# The Economy in 2020:
## This time it really is different

*Ryan Severino, CFA | JLL Chief Economist*

# Agenda

- Defining features of the economic landscape
- Scenario modeling approach (with more to come)
- Long-term perspective
- Do not forget about key risks
- Broad implications for CRE types

# Features of the economic landscape

## Abrupt halt

The longest economic expansion in U.S. history ended abruptly due to voluntary and involuntary restrictions on economic activity.

## Unusual data

Data releases over the next few months will seem odd, either too backward-looking or overly severe.

## Questionable forecast reliability

Due to very high levels of uncertainty the near-term reliability of point forecasts has declined considerably. Interval forecasts suggest the worst peak-to-trough contraction since 1945.

## “Whatever it takes” Fed policy

The Federal Reserve committed to utilizing all monetary and banking policy measures, including many novel ones, in order to support the economy and financial markets. Additional measures likely.

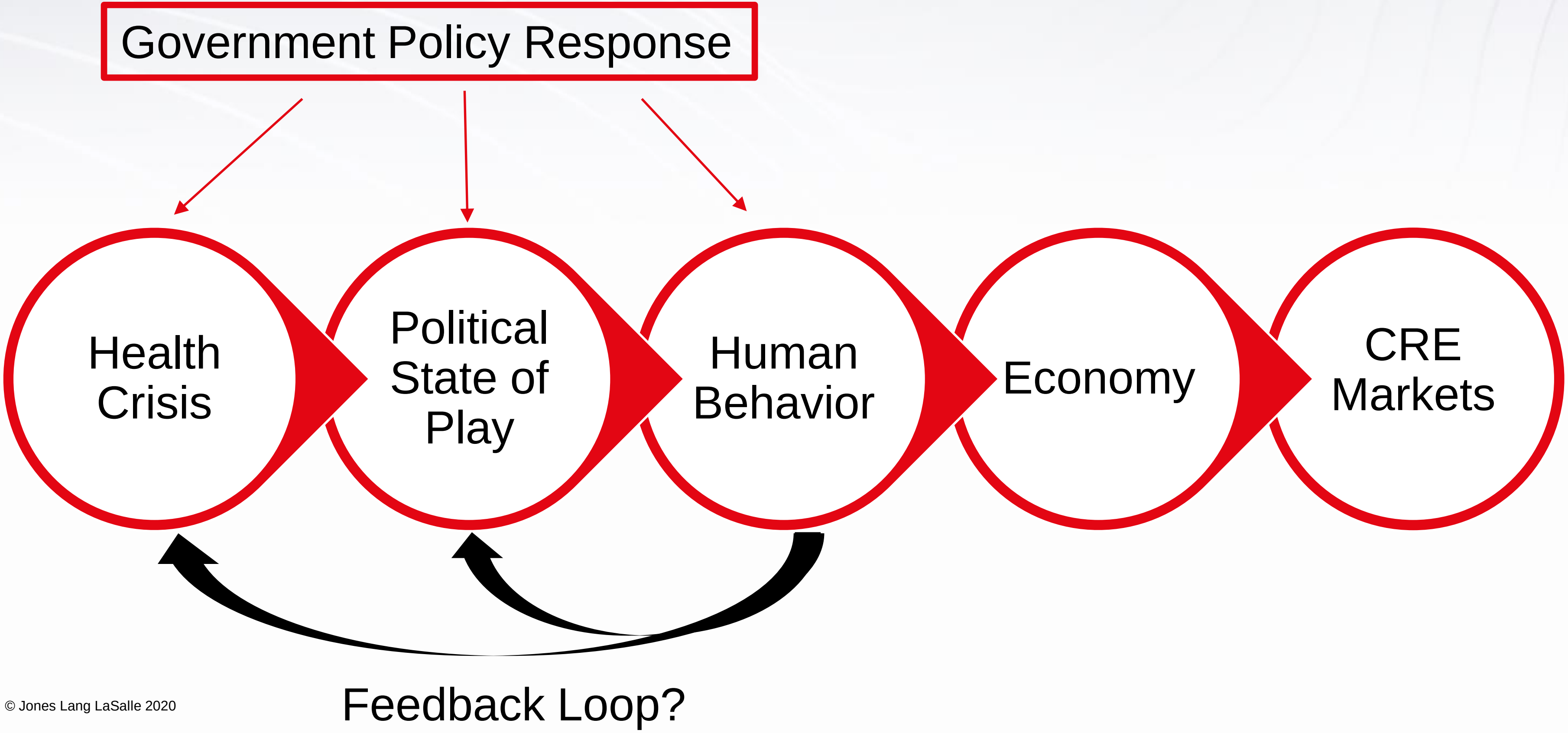
## Historic fiscal policy

Federal government passed largest fiscal stimulus in U.S. history, nearing $3 trillion total, to support households, businesses, and governments. Additional stimulus likely needed.

## Pandemic will dictate cycle

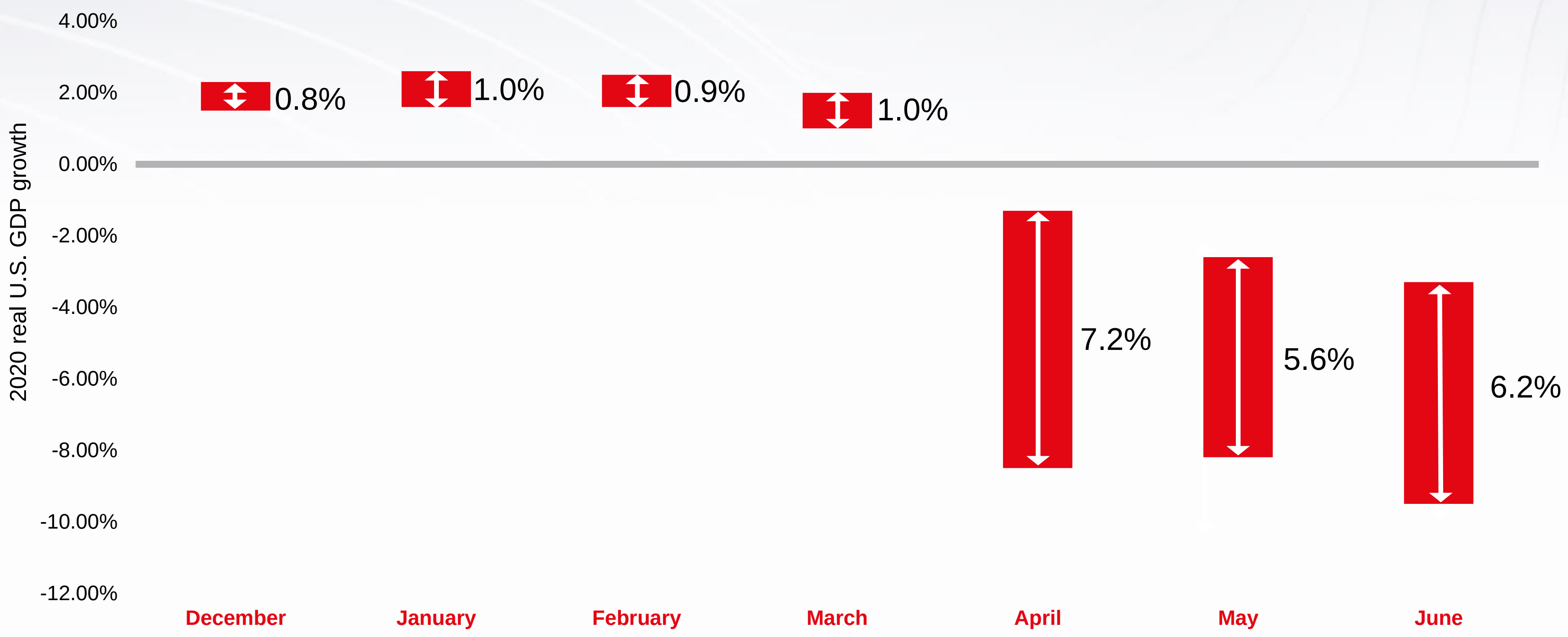
Ultimately, the pandemic will determine the length and severity of the downturn.

