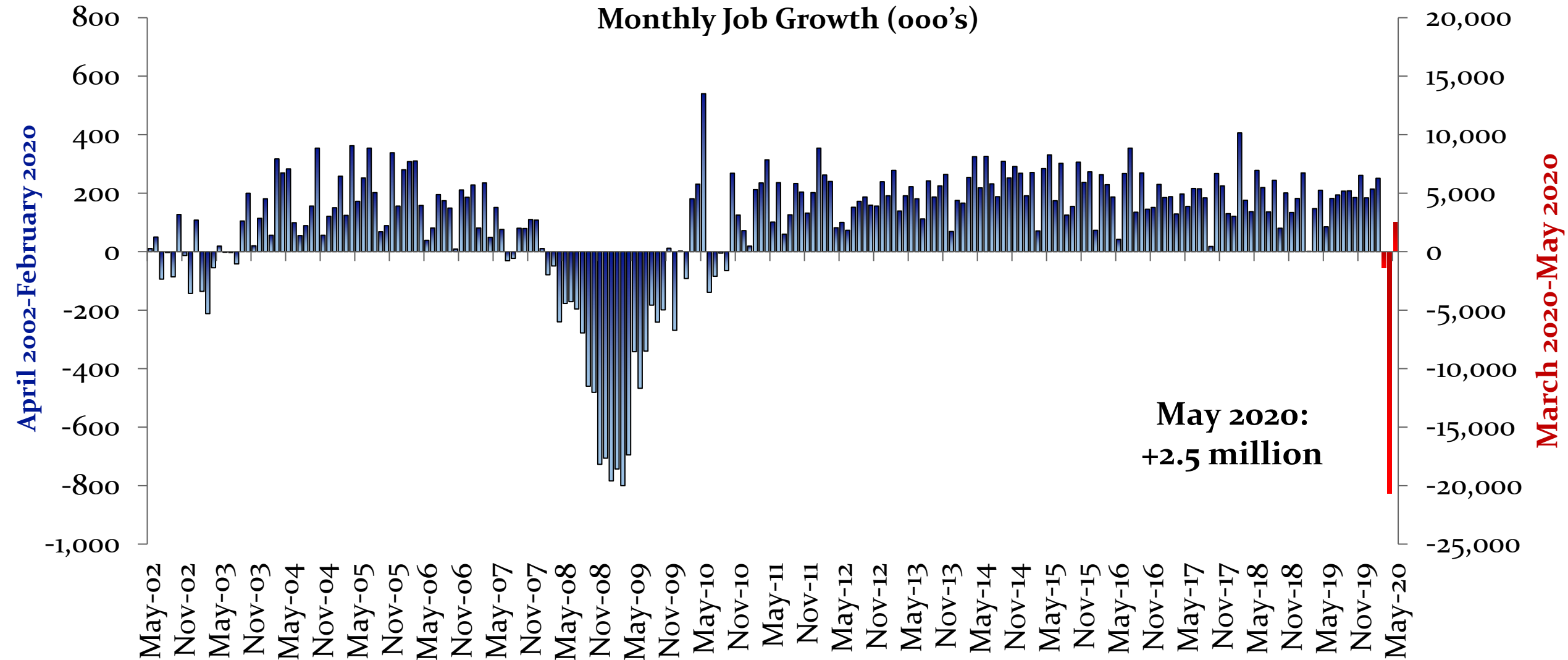


# Nine Reasons for Hope in the Kingdom of Men (& Women)



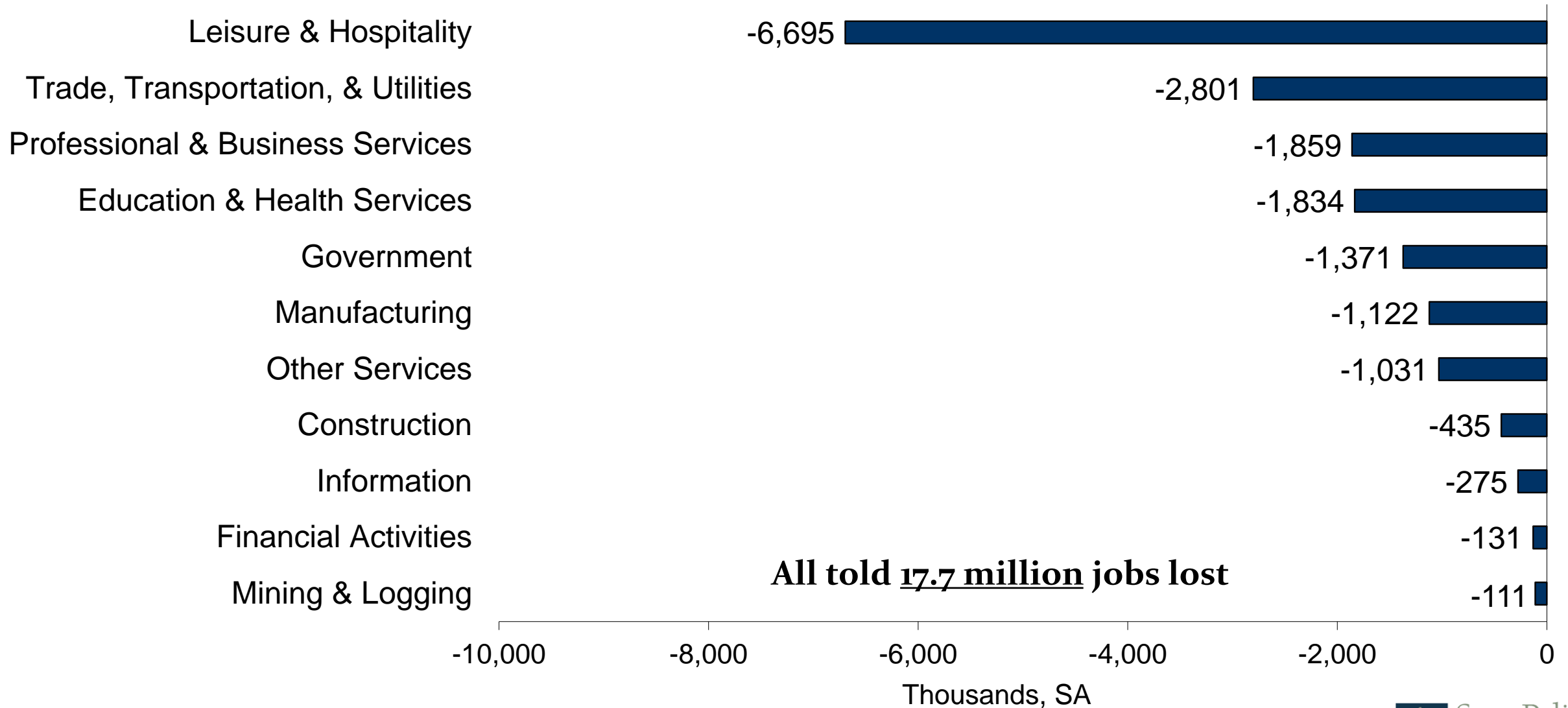
# I. There was Plenty of Job Growth on Middle Earth (OK, America)

*Net Change in U.S. Jobs, May 2002 – May 2020*



# National Nonfarm Employment

*by Industry Sector, May 2019 v. May 2020*



# Employment Growth, 25 Largest Metros (NSA)

*April 2019 v. April 2020 Percent Change*

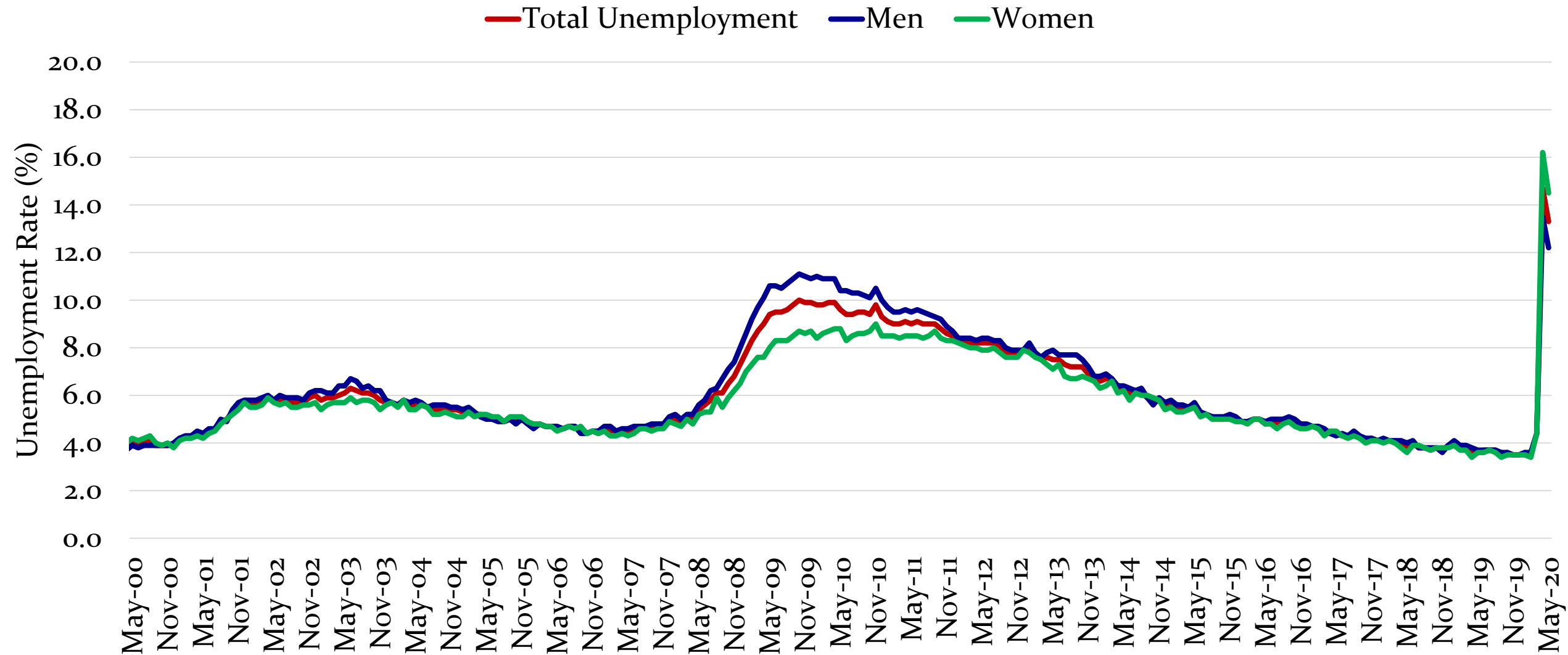
Rank	MSA	%	Rank	MSA	%
1	Dallas-Fort Worth-Arlington, TX	-7.6	13	Miami-Fort Lauderdale-West Palm Beach, FL	-13.1
1	Phoenix-Mesa-Scottsdale, AZ	-7.6	14	Charlotte-Concord-Gastonia, NC-SC	-13.2
3	Houston-The Woodlands-Sugar Land, TX	-8.5	15	San Diego-Carlsbad, CA	-13.3
4	San Antonio-New Braunfels, TX	-8.7	16	Baltimore-Columbia-Towson, MD	-13.4
5	Washington-Arlington-Alexandria, DC-VA-MD-WV	-9.0	16	Minneapolis-St. Paul-Bloomington, MN-WI	-13.4
6	Atlanta-Sandy Springs-Roswell, GA	-9.4	18	Orlando-Kissimmee-Sanford, FL	-13.6
6	Tampa-St. Petersburg-Clearwater, FL	-9.4	19	San Francisco-Oakland-Hayward, CA	-14.2
8	Riverside-San Bernardino-Ontario, CA	-9.7	20	Seattle-Tacoma-Bellevue, WA	-14.5
9	Denver-Aurora-Lakewood, CO	-9.9	21	Los Angeles-Long Beach-Anaheim, CA	-14.7
10	St. Louis, MO-IL	-11.5	22	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-15.4
11	Portland-Vancouver-Hillsboro, OR-WA	-12.5	23	Boston-Cambridge-Nashua, MA-NH	-16.7
12	Chicago-Naperville-Elgin, IL-IN-WI	-12.9	24	New York-Newark-Jersey City, NY-NJ-PA	-19.6
			25	Detroit-Warren-Dearborn, MI	-24.5

