



# LEE & ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES



## GDP GROWTH: TRENDING IN Q3 2020

Third-quarter gross domestic product expanded at a 33.1% annualized rate, the most ever recorded, increasing 7.4% from the previous quarter and recovering roughly two thirds of the losses from earlier in the pandemic.

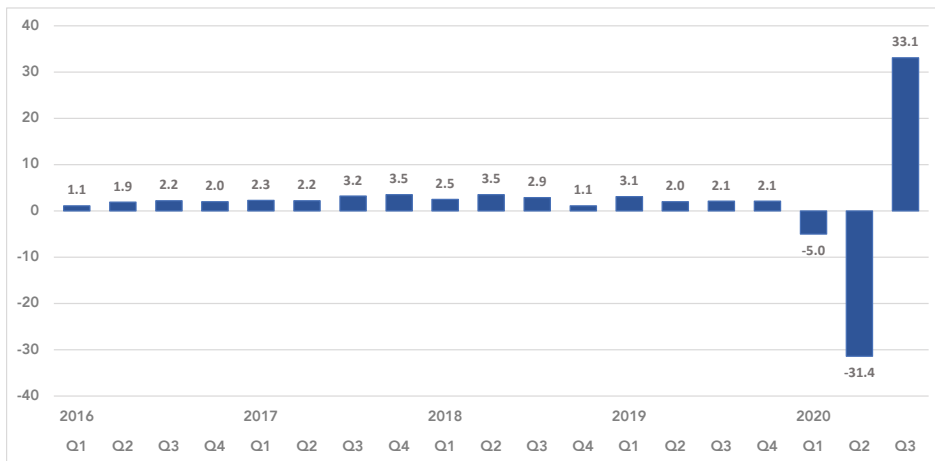
The latest Commerce Department estimate of GDP, the measure of the total goods and services produced, was slightly better than expected as lockdowns ended and consumers resumed spending in Q3, boosted by \$2.35 trillion in direct federal relief. Nevertheless, the national economy remains 3.5% smaller than at the end of 2019. There also is wide agreement that without more federal stimulus and amid worsening infection rates, growth is going to be harder to come by in the fourth quarter.

Compared to the second quarter, the Commerce Department's Bureau of Economic Analysis reported personal consumption increased 40.7%, gross private domestic investment was up 83% and there was a 59.3% increase in homebuilding and improvements. Nonresidential investment gains were led by a 70.1% increase in equipment purchases.

A leading survey of economists recently found that more than half do not expect GDP to regain

## Real GDP: Percent Change from Prior Quarter

U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates



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its pre-pandemic level until 2021 and that the economy will contract 3.6% this year. About half of the 22 million jobs lost in the pandemic since March have been recovered. "The economy is -3.5% smaller than it was in late 2019," said Justin Wolfers, a University of Michigan economics professor at the Ford School. "Is that a big hole? Well, that's roughly as large as the hole the economy fell into during the financial crisis, and at the time we thought that a damn big hole."

Spending on durable goods was strong with the government's report on long-lasting items gaining 82.2% from Q2, evidence of increased discretionary purchases on vehicles and recreational goods. Consumers, particularly those with higher incomes, bought furniture, cars, computers and home exercise equipment.

"There was a lot of pent-up demand early," said Nariman Behraves, chief economist at forecaster HIS Markit. "Now that's spent itself. And then you've got the rising infection rates which are making everybody very cautious. Then the fact that we haven't had any additional stimulus to help us through this next phase. All of that suggests we're looking at pretty limp numbers going forward." A home-services franchising company executive told the Wall Street Journal that quarterly revenue was up 44% from a year ago because of the shift in discretionary spending.

"Overall, people are saving money, taking those savings and reinvesting it into their homes. They're not going to restaurants and not traveling," said Paul Flick of Premium Service Brands in Charlottesville, Va.

## EMPLOYMENT: TRENDING IN Q3 2020

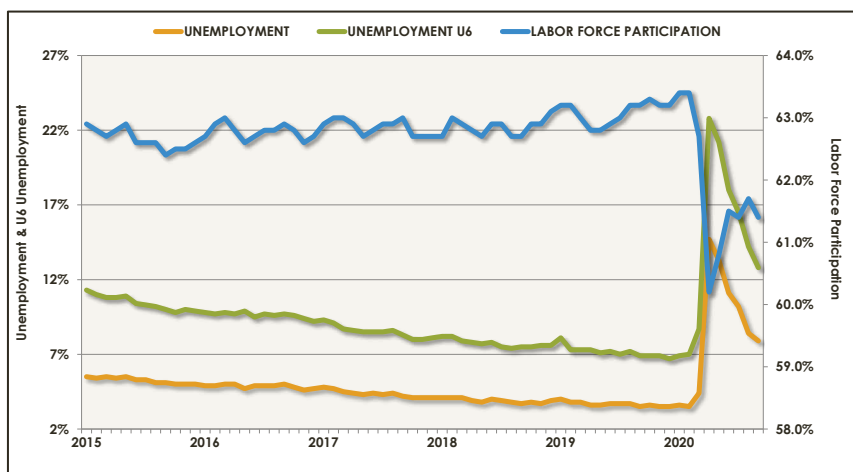
There were 661,000 jobs added in September, pushing down the unemployment rate from 8.4% to 7.9% in the last government labor report to be released before the election.

