COVID-19 Economic Scenarios

United States Macroeconomic Service

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The outbreak of coronavirus (COVID-19) is having a considerable impact on the U.S. and global economies. The aim of this report is to provide a high-level overview as to the trajectories that the U.S. economy could follow. Due to the unprecedented nature of the event, there remains considerable uncertainty over the duration of the outbreak and the economic consequences of the measures to limit contagion. Hence, all forecasts will be subject to greater than usual uncertainty and volatility. This report provides an update of these scenarios*, incorporating the latest economic developments.

Summary: Sharp contraction in output followed by weak recovery

The gradual reopening of the economy in mid-2020 resulted in a second quick rise in cases which peaked in August and came down again by September. The spread rate has been shaky over the past month, but recent developments and colder weather suggest another rise in cases is on the way for Q4.

Most of the fiscal and financial stimulus expired by August. There have been a series of discussions for additional support measures, but consensus on a large-scale package is hard to reach. In addition, ongoing presidential elections have postponed further conversations on the matter. The introduction of a second general package of support will be essential to underpin confidence and cushion consumers and firms from the ongoing challenges posed by the current crisis. Despite encouraging economic data over the past few months the outlook for a sustained recovery is slowly diminishing.

Key characteristics of the scenarios

How long it takes to bring the virus under control:

- Scope and length of state restrictions and the rate of compliance by households and businesses will influence the timelines around the peak and decline in cases.
- Pace and scale of resurgence once measures are relaxed. The ability to monitor and respond swiftly to a future resurgence in infections will be important.

How the government measures and guidelines are applied:

- Success of the implementation of the government measures and scope of mitigating the economic impact on households and businesses.
- The level of success of collective effort and timely guidance for re-opening the economy, along with level of compliance with the health experts' advices.
- Scope and speed of ease in the measures throughout the states.

Timing and speed of the recovery – V, U, W shaped.

Global backdrop:

- Trade & supply chain impacts on industry.
- Financial markets performance and credit conditions.

* A copy of the July 2020 U.S. COVID-19 Report is available on request.

Recent Data and Trends

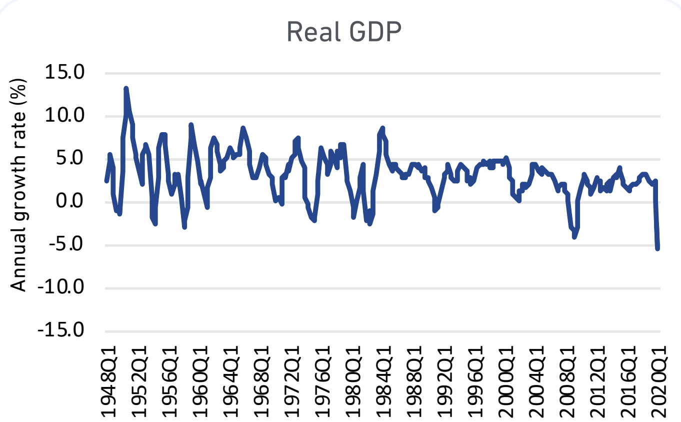
According to the U.S. Bureau of Economic Analysis, GDP in the second quarter of 2020 contracted by 31.4% SAAR (seasonally adjusted annual rate), a historic record, with most of the decline concentrated in April. Thereafter, the economy recorded a gradual improvement, underlined by an easing in the restriction measures. Government support measures helped households and businesses deal with immediate financial constraints, which propped consumer confidence and business sentiment.

Unemployment spiked in April and led to a notable drop in the labor force. The unemployment rate reached 14.7% but since then, labor market conditions have improved – employment picked up and grew 10% by September, though it remains well below its February level.

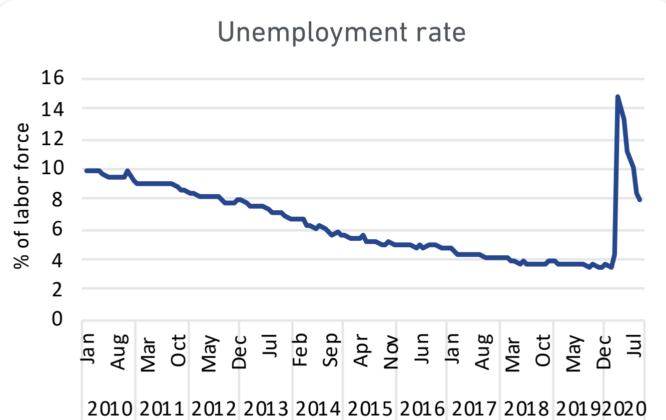
Consumer confidence and business sentiment have improved over the last couple of months. Both the retail sales index and the number of employed have been on the rise since May. Latest figures, however, point at a slowdown in pace. Most of the measures from the CARES Act expired in Q2 and could lead to a further moderation in consumption and business activity. Discussions on additional steps in providing support have been taking place since mid-2020, though no final decision has yet been reached. Further discussions on a potential new package are set to resume after the presidential elections, postponing any introduction of major stimulus towards end of this year and early next year.