***U.S. Year-over-year Percent Change***

***April: -13.3%    May: -11.7%***

## II. Fewer Idle in the Shire (pre-COVID-19)

*U.S. Unemployment Rate, May 2000 – May 2020*





# Unemployment Rates, 25 Largest Metros (NSA)

*April 2020*

Rank	MSA	%	Rank	MSA	%
1	Minneapolis-St. Paul-Bloomington, MN-WI	9.2	11	San Francisco-Oakland-Hayward, CA	13.2
2	Washington-Arlington-Alexandria, DC-VA-MD-WV	9.9	14	Portland-Vancouver-Hillsboro, OR-WA	14.0
3	Baltimore-Columbia-Towson, MD	10.4	15	Houston-The Woodlands-Sugar Land, TX	14.2
4	St. Louis, MO-IL	11.0	16	Riverside-San Bernardino-Ontario, CA	14.4
5	Denver-Aurora-Lakewood, CO	12.1	17	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	14.5
6	Phoenix-Mesa-Scottsdale, AZ	12.3	18	San Diego-Carlsbad, CA	15.0
7	Atlanta-Sandy Springs-Roswell, GA	12.7	19	New York-Newark-Jersey City, NY-NJ-PA	15.1
7	Charlotte-Concord-Gastonia, NC-SC	12.7	20	Boston-Cambridge-Nashua, MA-NH	15.4
9	Dallas-Fort Worth-Arlington, TX	12.8	21	Orlando-Kissimmee-Sanford, FL	16.2
10	Tampa-St. Petersburg-Clearwater, FL	13.1	22	Seattle-Tacoma-Bellevue, WA	16.7
11	Miami-Fort Lauderdale-West Palm Beach, FL	13.2	23	Chicago-Naperville-Elgin, IL-IN-WI	17.5
11	San Antonio-New Braunfels, TX	13.2	24	Los Angeles-Long Beach-Anaheim, CA	18.8
			25	Detroit-Warren-Dearborn, MI	24.4

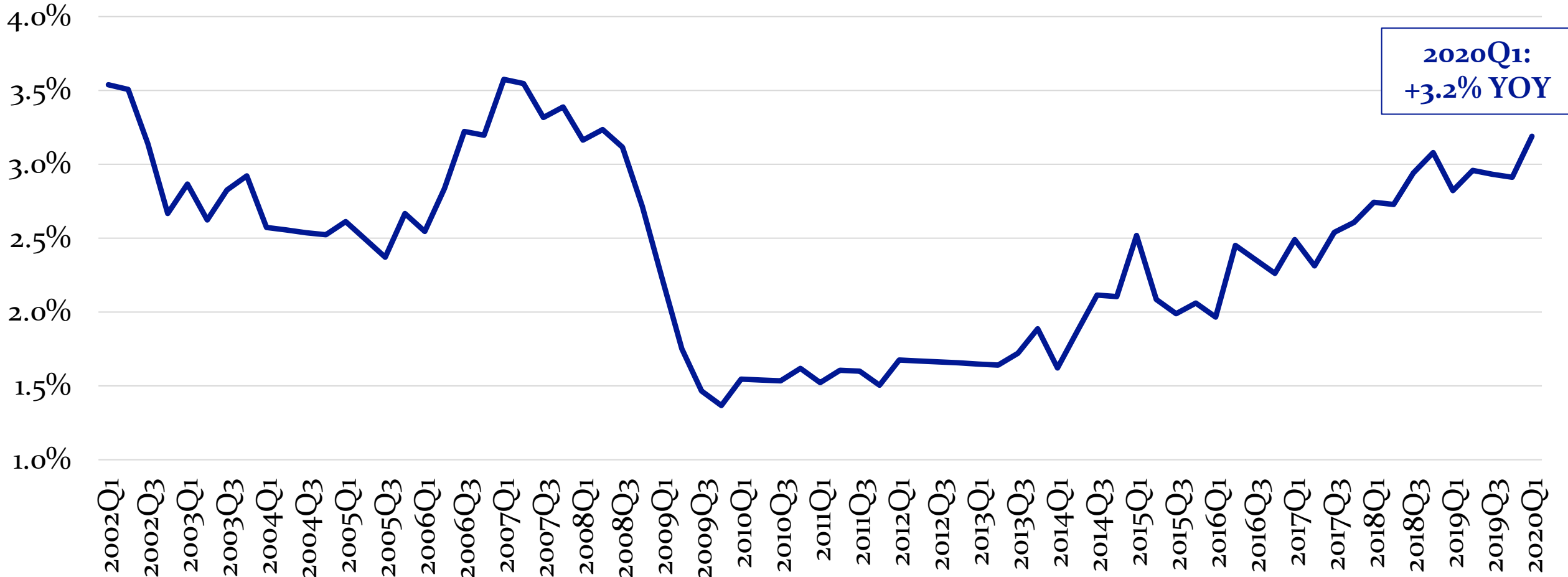
***U.S. Unemployment Rate***  
***April: 14.7%    May: 13.3%***



### III. Gold Aplenty

*Growth in Wages & Salaries, U.S. Employment Cost Index (ECI), 2002Q1 – 2020Q1*

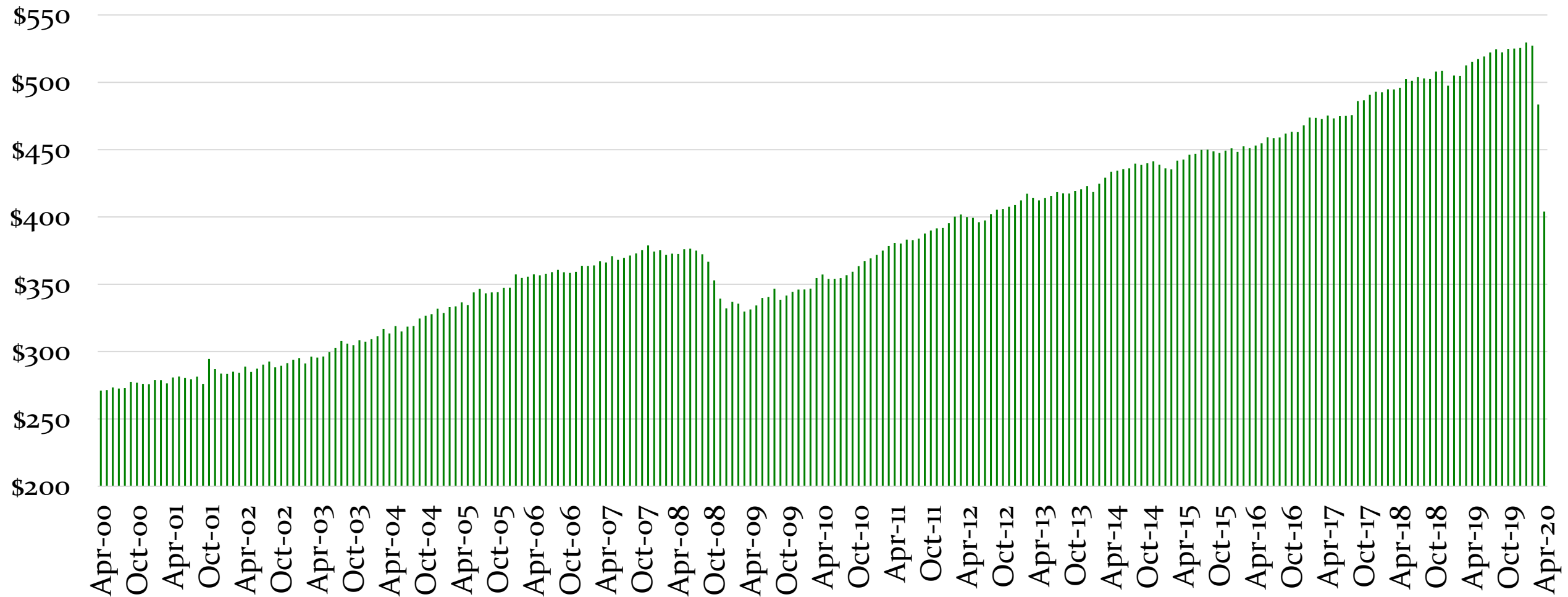
ECI for Wages & Salaries  
12-Month % Change



# IV. In the Bagging!

## U.S. Retail Sales, April 2000 – April 2020

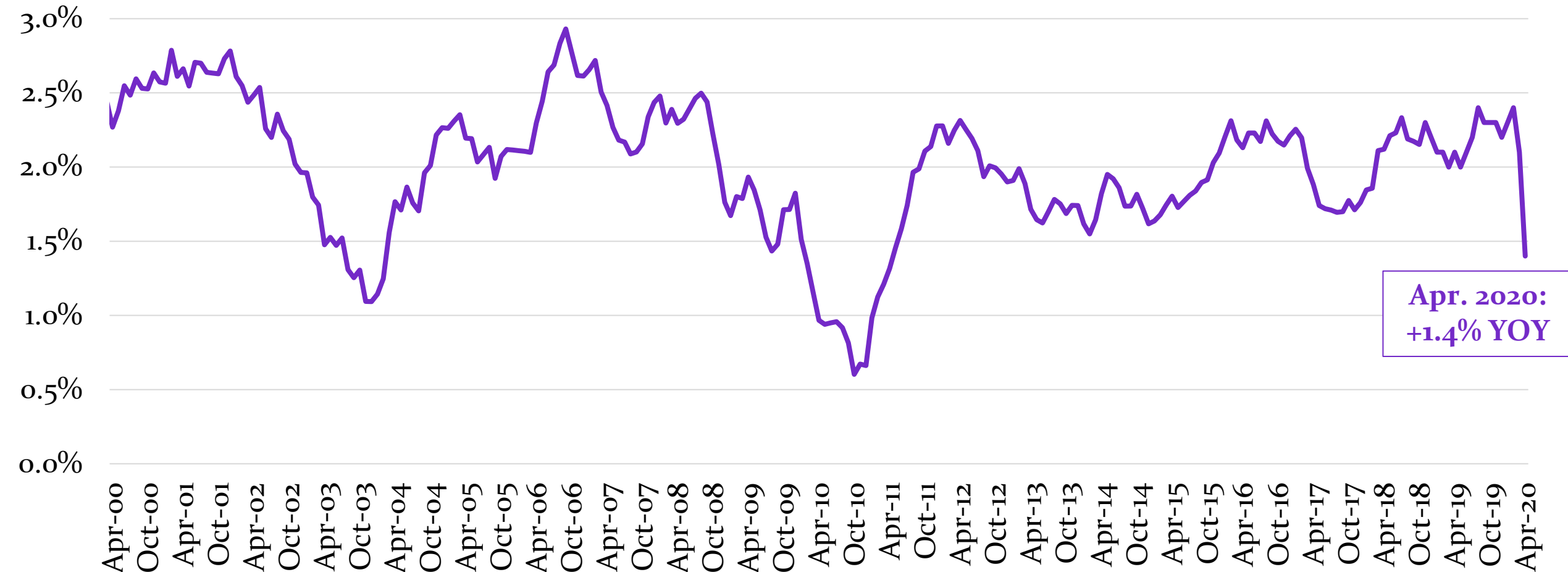
Retail Sales (\$Billions)