In early October, new weekly applications for jobless benefits fell to their lowest levels since March as employment began to plunge by more than 20 million workers. Most industries suffered a decline of more than 10%. Half of those working in arts, entertainment, recreation, food and beverage were laid off.

The number of unemployed persons fell by 1.0 million to 12.6 million, according to the government report. The majority of jobs gained in September were in leisure and hospitality, up 318,000 jobs. There were 142,000 jobs added in retail and 108,000 in health care and social assistance.

In September, 22.7% of employees worked remotely because of the coronavirus pandemic, down from 24.3% in August. Among the unemployed, those on temporary layoff decreased by 1.5 million in September to 4.6 million. This measure is down considerably from the high of 18.1 million in April but is 3.8 million higher than in February.

## United States Unemployment



*"...we're entering a phase where the recession's effects are likely to become more salient because the policy interventions have expired mostly"*

*- Erica Groshen, Sr. Economics Advisor at Cornell University & Former Bureau of Labor Statistics Commissioner*

There were 231,000 workers cut from government jobs in September with big reductions in local and state government payrolls. Among the major worker groups, the unemployment rates declined in September for men, 7.4%, women, 7.7%, Whites, 7%, and Asians, 8.9%. Jobless rates for teenagers were 15.9%, Blacks, 12.1%, and Hispanics, 10.3%, showing little change from August.

Erica Groshen, a senior economics adviser at Cornell University and a former Bureau of Labor Statistics commissioner, said the pandemic's impact on the labor market earlier this year was softened by rapid policy steps. "Now, we're entering a phase where the recession effects are likely to become more salient because the policy interventions have expired mostly," she said. Moreover, as optimism in the economy dissipates, more households are less willing to spend and companies and financial organizations are less willing to invest, Groshen said. "We've had this huge shock. We intentionally put our economy into a medically-induced coma," she said. "Now, we're beginning to emerge. But it's reasonable to expect, all signs point to, that there's this big risk."

Daniel Bachman, Deloitte's head of U.S. economic forecasting, sees a slow recovery for the job market. Business still will be hiring, but in different industries and occupations, he said. Efforts to re-shore parts of the supply chain and build robust manufacturing systems will produce jobs, he said, adding there will be a need to "entice people to switch to manufacturing from, say, food service and accommodation. Such labor market adjustments are usually slow to occur, one reason why we expect the overall economic recovery to be relatively slow."

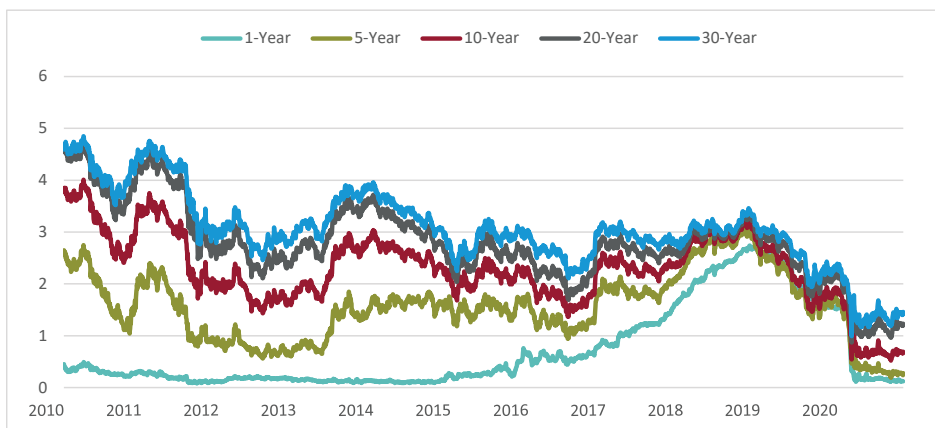
## MONETARY POLICY: TRENDING IN Q3 2020

In the most specific guidance yet on its new monetary policy in response to the coronavirus pandemic, the Federal Reserve said it would not raise interest rates until the economy reaches full employment and inflation hits 2%, abandoning its policy of using rate hikes to preemptively stymie inflation.

Economists had mixed reactions to the central bank's September announcements. Despite the Fed's aggressiveness and swiftness early in the pandemic to insure liquidity in the financial markets with a massive bond-buying program, some believe its policy still falls short of needed steps to shore up the fragile economy. Others said the Fed's move affirms something that was in practice and expected. Although it hasn't indicated how much more purchasing it would do, the Fed is buying \$120 billion in securities a month to keep short- and long-term interest rates low.

"It gives confidence that you have a Fed that's going to be leaning into the recovery, that's going to be allowing momentum to build and allowing inflationary pressures to build without raising rates. That can have a pretty profound effect on interest rate expectations, investment and consumption planning," said Robert Rosener senior US economist at Morgan Stanley.