# From health crisis to CRE
## *How will this unfold?*



# Questionable forecast reliability

## Consensus forecast range widened dramatically in April



# Features of the economic landscape

## Base case

**Health**
- Cases begin slowly declining in 2Q, and public health situation gradually improves.
- Social distancing measures remain place, with testing ramping up slowly.
- High probability of isolated resurgence in COVID-19 cases, but a second full shutdown of the U.S. is avoided.

**Economy**
- Economy brought partially back online during the summer, with growth resuming in 3Q2020.
- Growth remains uneven and weak until 2H2021, when a widely available vaccine or sufficient herd immunity allow full economic activity.
- Additional fiscal and monetary stimulus is expected.
- Hiring, spending, and business investment slow to resume.

**Returning to previous peak in Q1 2022**

## Upside case

**Health**
- Cases begin declining meaningfully in 2Q, with only minor rebounds.
- Social distancing measures remain in place. Aggressive testing and contact-tracing.
- No resumption of severe lockdowns.
- Quick development of effective therapeutic treatments and progress on vaccines.

**Economy**
- Economy brought partially online with initial "V" growth bounce in 3Q2020, followed by slower but steady improvement thereafter.
- Model assumes full resumption of economic activity by mid-2021.
- Additional stimulus is expected, but limited.
- Hiring and consumption resumes relatively quickly.