State and local governments are struggling to meet the requirement for a balanced budget, as revenues decline, and expenditures remain high. Some states are refraining from actively participating in some of the support measures that require their co-financing and might even have to consider reducing staff to cut down on expenditures. This will add to the pool of unemployed but will be partially offset by people leaving the labor force. More precisely, some people could decide to exit the labor force in order to better support their children with educational accommodations and remote tuition.

In the September meeting, the Fed announced it will keep interest rates low until labor market conditions improve and the inflationary target is on track. The Fed will continue to provide liquidity to the financial market and ensure favorable credit conditions.

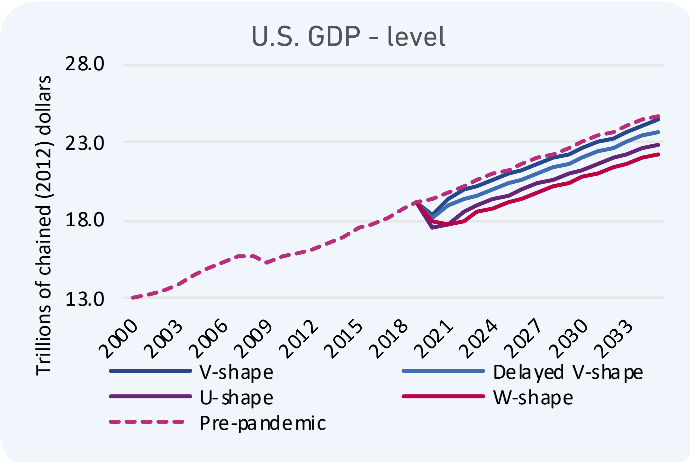


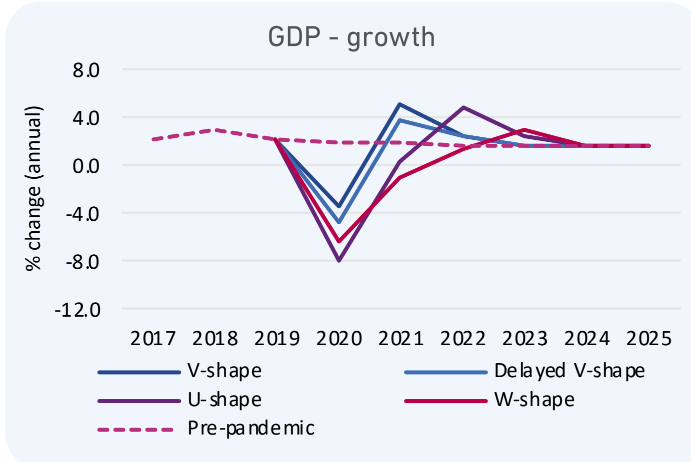
Source: BEA

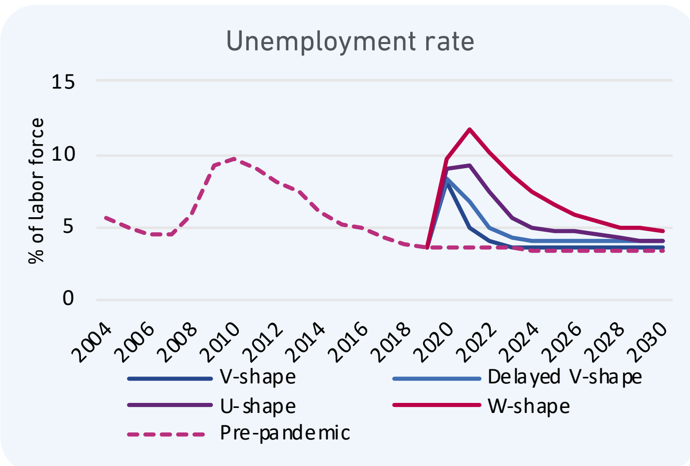


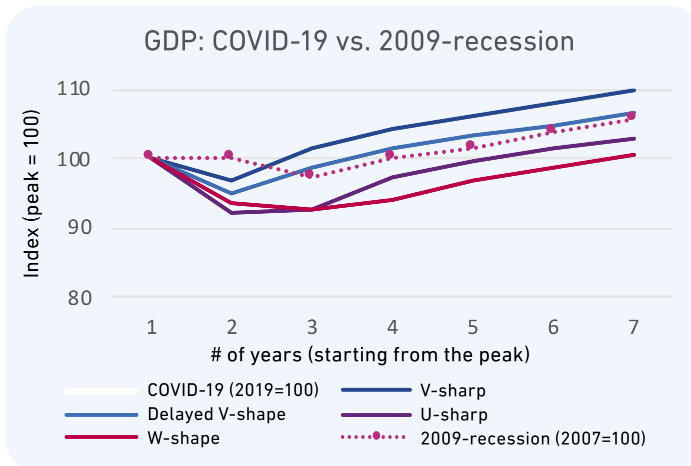
Source: BLS

Scenario Overview









* The unemployment rate reported by the BLS is believed to be understated due to classification characteristics. Some respondents are classified as "employed" even though they are "absent from work" due to "other reasons" (related to the coronavirus). This could easily translate into unemployed, which results into a higher unemployment rate.

V-shape recovery

The economy showed better performance in Q2 than expected and the recovery was quick to follow, giving hopes for a possible surprise over the next few quarters. In this scenario, the assumption is the spread rate of COVID-19 is kept under control and strict confinement measures are kept at a minimum. This will allow economic agents to carry on with work and move forward with their investment plans and support further labor market improvements. A new round of government support will ensure stable consumption and consumer confidence will continue to build. An advantage would be a policy to help alleviate local and state governments' budgets. The economy will partially compensate the losses, with GDP returning to its pre-crisis level as soon as 2021. The unemployment rate, however, will take longer, as those who have left the labor force gradually return to the market.

COVID-19 economic scenarios

Delayed V-shape recovery

The delay in introducing a new round of support measures against the backdrop of a steady rise in new COVID-19 cases and potential re-introduction of containment measures will see consumer spending falter and business sentiment deteriorate. The public sector is expected to contribute to the increase in unemployment, as state and local governments focus on expenditure cuts. A spike in the unemployment rate, however, is unlikely as people exiting the labor force will offset the rise. Credit conditions will remain favorable, though it could transform into a burden over the medium term without additional government support. GDP will return to pre-crisis levels in 2022. The unemployment rate will take longer to accommodate for those returning to the market and fall to rates slightly higher than the pre-crisis lows.