# V. Your Gold Coins Go Further

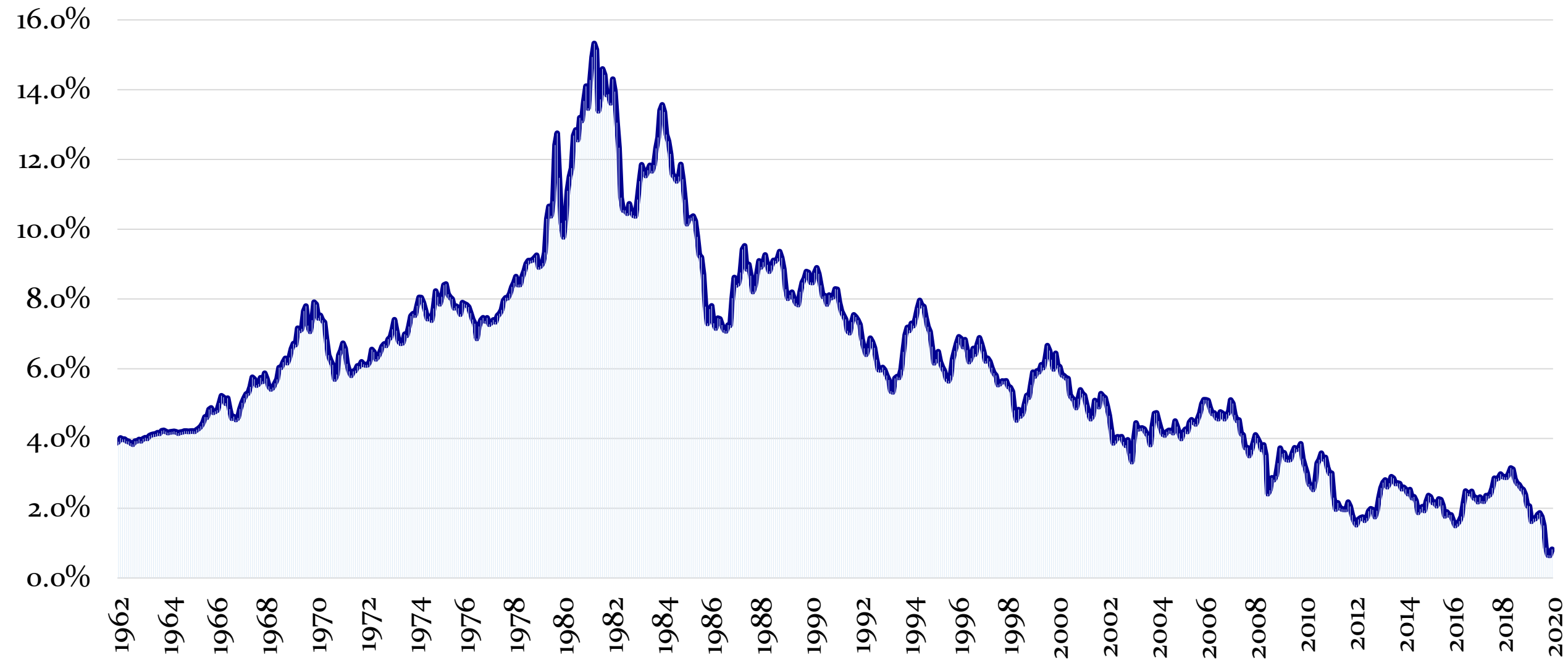
*Consumer Price Index: All Items Less Food & Energy, April 2000 – April 2020*

Core CPI (All Items Less Food & Energy)  
12-Month % Change



# VI. Interest Rates are Hobbit-Sized

*U.S. 10-Year Treasury Constant Maturity Rate, 1962 – 2020\**

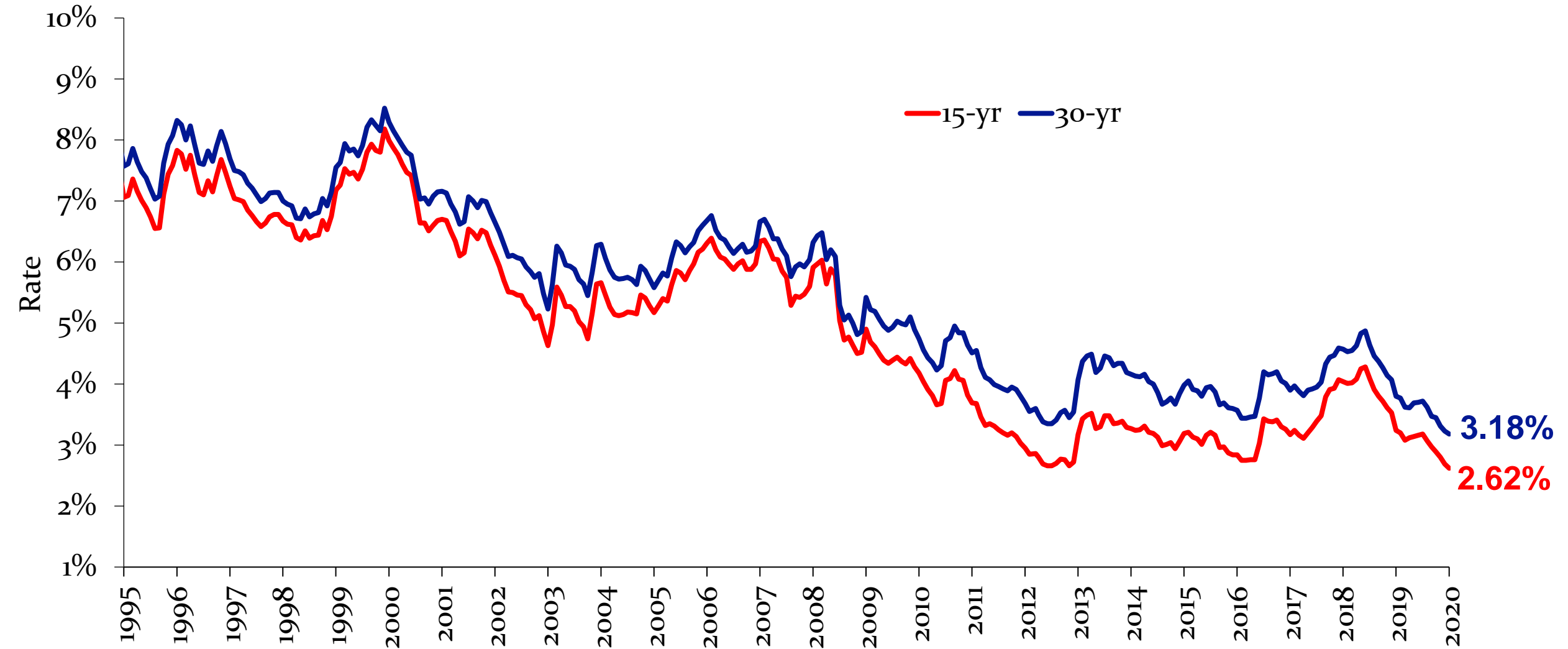


\*Week ending 6/5/2020



# 15-Year & 30-Year Fixed Mortgage Rates

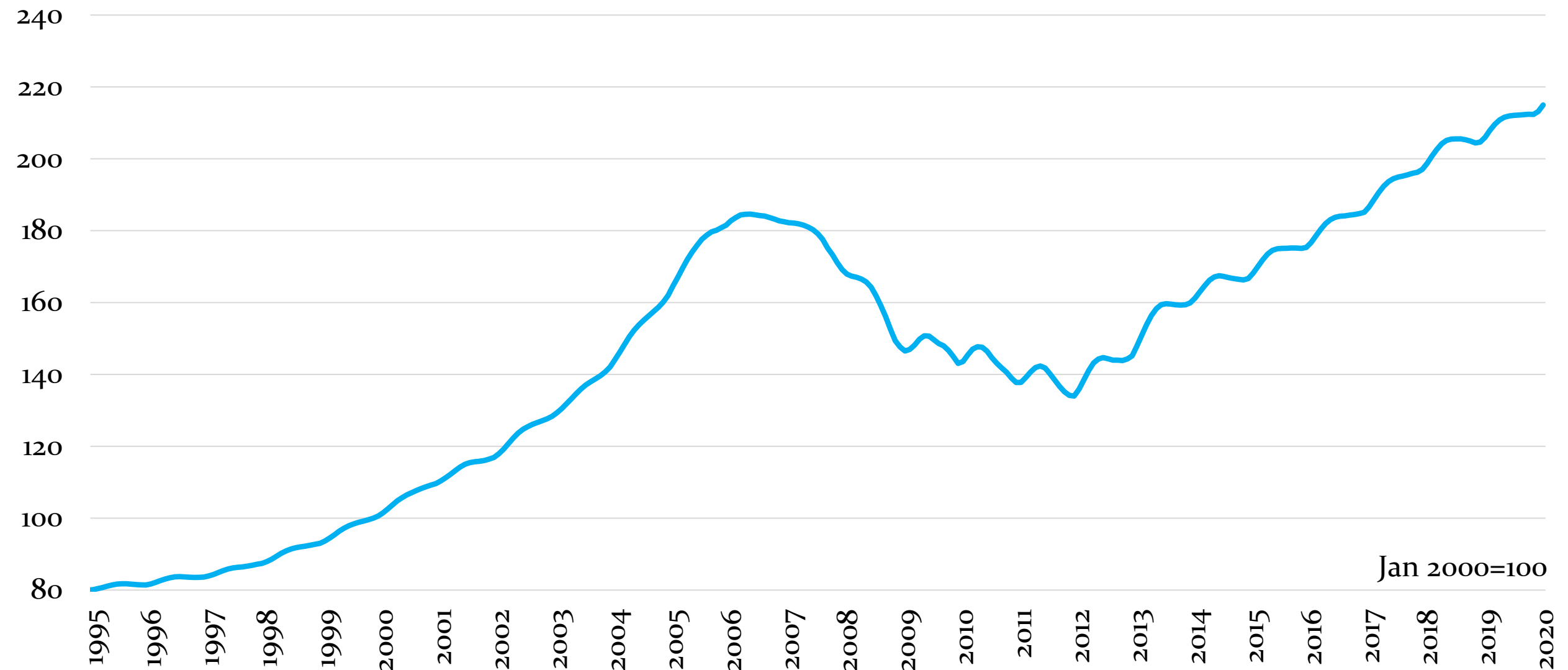
*June 1995 – June 2020\**



\*Week ending 6/4/2020

## VII. Property Values Rise in Middle East

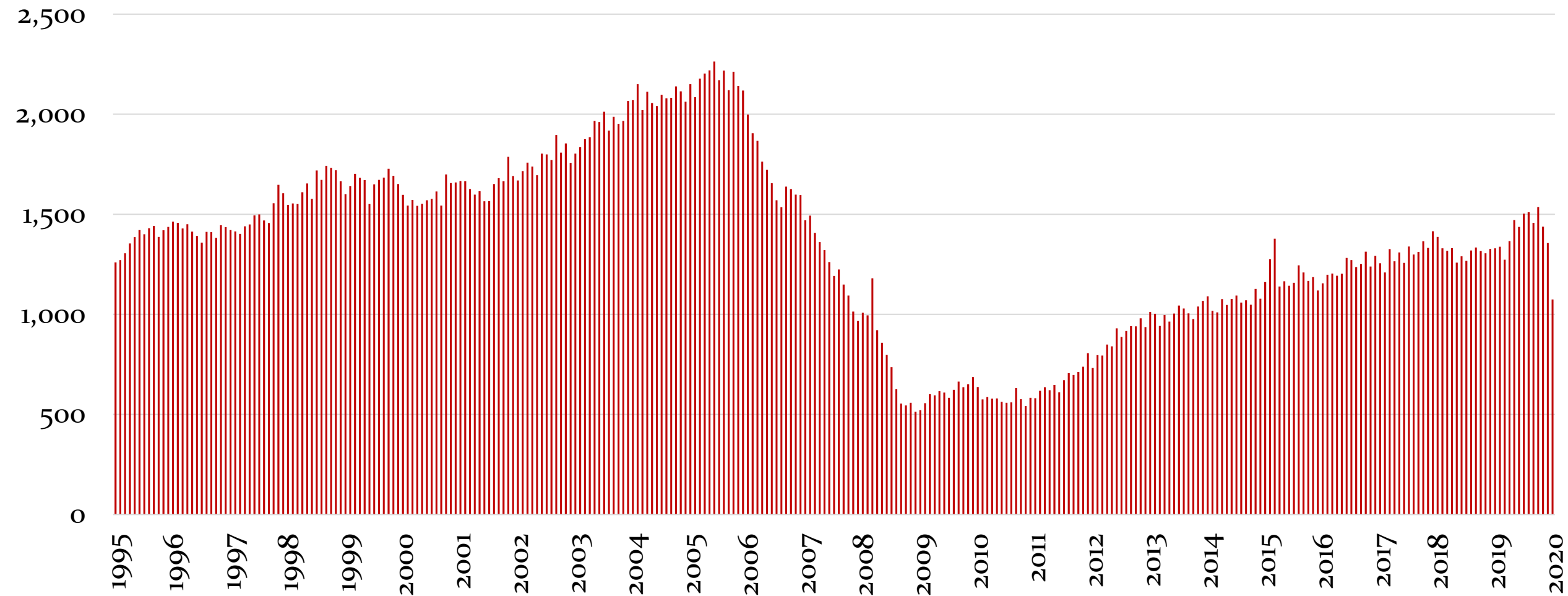
*S&P Case-Shiller U.S. National Home Price Index, March 1995 – March 2020*



