S&P Global
Ratings

RatingsDirect®

Economic Research:

An Already Historic U.S. Downturn Now Looks Even Worse

April 16, 2020

U.S. CHIEF ECONOMIST

Beth Ann Bovino
New York
(1) 212-438-1652
bethann.bovino
@spglobal.com

U.S. SENIOR ECONOMIST

Satyam Panday
New York
+ 1 (212) 438 6009
satyam.panday
@spglobal.com

Key Takeaways

- With over 90% of the population under "stay-at-home" guidelines, up from three-fifths in late March, U.S. economic activity has effectively stopped. We now forecast U.S. GDP will contract 5.3% in 2020--substantially worse than our March forecast for a 1.3% decline.
- The current recession has likely reduced economic activity by 11.8% peak to trough, which is roughly three times the decline seen during the Great Recession in one-third of the time.
- Headline unemployment could reach 19% in May, which would be closer to the reported Depression-era peak of 25% than to the 10% high during the global financial crisis.
- Recovery will be gradual as fears linger and social distancing endures, but we expect the economy will at least partly reopen in the third quarter.

As coronavirus containment and mitigation measures continue in nearly all corners of the U.S., S&P Global Economics now forecasts the world's biggest economy will contract 5.3% this year--including a historic (annualized) decline of almost 35% in the second quarter.

Our full-year figure is now much worse than our March forecast for a 1.3% decline and significantly off our December forecast of a 1.9% gain. Our latest outlook comes with more than 90% of the American population under stay-at-home restrictions (three-fifths of the population was quarantined when we ran the March forecast). Social distancing has brought second-quarter consumer spending to its knees, with the total plunging 33.5%. Business investment, too, is suffering from lost demand and reduced production tied to business closures. The drop in oil prices to 18-year lows makes conditions worse.

Table 1

S&P Global Economic Outlook (Overview): April 2020

Key indicator	2019	2020f	2021f	2022f	2023f
Real GDP (year % change)	2.3	(5.2)	6.2	2.5	2.4
Real GDP (Q4/Q4 % change)	2.3	(3.0)	4.3	2.2	2.5
Real consumer spending (year % change)	2.6	(5.5)	6.8	3.5	3.1
Real equipment investment (year % change)	1.3	(12.1)	12.6	8.9	4.3
Real nonresidential structures investment (year % change)	(4.3)	(11.8)	4.9	4.7	3.1
Real residential investment (year % change)	(1.5)	(6.1)	8.2	4.4	2.1
Core CPI (year % change)	2.2	1.7	2.1	2.8	2.3
Unemployment rate (%)	3.7	8.8	6.7	5.4	4.1
Housing starts (annual total in mil.)	1.3	1.2	1.3	1.3	1.3
S&P Case-Shiller Home Price Index (Dec. to Dec. % change)	3.5	3.3	1.4	1.4	2.5
Light vehicle sales (annual total in mil.)	17.0	12.7	15.1	15.7	16.1
Federal Reserve's fed funds policy target rate range (year-end %)	1.5-1.75	0-0.25	0-0.25	0-0.25	0.5-0.75

Note: All percentages are annual average percentage changes, except for real GDP Q4/Q4. Core CPI is Consumer Price Index excluding energy and food components. Forecasts were generated using the third estimate of Q4 2019 GDP published by the BEA. f--forecast. Sources: Oxford Economics and S&P Global Economics Forecasts.

S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

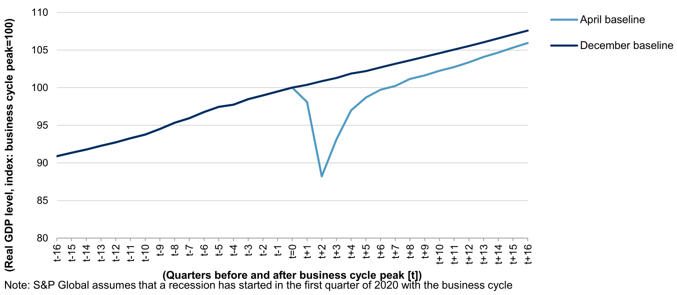
Economic Decline Tops The Great Recession's

The longest U.S. economic expansion on record burned out at an astonishing pace, with the sharpest contraction in economic activity since World War II. During the Great Recession, we lost 4% in cumulative economic activity from the fourth quarter of 2007 through the second quarter of 2009--an 18-month stretch--in what was then the worst downturn since the Great Depression.