**Returning to previous peak in Q3 2021**

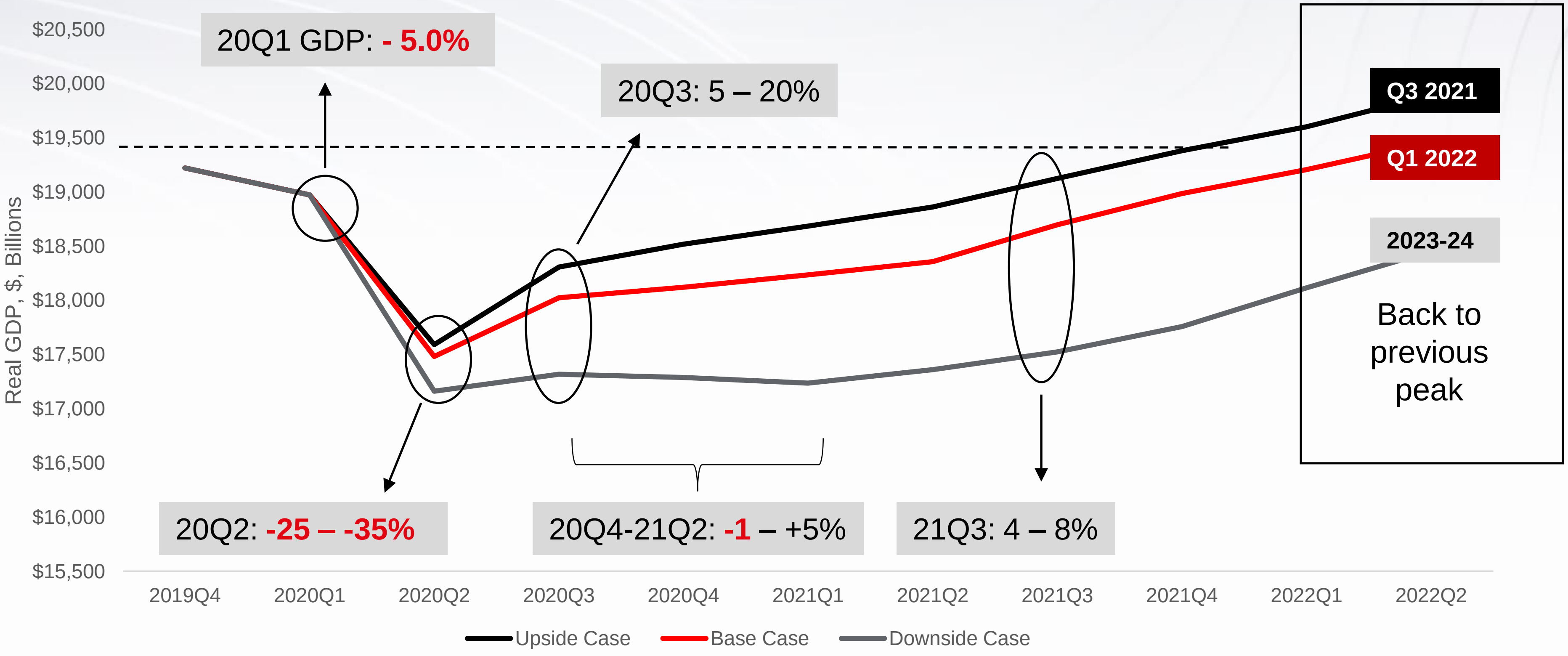
## Downside case

**Health**
- New cases peak in 2Q, but a bumpy plateau follows with strict social distancing in place.
- Cases are resurgent in fall/winter, forcing the reimplementation of restrictive measures across much of the US.
- Development of effective therapeutics and vaccines proves difficult.

**Economy**
- GDP decline stabilizes with some growth in Q3.
- Thereafter, growth remains weak until early 2022, including a second contraction in late 2020 or early 2021.
- Significantly more government stimulus needed due to ongoing weakness, but amount approved proves insufficient.
- Widespread business failures contribute to severity and duration of recession.