# VIII. The Kingdom is Under Construction

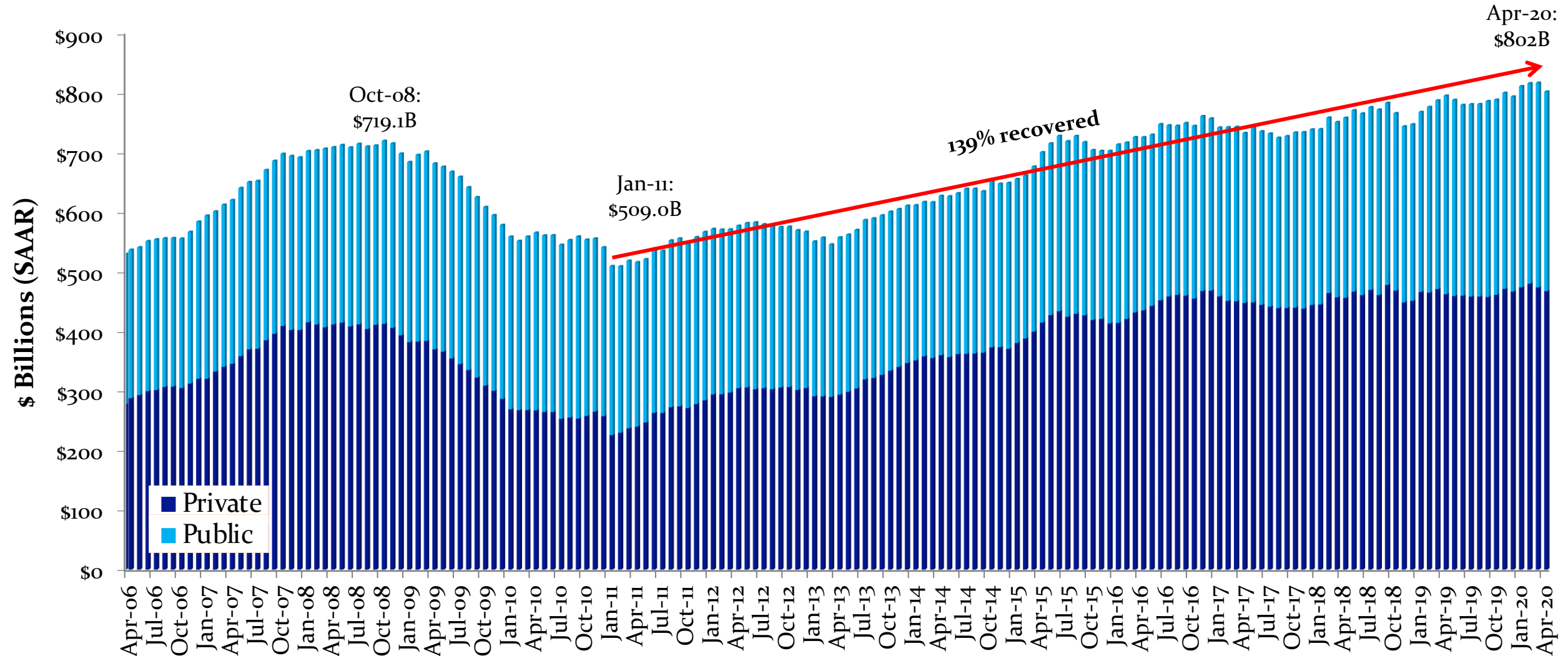
## *U.S. Residential Building Permits, April 1995 – April 2020*

Building Permits (ooos of Units)