Our baseline forecast now far exceeds the economic decline of the Great Recession, and in a much shorter period. The sudden-stop recession has likely lopped off a massive 11.8% from economic activity--roughly three times the decline of the 2008-2009 crisis and in one-third of the time. In inflation-adjusted dollar terms, the economy will become $566.5 billion smaller in just two quarters, before recovery begins. The federal government's economic relief package and the Federal Reserve's stimulus measures will likely help conditions, but not enough to offset the drag on second-quarter economic activity.

Chart 1

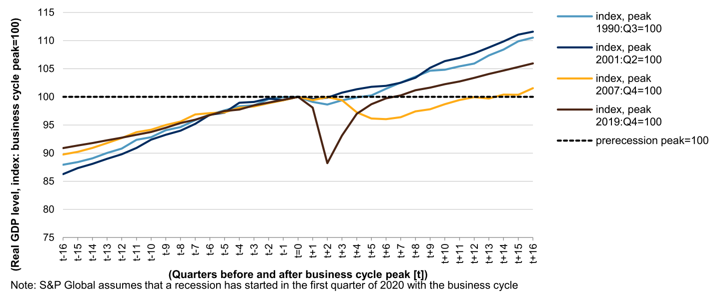
U.S. Real GDP Deviation From Prerecession Path



Note: S&P Global assumes that a recession has started in the first quarter of 2020 with the business cycle peak in fourth-quarter 2019. Sources: S&P Global Economics forecasts and BEA.

Chart 2

Path Of GDP Before And After U.S. Recessions In The Past 30 Years



Note: S&P Global assumes that a recession has started in the first quarter of 2020 with the business cycle peak in fourth-quarter 2019. Sources: S&P Global Economics and BEA.

And while we expect the economy will reopen, albeit only gradually, starting as we near the third quarter, the recovery will continue to face headwinds as lingering fears of another wave of COVID-19 will likely keep Americans maintaining some form of social distancing, opting for at-home dinners and movie nights on the couch rather than restaurant visits and going to the theater. Businesses that survive the two to three months of lost revenue may also be reluctant to quickly rehire all their workers as they clean up their books.

We now think the contraction in GDP will show up in first-quarter figures and worsen substantially in the April-June period. We forecast a decline in real annualized GDP of 7.6% in the first three months of the year and of 34.5% in the second quarter, translating to a decline of 11.8% peak to trough.

Unemployment Reaches Record Highs

This comes amid the biggest jump in jobless claims on record, going back to 1948, with millions of weekly claims now the new normal. April will be the cruelest month, with 24 million jobs likely cut.

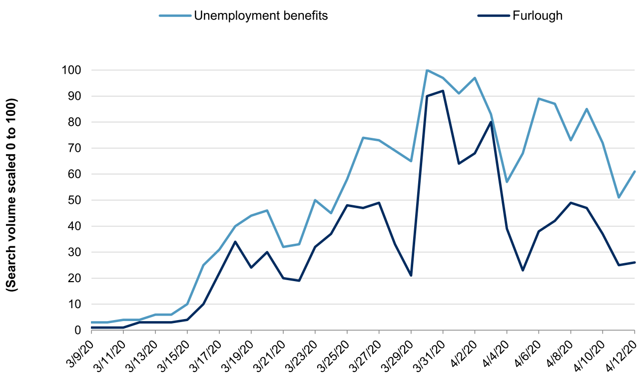
The unemployment rate will likely surge to 18% in April from 4.4% in March. We think headline unemployment could reach 19% in May. That would be closer to the reported Depression-era peak of 25% than to the October 2009 10% high during the global financial crisis. (Headline unemployment topped out at 25% in 1933--although given the likelihood of undercounting, the actual rate was likely even higher.) All told, we foresee cumulative job losses (temporary or permanent) of about 30 million in March-May.