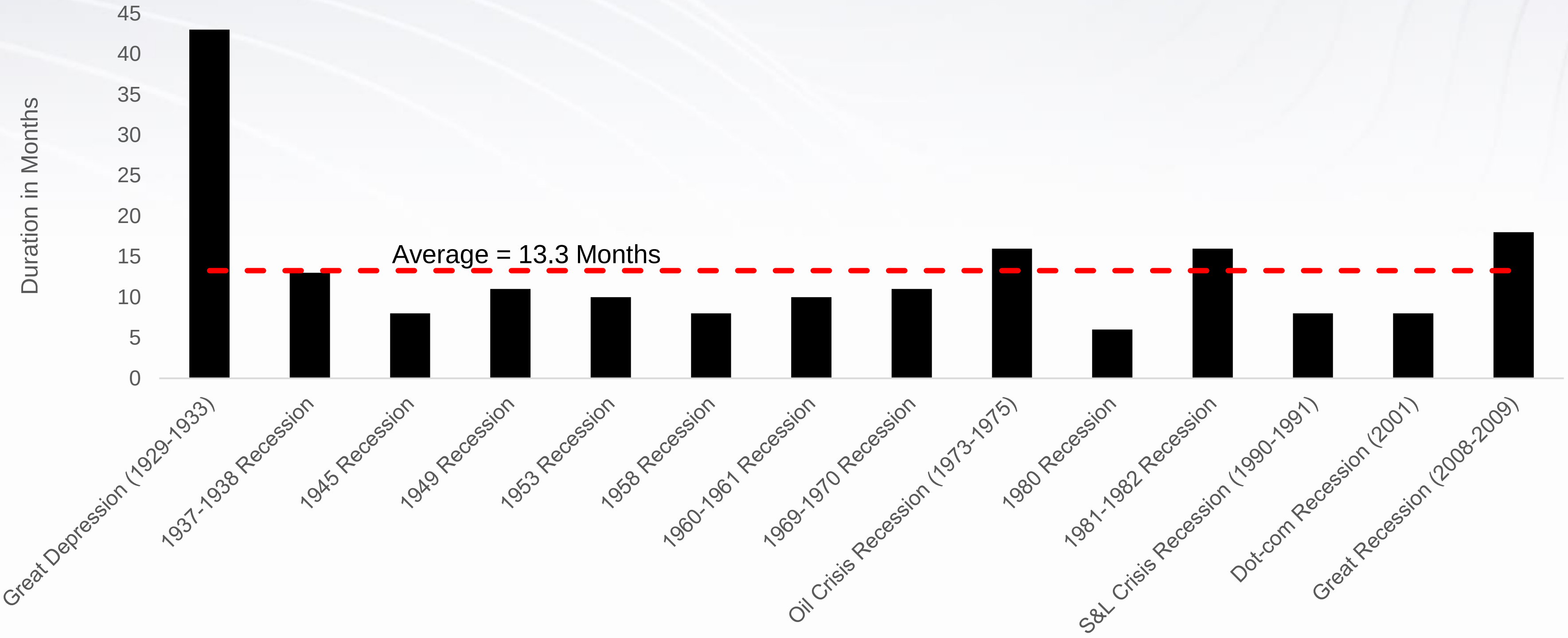
**Returning to previous peak in 2023**

# Pronounced severity across scenarios



# Distinguish between concentration and duration

## Current downturn likely to look more like a short recession

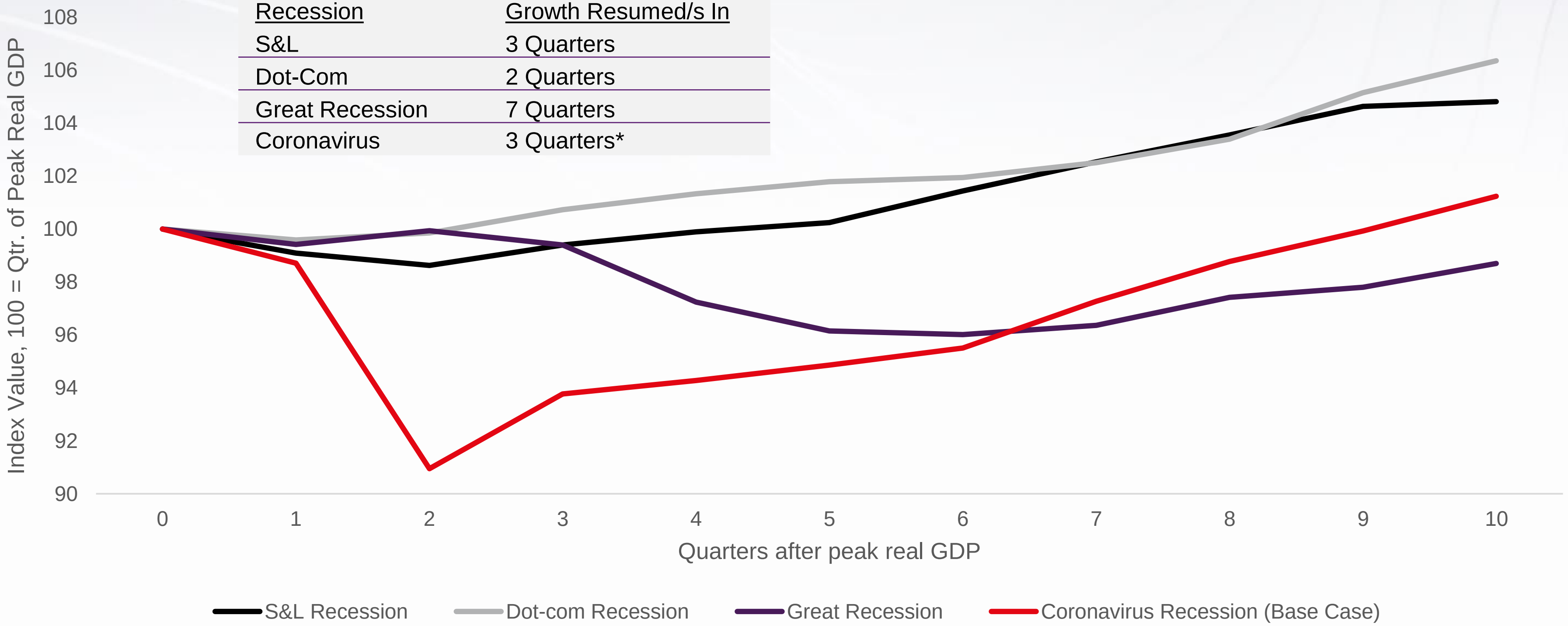



*Sources: JLL Research, NBER*

# Not all recessions and recoveries are equal

## Long road back after economy begins expanding

| Recession | Growth Resumed/s In |
|---|---|
| S&L | 3 Quarters |
| Dot-Com | 2 Quarters |
| Great Recession | 7 Quarters |
| Coronavirus | 3 Quarters* |