# Nonresidential Construction Put-in-Place

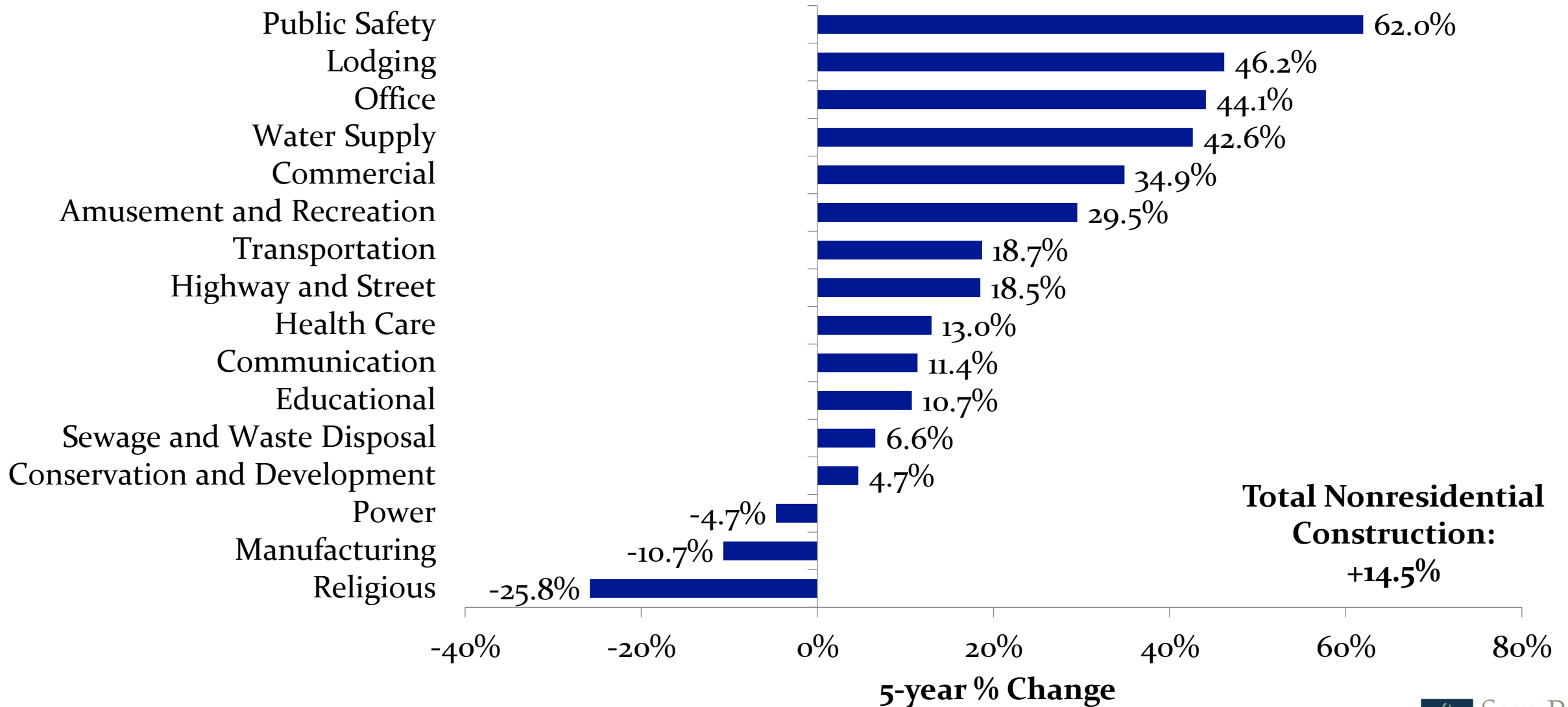
April 2006 – April 2020





# National Nonresidential Construction Spending by Subsector

*April 2015 v. April 2020*

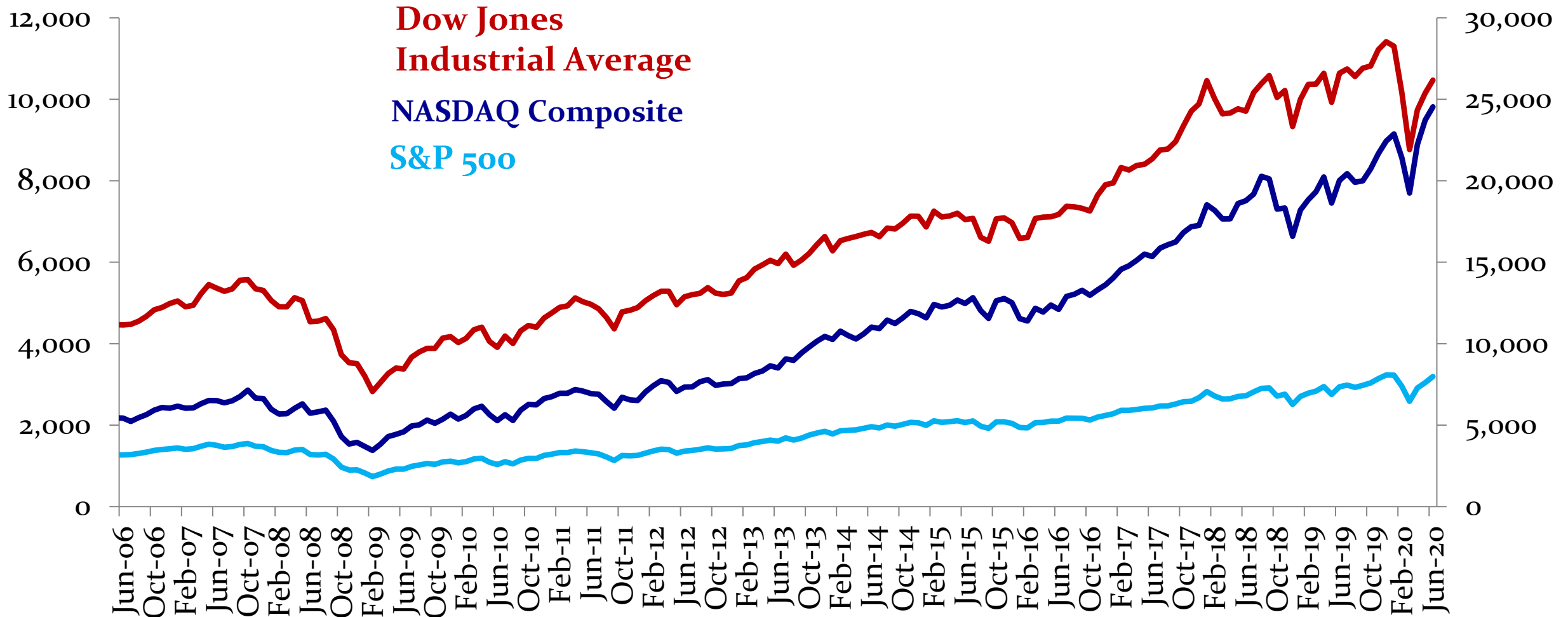


# IX. But It Goes to Elven

*U.S. Stock Markets, June 2006 – June 2020\**

NASDAQ/S&P

Dow Jones



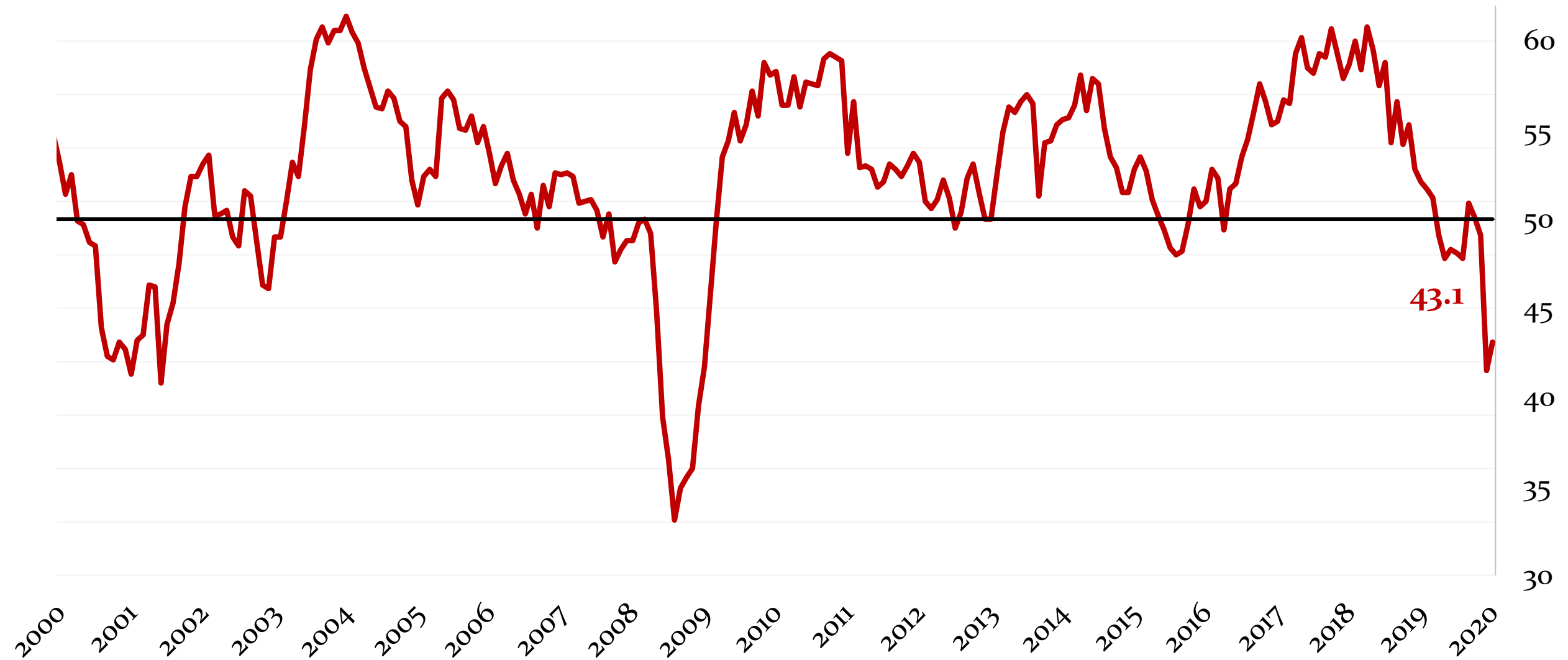
\*Week ending 6/5/2020

# Seven Factors Dwarfing Hope



# I. Manufacturing Doth Decline

*Institute of Supply Management: Purchasing Managers Index (PMI), 2000 – 2020*



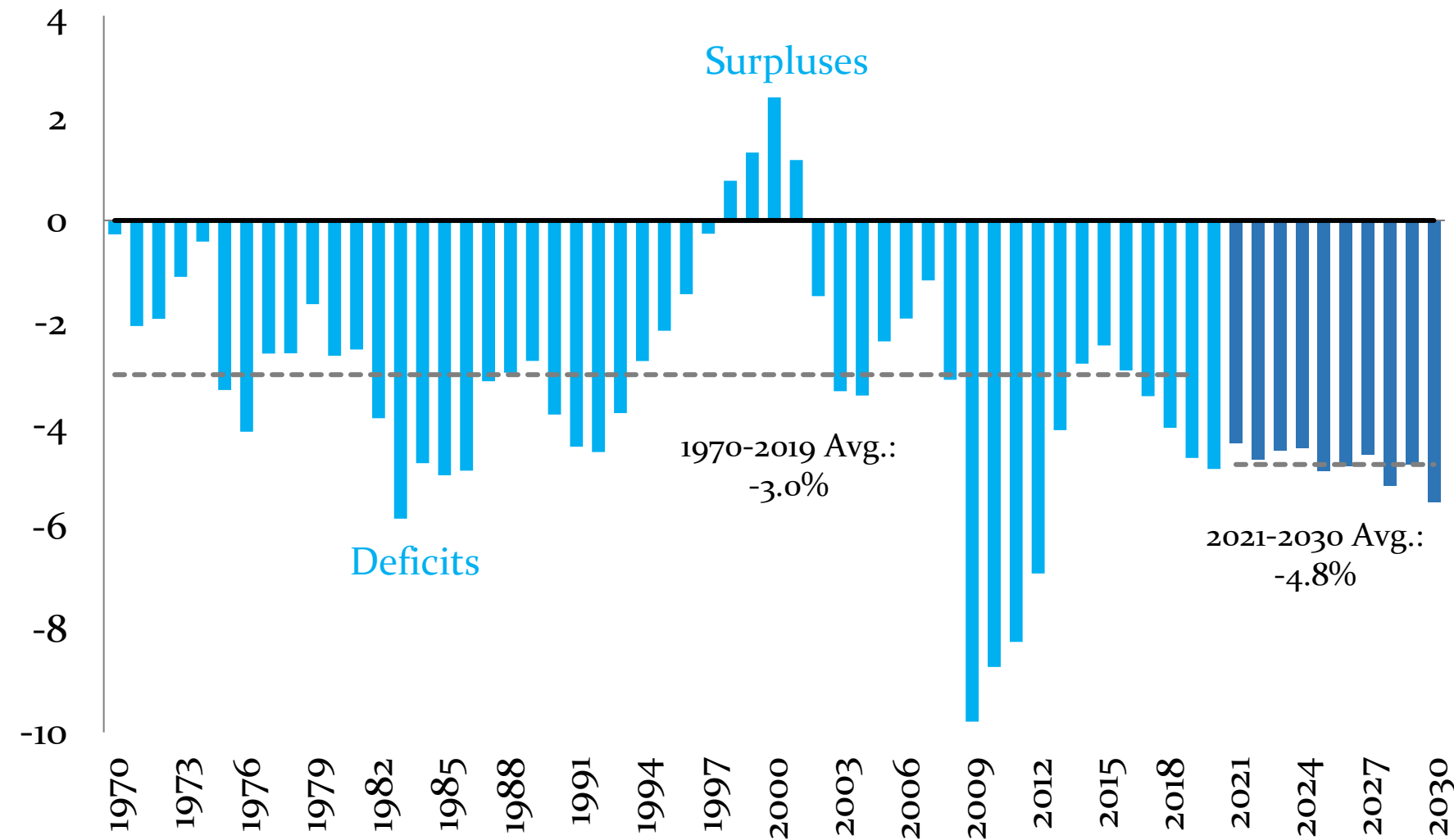
\*A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

Source: Institute of Supply Management; Quandl.com



## II. A Tower of National Debt

### U.S. Federal Deficit, % of GDP



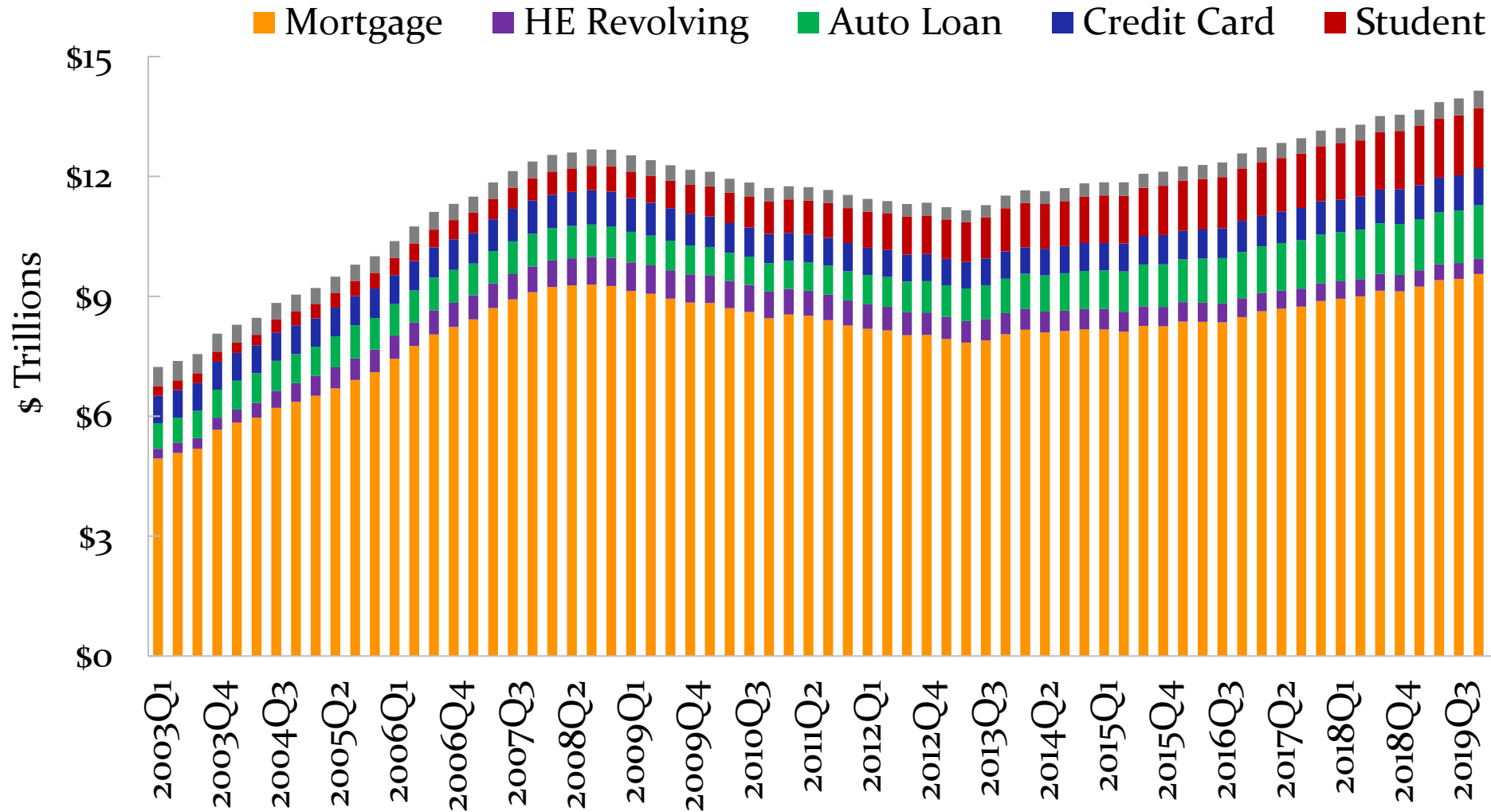
- Over the 2021–2030 period, deficits are projected to average 4.8% of GDP, totaling \$13.1 trillion.
- Over the past 50 years, deficits averaged just 3.0% of GDP.

Source: Congressional Budget Office (CBO), Baseline Budget Projections as of March 6, 2020

These budget projections reflect legislation, administrative actions, and regulatory changes through March 6, 2020. They are based on the economic forecast that CBO completed on January 7, 2020, and do not account for changes to the nation's economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus.

### III. A Mountain of Consumer Debt, Too

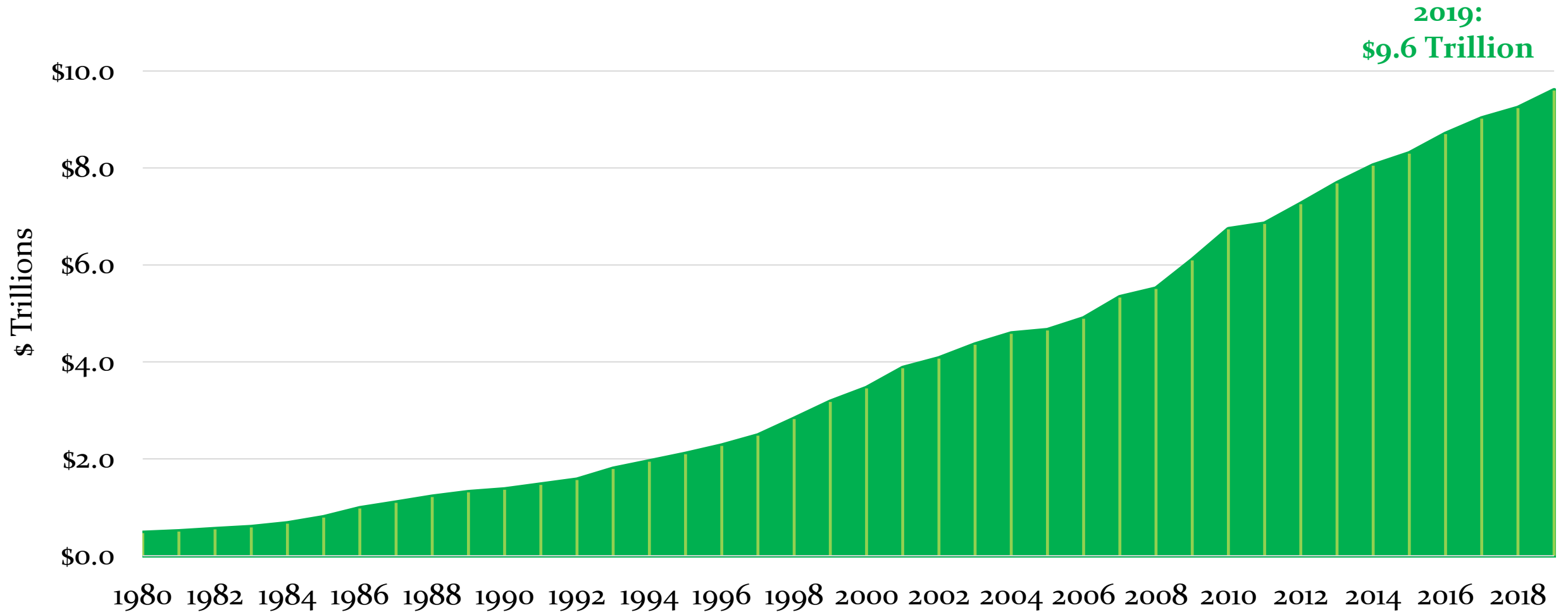
*Total U.S. Household Debt, 2003 – 2020*



Debt balances have been rising steadily for several years and are now \$1.6 trillion higher than the previous peak in 2008Q3 of \$12.7 trillion. Overall household debt is 28.2% above the 2013Q2 trough.