The question then becomes: How soon will workers be reunited with their jobs once COVID-19 runs its course? We think roughly 12 million Americans will be back to work in some form or another by July. (Naturally, this depends heavily on the path of the virus, which we assume will be contained around midyear.) The process of reuniting workers and bosses also depends on how they parted ways. The Bureau of Labor Statistics has reported that the "bulk" of the increase in March unemployment occurred among people who said they were "temporarily" unemployed. Moreover, Google Trends indicates an unprecedented number of searches for "furlough" since February--hopeful signs that the two sides will be reunited sooner rather than later.

That said, opening up a $22 trillion economy isn't like turning on a switch. Adjustments will have to be made, and past episodes of recession suggest the process could be messy. Moreover, it will be hard to gauge how many businesses survived COVID-19. One worry is that the employer may not be around once the virus is contained. A U.S. Chamber of Commerce/MetLife survey on small businesses during the COVID-19 pandemic found that one in four small businesses (24%) says it is two months or less from closing permanently amid the economic downturn caused by the coronavirus pandemic. One in 10 (11%) is less than one month away from permanently going out of business.

Chart 3

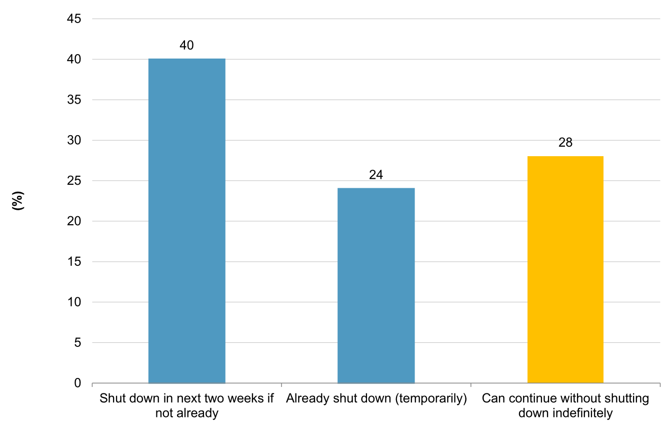
Google Search Intensity Has Risen For Unemployment Benefits And Furlough



Note: The number of searches for a particular topic are scaled on a range of 0 to 100, based on a topic's proportion relative to all searches on all topics. Literature on correlation between Google searches and unemployment benefits shows Google Trends' search intensity explains a statistically large share of variance in states' reports for unemployment insurance in the subsequent week. Sources: S&P Global Ratings and Google Trends.

Chart 4

Nearly Two-Thirds Of Small Businesses At Risk Of Shutting Down At Least Temporarily



Note: MetLife and U.S. Chamber of Commerce conducted a survey on impact of COVID-19 on small businesses. Survey published on April 3, 2020. Source: U.S. Chamber of Commerce.

Still, unprecedented Fed stimulus and unparalleled fiscal support are providing a lifeline to the economy. The government's latest $2 trillion stimulus measure, the biggest economic relief package in history, won't stop the ongoing recession, but we believe it will reduce the risk of an even deeper recession and support a post-virus rebound in activity as bridge payments help tide over people and firms until it is safe to start back up again.

Table 2

S&P Global Economic Outlook: April 2020 (Baseline)

	--2019--	--2020--												
Key indicator	**Q4**	**Q1e**	**Q2e**	**Q3e**	**Q4e**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020e**	**2021e**	**2022e**	**2023e**
(Percentage change)														
Real GDP (in real terms)	2.1	(7.5)	(34.6)	24.1	17.6	2.9	1.6	2.4	2.9	2.3	(5.2)	6.2	2.5	2.4
Domestic demand	0.5	(7.2)	(33.6)	24.6	17.4	3.6	1.9	2.6	3.1	2.4	(5.1)	6.9	2.9	2.5
Consumer spending	1.7	(8.9)	(33.5)	19.3	18.8	3.7	2.7	2.6	3.0	2.6	(5.5)	6.8	3.5	3.1
Equipment investment	(4.4)	(14.1)	(50.8)	29.4	38.9	3.2	(1.3)	4.7	6.8	1.3	(12.1)	12.6	8.9	4.3
Intellectual property investment	4.0	(12.6)	(53.0)	61.3	47.1	3.6	7.9	3.6	7.4	7.6	(7.0)	17.3	10.2	4.5
Nonresidential construction	(8.1)	(6.5)	(31.2)	(10.0)	18.0	(3.1)	(5.0)	4.7	4.1	(4.3)	(11.8)	4.9	4.7	3.1

Table 2

S&P Global Economic Outlook: April 2020 (Baseline) (cont.)