U-shape recovery

Despite the marked improvements over the last few months, negative effects of the Q2 lock-down still linger throughout 2020 and early 2021, enhanced by another wave of new cases over winter. Support measures by the government are late and have little effect over constrained household consumption. With another spike in cases due to cold weather in the next couple of quarters, businesses are again forced to follow strict confinement measures or cease activity completely. Unemployment will increase due to anemic economic activity, implying additional burden over household budgets and heightened uncertainty. The public sector also add into the unemployment pool, as state and local governments are forced to cut expenditures. Recovery is expected to be slow but steady, with GDP returning to pre-crisis levels in 2023-2024. The unemployment rate will gradually moderate but remain above pre-crisis levels.

W-shape recovery

The number of new COVID-19 cases continue to rise over the next months and the government reintroduces wider confinement measures. The gains of the economy over Q3 are offset by a downturn in economic activity in end-2020 and early 2021. Consumer confidence falls and household consumption contracts owing to a spike in unemployment and constrained budgets. Some businesses will struggle to continue working under unfavorable conditions, while others are forced to close. The financial sector will also show signs of weakness, with credit supply decreasing as banks focus on strengthening their balance sheets. State and local government will also provide limited support, as they try to manage their budgets through expenditure cuts. Recovery will be slow and weak, with GDP taking 5 years to return to pre-crisis levels, while unemployment remains persistently high over the long term.

We consider the Delayed V-Shape scenario to be the most likely scenario considering latest developments and expectations over the short and medium term.

Our economic forecasting expertise

Experian's team of 20 economists is a leading provider of global, national, regional and local economic forecasts and analysis to the commercial and public sectors. Our foresight helps organizations predict the future of their markets, identify new business opportunities, quantify risk and make informed decisions.

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