## Daily Treasury Yield Curve Rates (Decade Trend)



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But Mike Collins, senior portfolio manager at PGIM Fixed Income, told the Financial Times he believed more was needed, saying, "In order to get back to 2% on a sustained basis and inflation back above 2% with limited fiscal dry powder, the Fed has to do a lot more heavy lifting." In their median forecast that was released near the close of the third quarter, Fed policymakers said the personal consumption expenditures price index will remain below 2% until 2023. The forecast said that the 10-year break-even rate – a proxy for investors' inflation expectations – remains well below that threshold at 1.68%.

After a meeting of the Federal Open Market Committee in September, Fed Chairman Jerome Powell reaffirmed the new policy, telling reporters the central bank's "confidence and determination" its loose monetary policy will achieve its goals. Powell told reporters the Fed had more room to act but admitted that the fragile recovery was dependent on continued "monetary and fiscal support." In a recent online discussion Fed governor Lael Brainard called for more government relief, warning that the economy would face a substandard and uneven recovery without additional support to shore up the hardest-hit sectors.

Brainard said robust relief efforts this spring and summer providing generous unemployment benefits and grants to small businesses likely contributed to a stronger-than-anticipated rebound after the coronavirus pandemic froze economic activity in March and April. "Premature withdrawal of fiscal support would risk allowing recessionary dynamics to become entrenched, holding back employment and spending, increasing scarring from extended unemployment spells, leading more businesses to shutter, and ultimately harming productive capacity," she said.

## GLOBAL ECONOMY: TRENDING IN Q3 2020

Global growth is projected at -4.4% this year, an improvement from earlier projections by the International Monetary Fund, whose latest outlook on global growth and risks in October said the economic gains were the result of easing lockdowns and massive government relief efforts, especially in the U.S. and Europe.

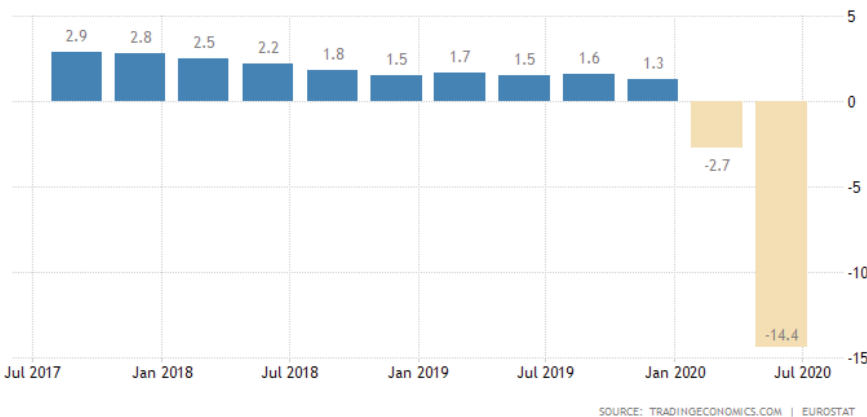
But with the pandemic spreading and accelerating, many countries slowed reopening, and some are reinstating partial lockdowns. While China's recovery has been faster than expected, the global economy's long climb back to pre-pandemic levels of activity remains prone to setbacks.

Global growth is projected at 5.2% in 2021, slightly less than in the IMF's June 2020 update, reflecting the more moderate downturn projected for 2020 and consistent with expectations of persistent social distancing. At the end of 2021 the level of global GDP is expected to be a net 0.6% improvement from 2019.

Meanwhile, the United States economy is set to fall by 4.3% this year, the IMF said, adding that the economic contractions in the U.K., France, Italy and Spain will be around 10%.

Overall growth projections imply wide negative output gaps and elevated unemployment rates

### European Union GDP Annual Growth Rate



*Global growth is projected at 5.2% in 2021, slightly less than in the IMF's June 2020 update.*

this year and in 2021 across both advanced and emerging market economies. After the rebound in 2021, global growth is expected to gradually slow to about 3.5% into the medium term. Nevertheless, the pandemic will have reversed the progress made since the 1990s in reducing global poverty and will increase inequality, the IMF report said.

The subdued outlook for medium-term growth comes with a significant projected increase in the stock of sovereign debt. The IMF said its downward revisions to potential output also imply a smaller tax base over the medium term than previously envisaged, compounding difficulties in servicing debt obligations. The baseline projection assumes that social distancing will continue into 2021 but will subsequently fade over time as vaccine coverage expands and therapies improve. Local transmission is assumed to be brought to low levels everywhere by the end of 2022.

In its assessment of risks, the IMF said that progress with vaccines and treatments, as well as changes in the workplace and by consumers to reduce transmission, may allow activity to return more rapidly to pre-pandemic levels than currently projected, without triggering repeated waves of infection. And an extension of fiscal countermeasures into 2021 could also lift growth above the forecast, which factors in only the measures implemented and announced so far.

In another recent report analysts say increased consumer spending could hasten the recovery since data from a number of countries show the personal savings rate among households worldwide was boosted by the stimulus money distributed in the second quarter.

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