	--2019--	--2020--												
Key indicator	**Q4**	**Q1e**	**Q2e**	**Q3e**	**Q4e**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020e**	**2021e**	**2022e**	**2023e**
Residential construction	6.1	0.8	(48.3)	25.8	24.4	10.2	6.5	3.5	(1.5)	(1.5)	(6.1)	8.2	4.4	2.1
Federal government purchases	3.8	3.4	17.1	6.1	5.5	(0.1)	0.4	0.8	2.9	3.5	6.7	0.7	(8.0)	(2.3)
State and local government purchases	1.9	0.8	1.4	1.3	1.2	3.2	2.6	0.6	1.0	1.6	1.3	0.7	(0.0)	0.6
Exports of goods and services	2.1	(11.5)	(34.7)	8.2	17.0	0.5	(0.0)	3.5	3.0	(0.0)	(8.5)	4.7	4.4	3.4
Imports of goods and services	(8.6)	(8.9)	(26.8)	14.8	15.2	5.3	2.0	4.7	4.4	1.0	(6.7)	10.4	6.7	4.1
CPI	2.0	2.0	0.8	0.5	0.3	0.1	1.3	2.1	2.4	1.8	0.9	2.7	2.9	2.2
Core CPI	2.3	2.0	1.9	1.4	1.3	1.8	2.2	1.8	2.1	2.2	1.7	2.1	2.8	2.3
Nonfarm unit labor costs	1.5	8.6	(26.5)	13.5	(3.8)	2.2	1.2	2.6	2.2	2.3	(2.2)	2.0	4.4	3.7
Productivity trend ($ per employee, 2009$)	0.1	(4.7)	8.5	(4.5)	11.3	1.2	(0.1)	1.1	1.3	1.2	0.5	3.1	0.5	0.7
Levels														
Unemployment rate (%)	3.5	3.8	14.4	9.0	8.0	5.3	4.9	4.3	3.9	3.7	8.8	6.7	5.4	4.1
Payroll employment (mil.)	151.8	151.2	134.1	142.7	144.6	141.8	144.3	146.6	148.9	150.9	143.1	147.2	150.1	152.6
Federal funds rate (%)	1.7	1.1	0.1	0.1	0.1	0.1	0.4	1.0	1.8	2.2	0.4	0.1	0.1	0.5
10-year T-note yield (%)	1.8	1.5	0.7	1.0	1.3	2.1	1.8	2.3	2.9	2.1	1.1	1.5	1.9	2.2
Mortgage rate (30-year conventional, %)	3.7	3.5	3.3	3.5	3.6	3.9	3.6	4.0	4.5	3.9	3.5	3.7	4.0	4.3
Three-month T-bill rate (%)	1.6	0.9	0.0	0.2	0.2	0.1	0.3	0.9	2.0	2.1	0.3	0.2	0.2	0.6
S&P 500 Index	3,086.4	3,069.0	2,412.2	2,583.5	2,712.0	2,061.2	2,092.4	2,448.2	2,744.7	2,912.5	2,694.3	3,034.0	3,315.3	3,397.5
S&P 500 operating earnings (bil. $)	1,948.2	1,877.9	1,663.4	1,569.2	1,624.0	1,563.6	1,457.1	1,645.7	1,834.8	1,950.5	1,683.6	2,171.8	2,512.5	2,443.5
Current account (bil. $)	(438.1)	(415.5)	(372.0)	(442.6)	(458.3)	(407.8)	(428.3)	(439.6)	(491.0)	(495.0)	(422.1)	(653.8)	(779.9)	(809.3)
Exchange rate (index March 1973=100)	92.2	92.8	95.8	94.4	93.7	91.0	91.6	91.1	89.0	92.0	94.2	91.5	91.1	91.6

Table 2

S&P Global Economic Outlook: April 2020 (Baseline) (cont.)