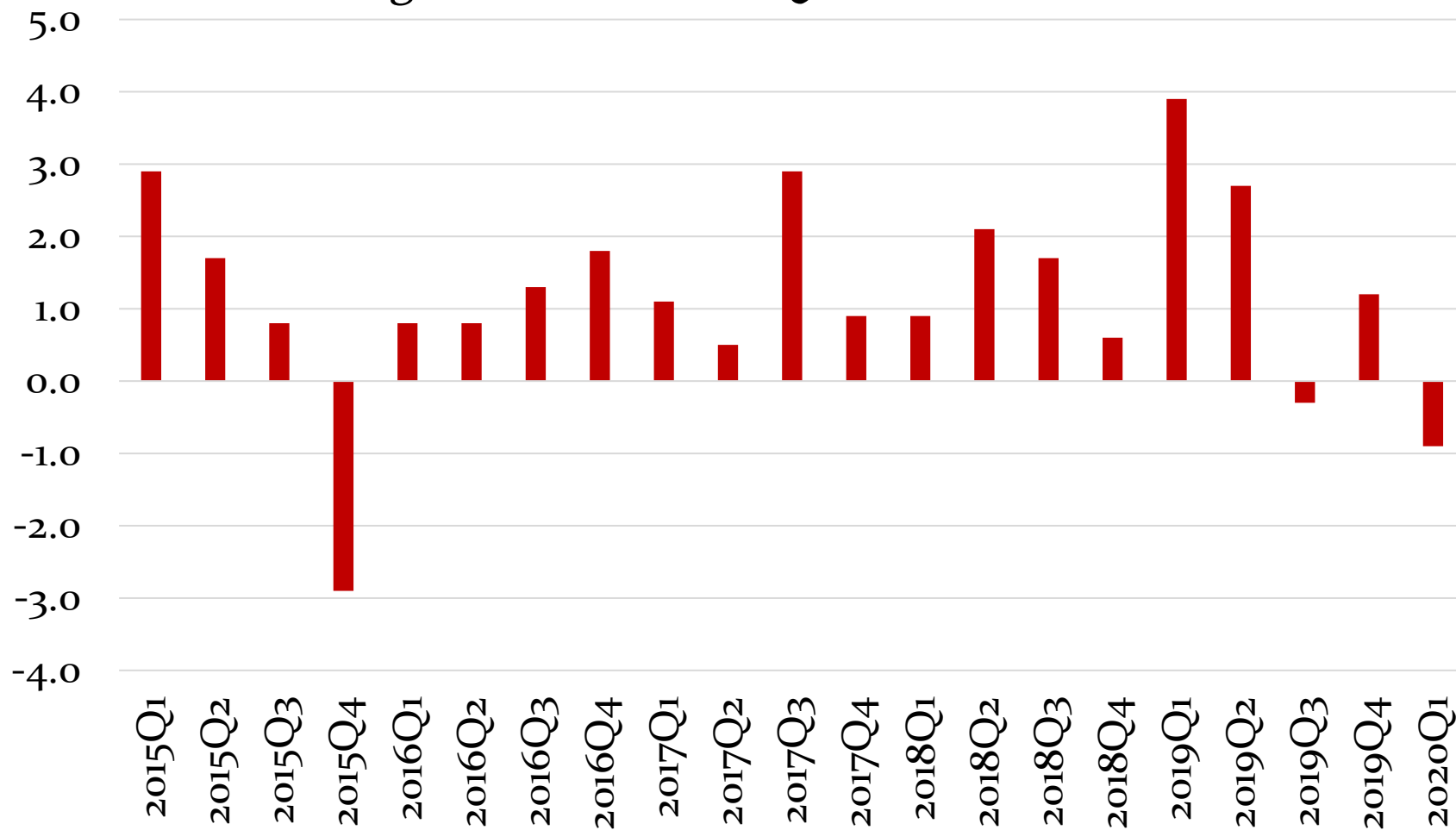
# IV. How Did It Come to This?

*U.S. Corporate Bond Debt Outstanding, 1980 – 2019*



# V. Entish: U.S. Nonfarm Business Sector: *Labor Productivity Growth, 2000–2020*

Nonfarm Business Sector Labor productivity  
% Change From Previous Quarter at Annual Rate



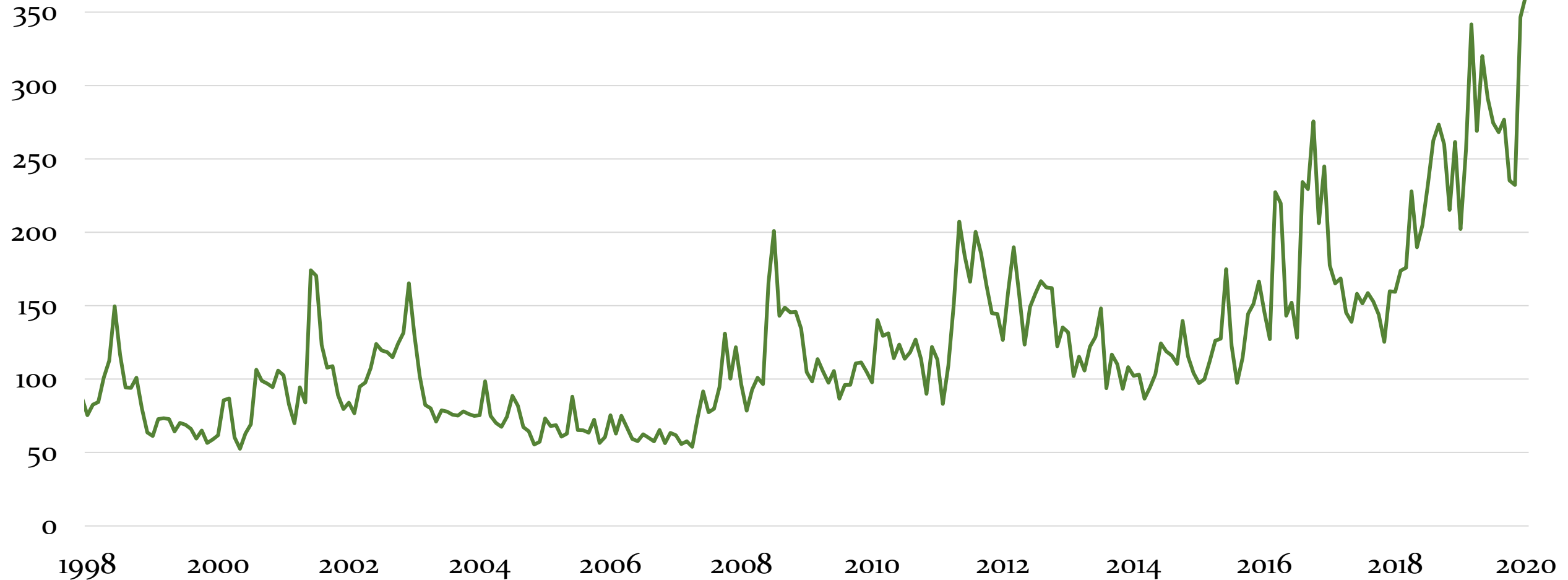
- In 2019Q3 nonfarm business sector labor productivity fell by 0.3%—the first decline since 2015.
- In 2020Q1, productivity fell by 0.9%.
- U.S. productivity has risen at an average rate of 1.4% since 2007, compared with a 2.2% average since the end of WWII.



# VI. Uncertainty Across the Realm:

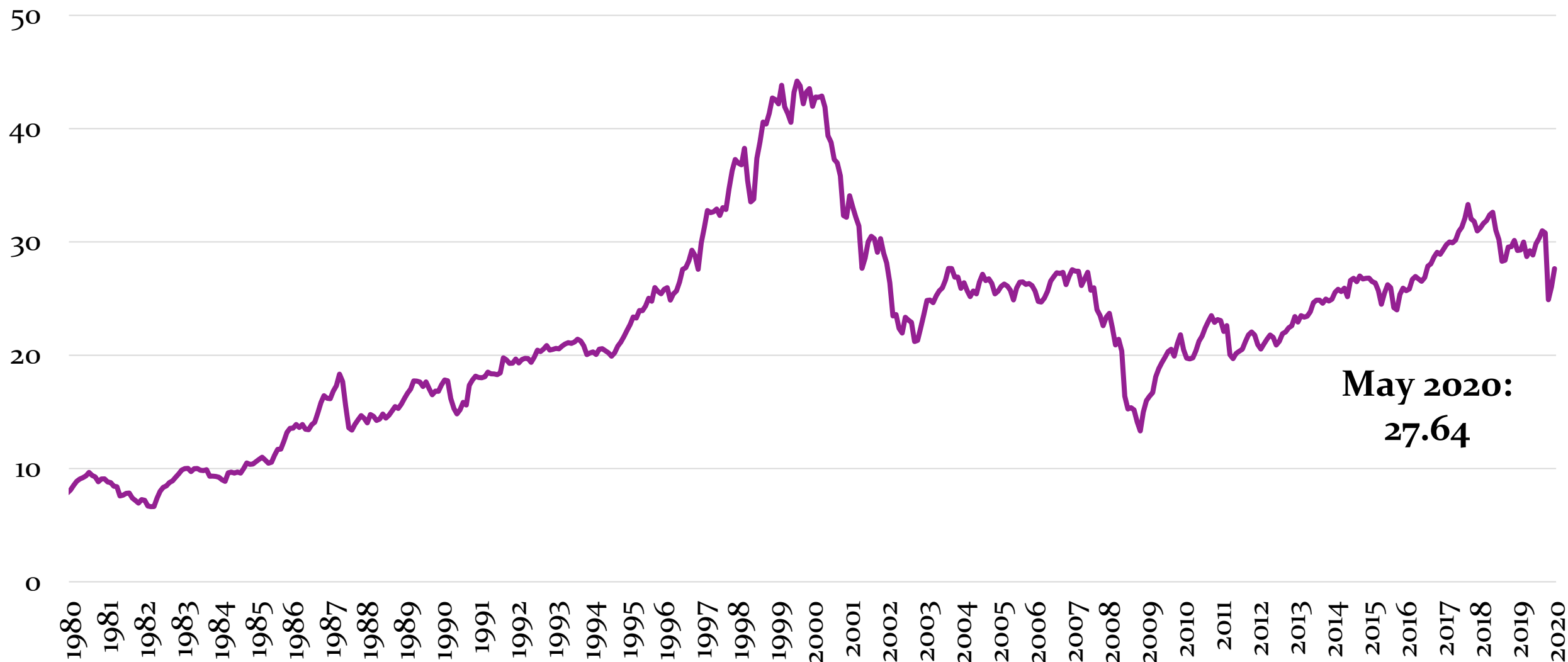
*Global Economic Policy Uncertainty Index, 1998 – 2020*

Global Economic Policy Uncertainty Index



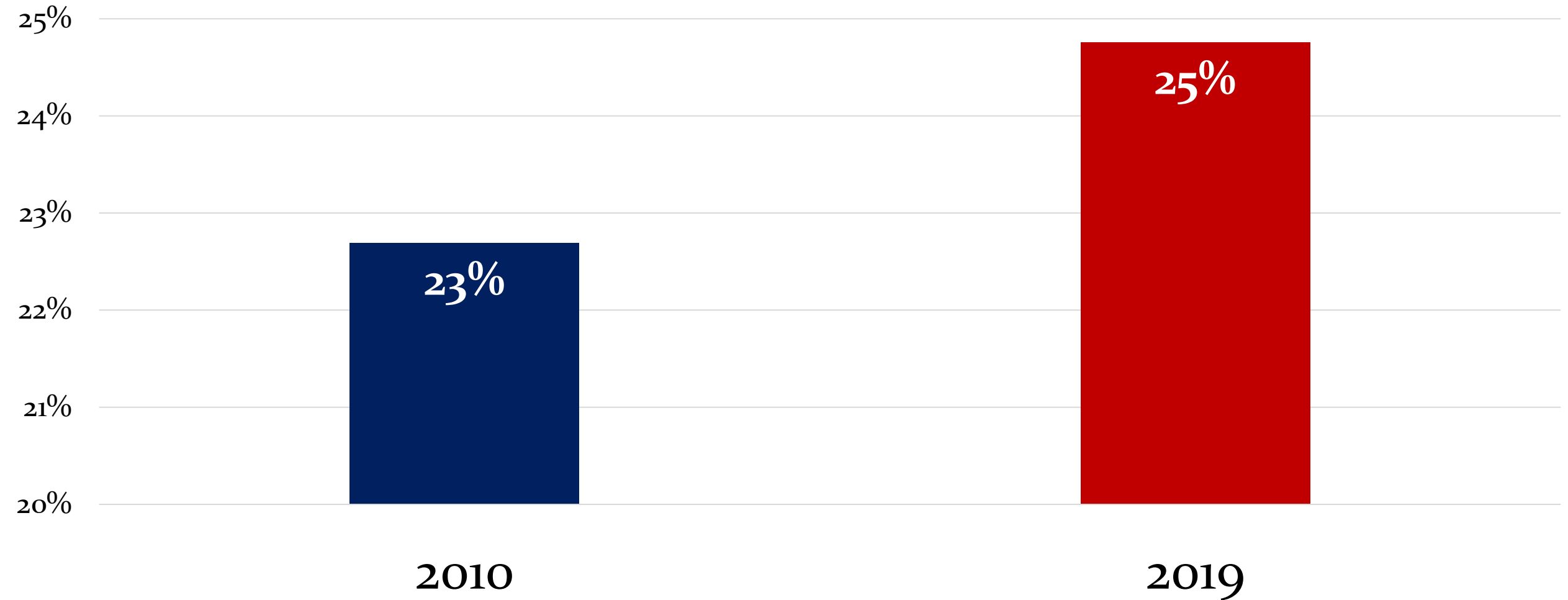
# VII. The Eye is on Asset Prices:

## *Shiller Price-Earnings Ratio, 1980 – 2020*



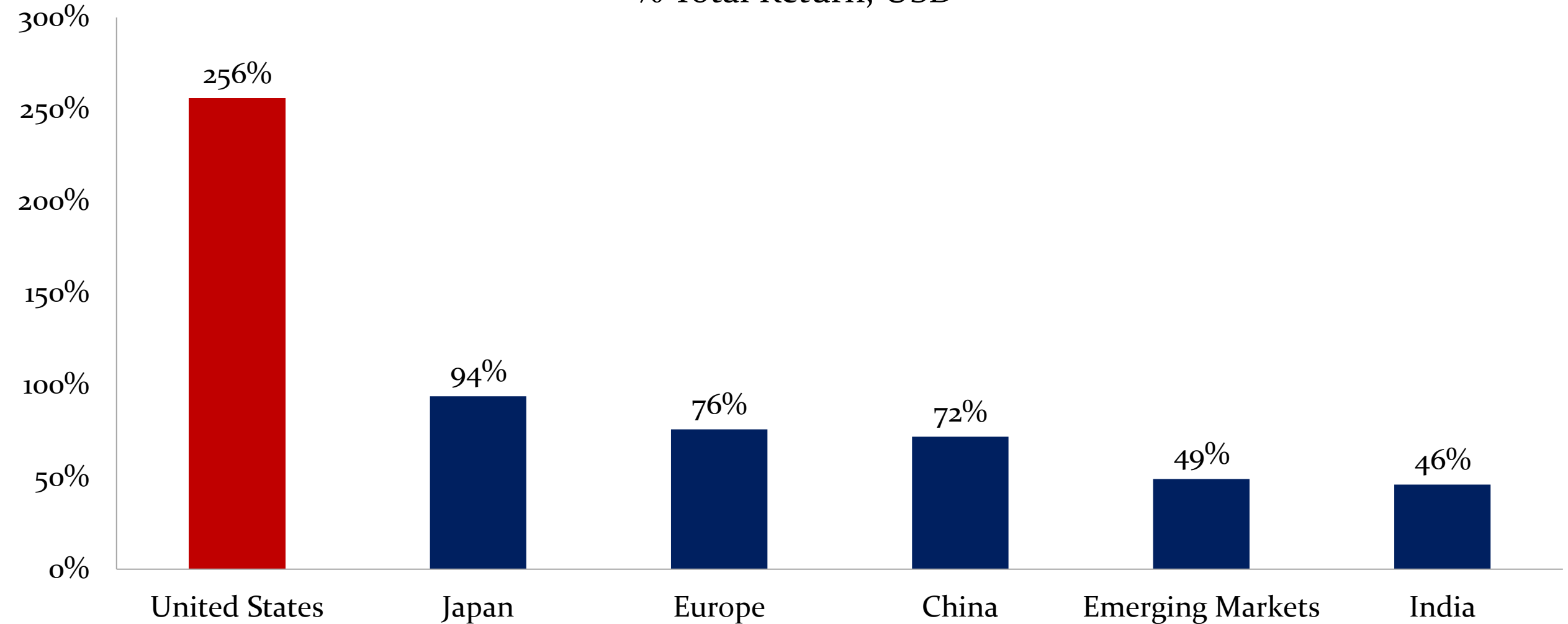
# U.S. Share of Global GDP, 2010 v. 2019

U.S. Share of Global GDP (current USD)



# Stock Market Returns by Country, 2010 – 2019

% Total Return, USD



# Three Things that Make COVID-19 Different, Economically



# I. A Supply Shock of a Caliber Unknown in Modern Times

Containment measures	Supply	Demand
Quarantines	Factory closures	Loss of confidence
Travel bans and restrictions	Cutbacks in service provisions	Business and tourism travels
Closure of public places	Supply chain disruption	Education and entertainment services



# Global Economy was Already Fragile

- At the beginning of March International Monetary Fund (IMF) Managing Director Kristalina Georgieva indicated in a news briefing that global spread of the novel coronavirus had crushed hopes for stronger growth in 2020.
- Already, trade wars had pushed global growth in 2019 to its lowest rate since a 0.7% contraction in 2009.
- The IMF now projects that as a result of the pandemic, the global economy will contract sharply by -3% in 2020, much worse than during the 2008-09 financial crisis.
- The downgraded forecast represents a 6.3 percentage-point drop from the 3.3% growth the IMF had estimated for 2020 in January.

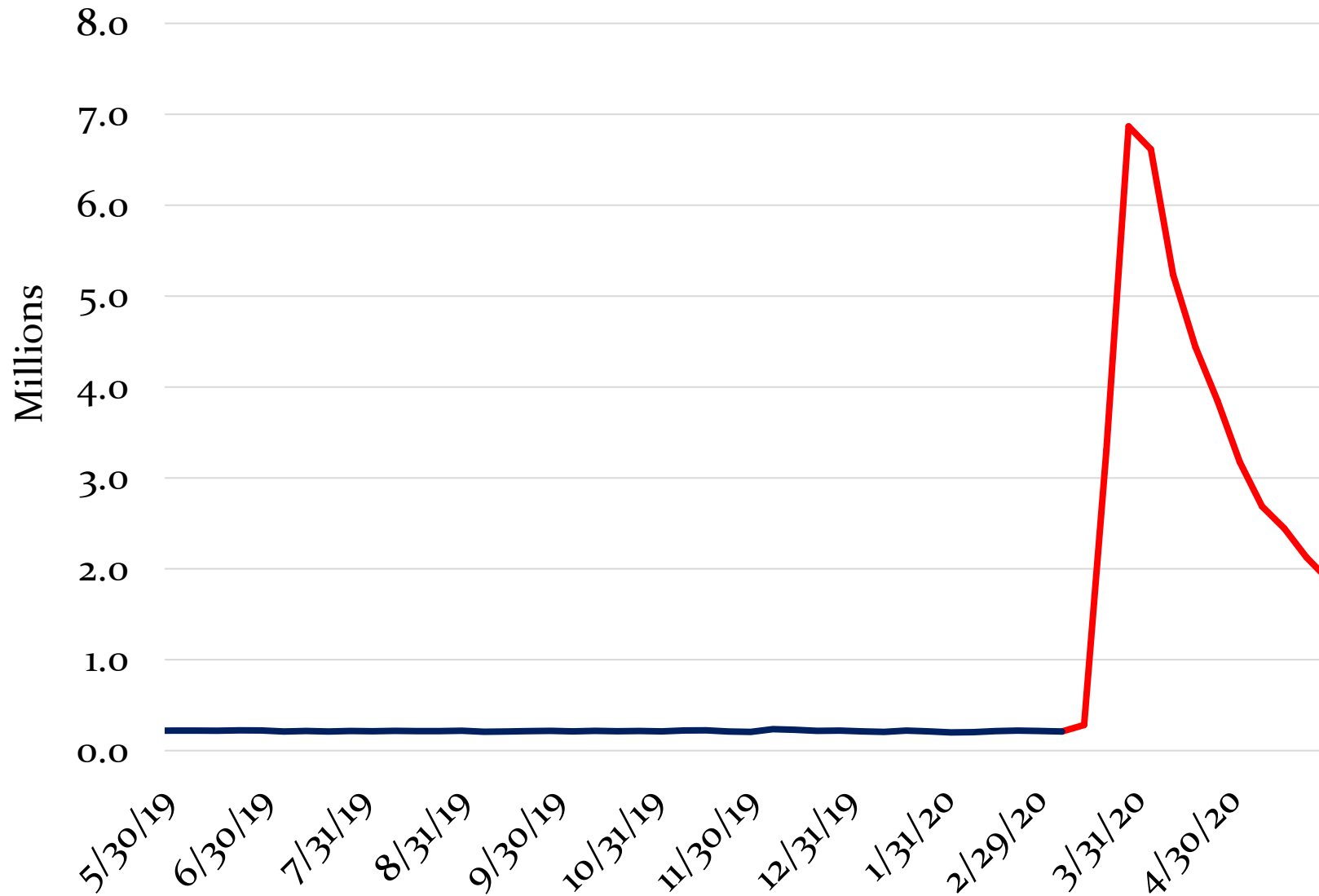
# Growing Downside Risks

- Many economists now forecast that Covid-19 will inflict greater economic pain than they had previously expected.
- Forecasts for the U.S. in 2020Q2:
  - Bank of America Corp: 30% decline in GDP
  - Morgan Stanley: 37.9% decline in GDP
  - Goldman Sachs: 39% decline in GDP
  - JPMorgan Chase & Co.: 40% decline in GDP
  - Conference Board: 44.5% decline in GDP
- By comparison, during the worst quarter of the Great Recession in late 2008, the economy shrank by 8.4%.
- Oxford Economics now expects the world economy to contract about 4.8% this year, a bigger decline than even that witnessed amid the financial crisis in 2009.

# Which Workers Face the Highest Unemployment Risk?

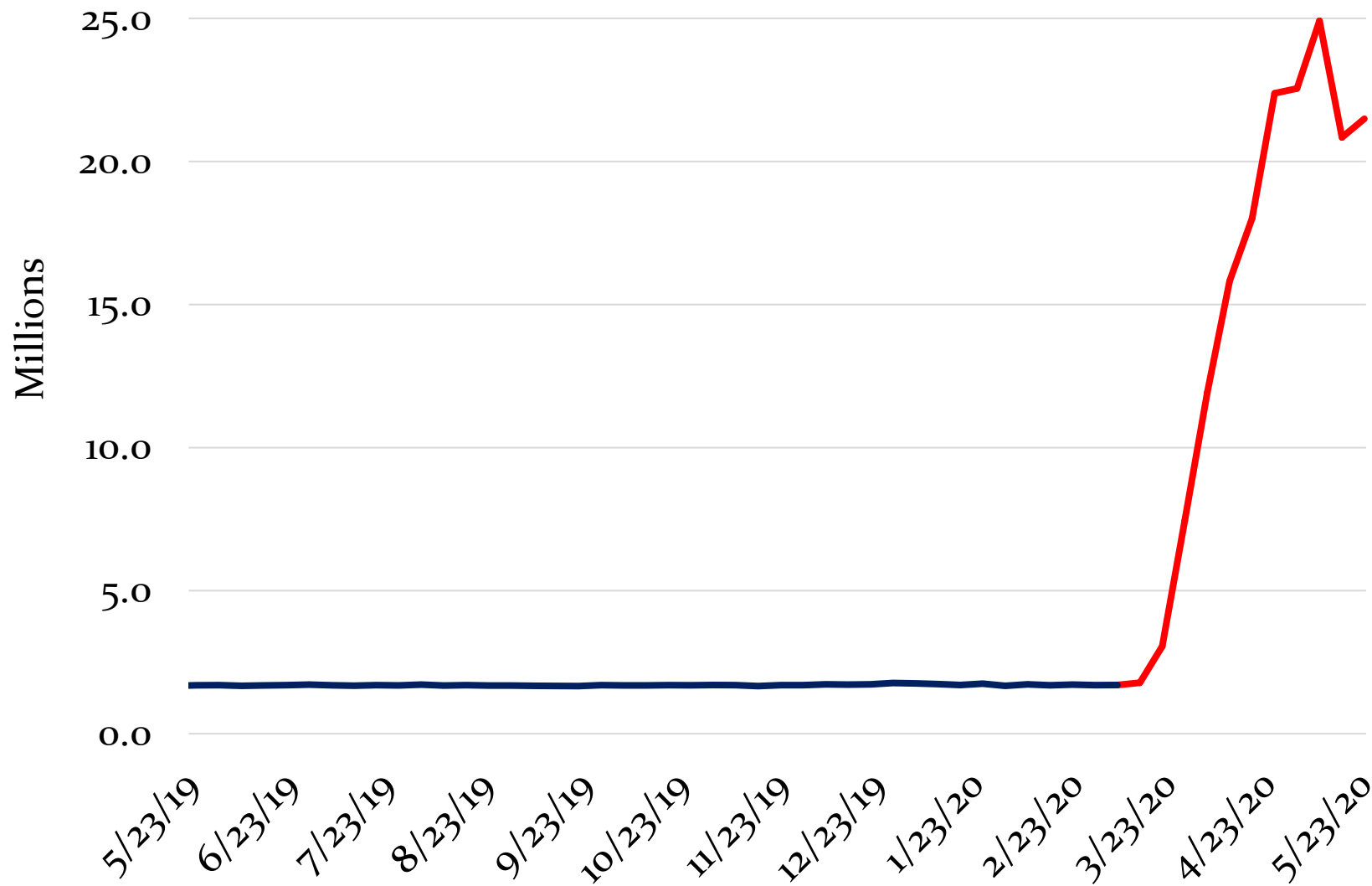
	Total Employment	Share of Total Employment
All Occupations	144,731,220	-
<b>Employed in Occupations at “Low Risk” of Layoff</b>	<b>77,944,910</b>	<b>54%</b>
Employed in “Essential” Occupations	24,840,280	17%
Employed in Occupations Possible to Work from Home	48,204,920	33%
Employed in Other Salaried Occupations	4,899,710	3%
<b>Employed in Occupations at “High Risk” of Layoff</b>	<b>66,786,310</b>	<b>46%</b>
Food Preparation and Serving-Related Occupations	13,374,170	9%
Sales and Related Occupations	10,443,460	7%
Production Occupations	8,313,750	6%
Installation, Maintenance and Repair Occupations	5,628,890	4%
All Other “High-Risk” Occupations	29,026,040	20%