	--2019--	--2020--												
Key indicator	**Q4**	**Q1e**	**Q2e**	**Q3e**	**Q4e**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020e**	**2021e**	**2022e**	**2023e**
Crude oil ($/bbl, WTI)	56.9	42.0	25.0	25.0	25.0	48.7	43.2	50.9	64.8	57.0	29.3	43.8	50.0	56.0
Saving rate (%)	7.7	9.6	19.7	10.8	8.9	7.6	6.8	7.0	7.7	7.9	12.3	7.4	6.6	6.1
Housing starts (mil.)	1.4	1.4	1.1	1.1	1.2	1.1	1.2	1.2	1.2	1.3	1.2	1.3	1.3	1.3
Unit sales of light vehicles (mil.)	16.9	15.0	8.4	13.4	14.0	17.5	17.6	17.2	17.3	17.0	12.7	15.1	15.7	16.1
Federal surplus (FY unified, bil. $)	(237.3)	(356.6)	(494.4)	(1,153.4)	(784.8)	(439.1)	(585.6)	(665.8)	(779.0)	(984.4)	(2,789.3)	(1,937.6)	(1,437.0)	(1,344.6)

Notes: (1) Quarterly percentage change represents annualized change over the period, except for CPI and core CPI. Quarterly CPI and core CPI represent year-over-year change during the quarter. Annual percentage change represents average annual growth rate from a year ago, except when noted otherwise. (2) Quarterly levels represent average during the quarter; annual levels represent average levels during the year. (3) Quarterly levels of housing starts and unit sales of light vehicles are in annualized millions. (4) Exchange rate represents the nominal trade-weighted exchange value of US$ versus major currencies. (5) Domestic demand measured as gross domestic purchases is the market value of goods and services purchased by U.S. residents, regardless of where those goods and services were produced. It is GDP minus net exports of goods and services. (6) Forecasts were generated using the third estimate of Q4 2019 GDP published by the BEA. The third estimate of Q4 2019 released recently doesn't materially impact our forecasts. e--Estimate.

Downside Forecast

Our pessimistic outlook assumes an even steeper contraction in consumer spending than in the baseline forecast and a much longer timeline to bring COVID-19 under control than in the baseline. This would delay the start of the recovery in spending, reduce its vigor, and delay laid-off workers getting back to work. Consumer spending would plunge by 42% (annualized) in the second quarter, compared with 34% the baseline, with further disruption in the fourth quarter on fears that COVID-19 has returned. The contraction in consumer demand and output in the pessimistic forecast is much sharper. Owing to the sharper contraction and slower recovery in consumer spending and related investment spending by businesses, GDP growth would drop to -8.2% in 2020 in the pessimistic forecast, with barely a nod to recovery the following year, at just 5.7% growth in 2021.

In this scenario, the peak-to-trough decline is 13.7% (compared with 11.8% in the baseline), but the economy doesn't get back to the previous cycle peak before sometime in the second quarter of 2022 (compared with third-quarter 2021 in the baseline). By fourth-quarter 2023, the economy would be 3.4% smaller than in the December baseline (compared with 1.5% in the current baseline).

The larger hit to economic growth in our downside scenario translates into a corresponding higher unemployment rate. The unemployment rate would peak at 23% in May (compared with 19% in the baseline), not as painful as the 25% reached during the Great Depression, before gradually moving back down for the rest of the year. The initial degree of dislocation and uncertainty over reemergence of the virus would keep the unemployment rate elevated at close to 10% on average before it would finally start to move back down once the "all clear" is announced in spring 2021. The unemployment rate would average 11% in 2020 and 8% in 2021 (compared with 8.8% and 6.8% in the baseline).

A simple Okun's law approach (using a 2-to-1 variant of GDP growth to unemployment rate change coefficient) in this scenario implies that the unemployment rate would decline 1.9 percentage points to a 6.3% annual average in 2022 and another 1.5 percentage points to 4.8% in 2023. With the unemployment rate finally under 5%, the Fed would have confidence to begin contemplating raising rates off the ground, though it most likely won't until 2024.

Meanwhile, if storage reaches capacity across the world, oil prices could fall below zero. This nearly happens in the pessimistic scenario, with the average price of Brent crude oil plummeting to $6.60 a barrel in the second quarter of 2020. That price would rebound as domestic and foreign growth returns, but it would take years in the pessimistic scenario before GDP would approach the baseline level.