# U.S. Unemployment Insurance Initial Weekly Claims, 2019–2020



- In the week ending May 30<sup>th</sup>, the advance figure for seasonally adjusted initial claims was **1,877,000**, a decrease of 249,000 from the previous week.
- While initial claims have been falling for several weeks, they remain at the highest levels in the history of the seasonally adjusted series.

# U.S. Unemployment Insurance Continuing Claims, 2019–2020

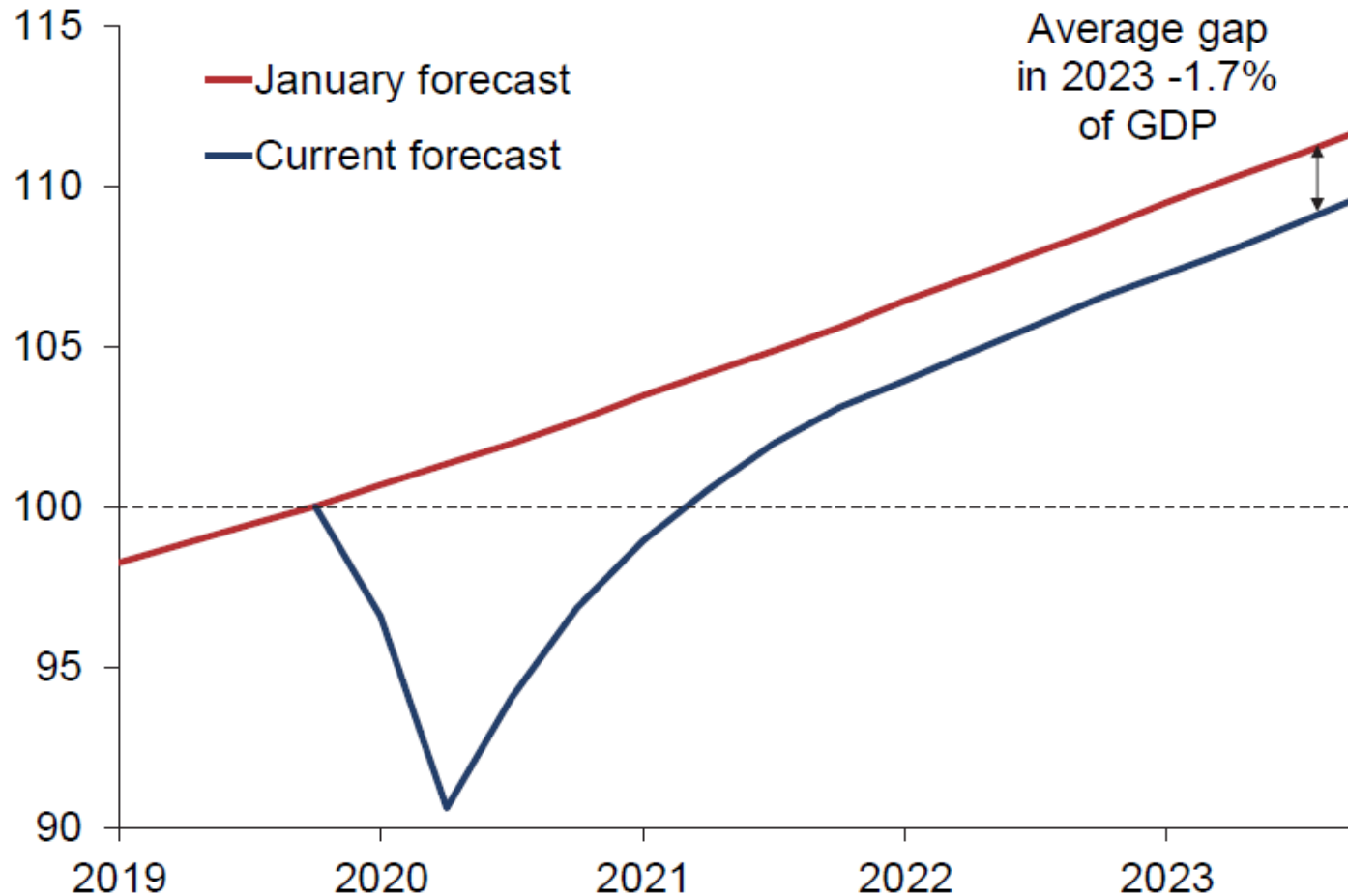


- In the week ending May 23<sup>rd</sup>, the advance figure for seasonally adjusted insured unemployment was **21,487,000**, an increase of 649,000 from the previous week.
- Continuing claims remain at the highest levels in the history of the seasonally adjusted series.

# Oxford Economics Global Outlook: Coronavirus Outbreak to Cut Global Growth to New Lows

## Global GDP

Q4 2019 = 100



Source : Oxford Economics/Haver Analytics

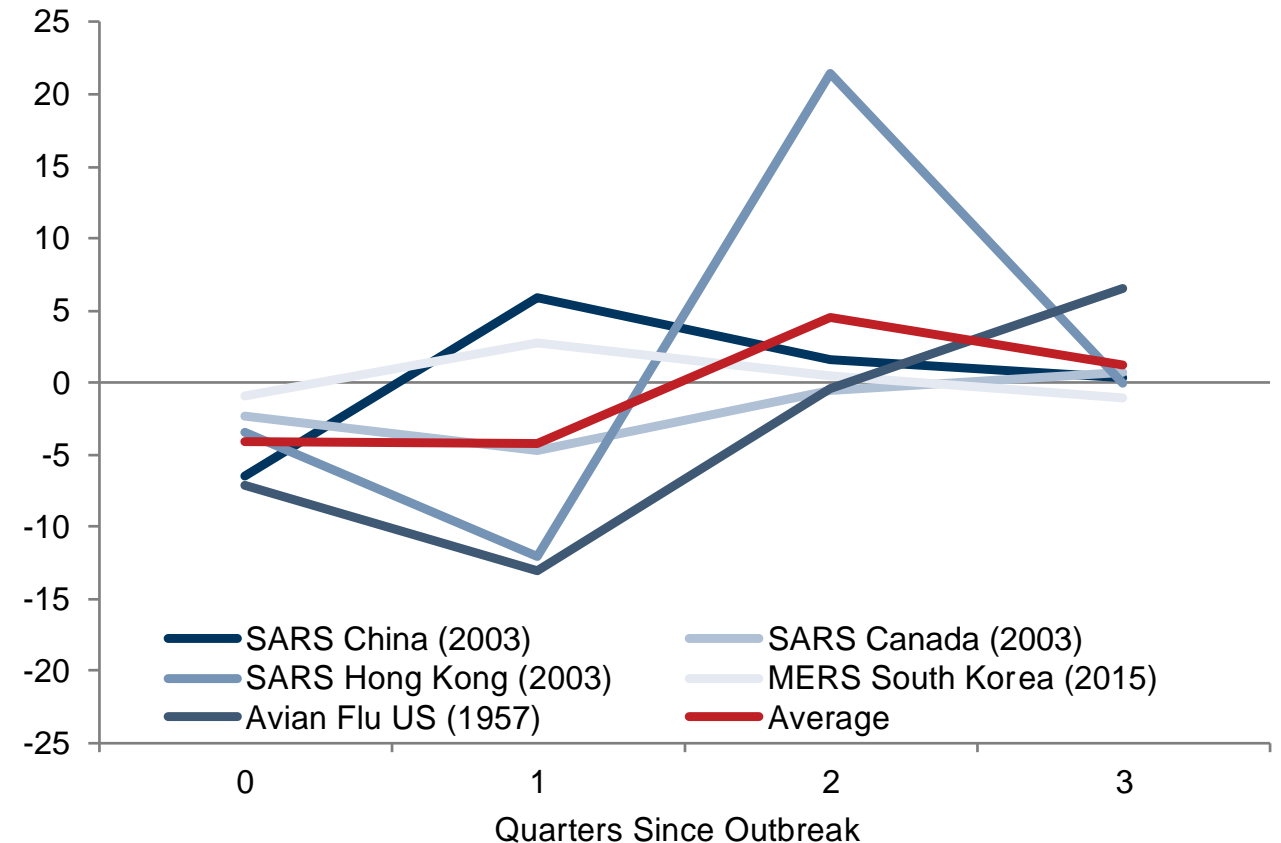
- Oxford Economics estimates that the likely 2020Q1 fall in global GDP of over 3% is nearly as large as the entire global contraction during the global financial crisis.
- Oxford Economics now projects a contraction of 4.8% for 2020 as a whole, down from the pre-outbreak forecast of 2.5% growth.



## II. Economic Impact of Past Pandemics – This One Will be Worse

- Goldman Sachs analyzed GDP changes during other pandemics, including the 2003 SARS episodes in China, Hong Kong, and Canada, the 1957 Avian Flu in the U.S., and the 2015 MERS episode in South Korea.
- The average episode saw a GDP hit of 4-5% in the 1-2 quarters after the outbreak, though the variation was substantial.

Real GDP growth minus average growth over year before outbreak, pp



### III. The Cure is Just Oh, So Different: U.S. Government Legislative Actions

- **Phase 1 (3/6/2020)**—*Coronavirus Preparedness and Response Supplemental Appropriations Act*: **\$8.3 billion** in emergency funding.
- **Phase 2 (3/18/2020)**—*Families First Coronavirus Response Act*: **\$192 billion**
  - Provided paid sick leave, tax credits, and free COVID-19 testing; expanded food assistance and unemployment benefits; and increased Medicaid funding.
- **Phase 3 (3/27/2020)**—*Coronavirus Aid, Relief, and Economic Security (CARES) Act*: **More than \$2 trillion** (expected to increase the deficit by \$1.7 trillion)
  - Direct payments to Americans; scaled up unemployment insurance program; loans and grants for small and large businesses and governments; aid to state and local governments, business tax cuts; other health and safety related spending provisions.
- **Phase 4 (4/24/2020)**—*Paycheck Protection Program and Health Care Enhancement Act*: **\$483 billion**
  - Additional funding for Paycheck Protection Program, hospitals, testing efforts, and emergency disaster loans and grants.

# The One



# Forecast

- The initial phase of recovery from the crisis will be sharp, profound and most welcome -- interest rates are still low, pent-up demand high, there is a need to rebuild inventories, and people are anxious to meet again, go to restaurants, casinos, see a movie, watch the Orioles, and engage in other most wonderful of human activities.
- May's jobs report was an absolute stunner. One way to look at this is to say economists missed the mark by 10.5 million jobs. Another way to look at it is that economists missed it by 2 weeks.
- While recovery has begun, these remain treacherous times.

# Thank You

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