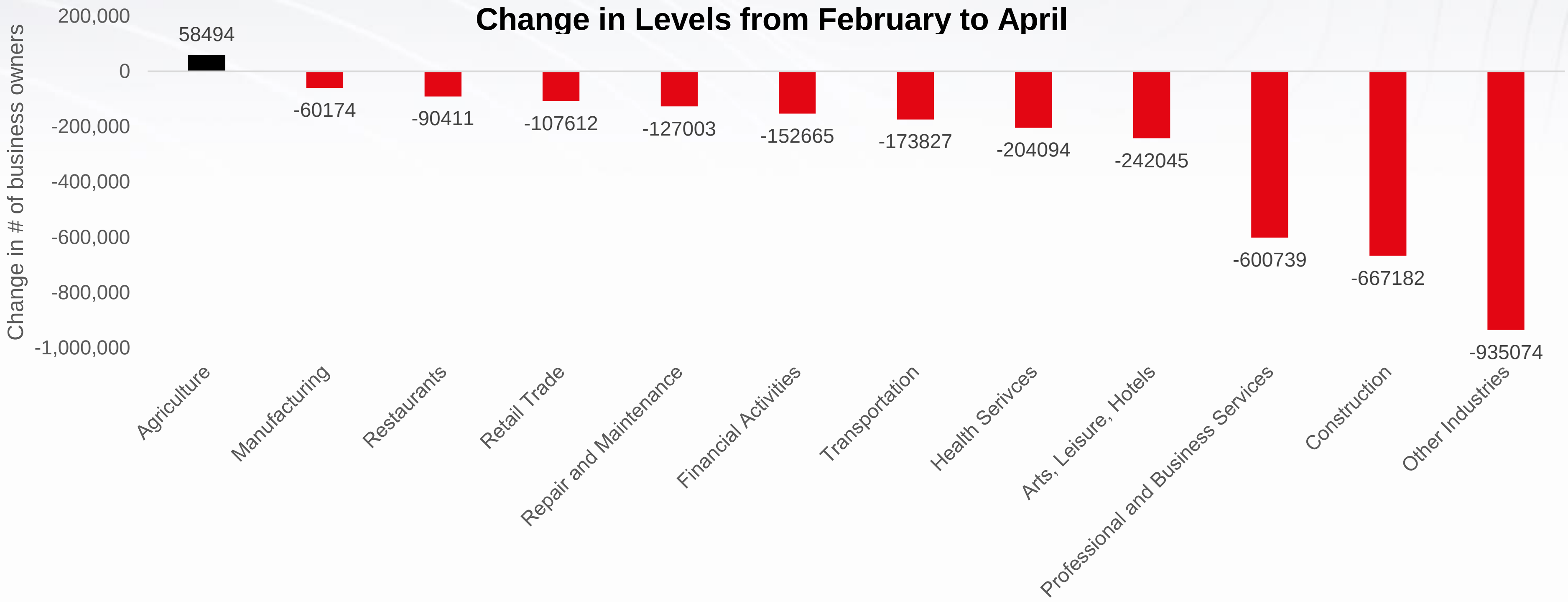



** Forecast*

*Sources: BEA; JLL Research*

# Estimated 22% of small businesses already failed

Drop of 3.4 million exceeds total from Great Recession




*Sources: JLL Research, NBER; CPS*

# This downturn is unique in its cause

## *But looks like a hybrid of past recessions in our base case*

**Contraction**

Severe: 9% peak to trough, like pre-war recessions.

**Turnaround**

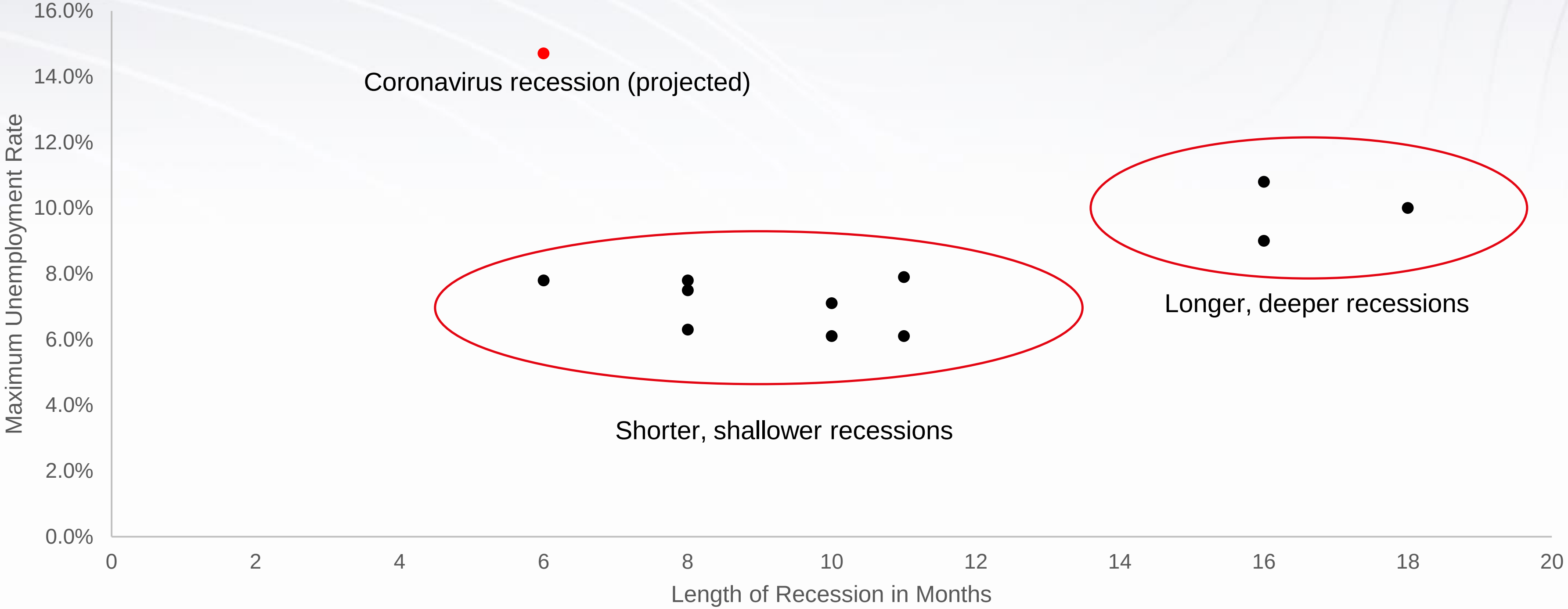
Quick: growth should resume by third quarter 2020, like a typical post-war recession.

**Recovery**

Elongated: Economy should return to previous peak in about 10 quarters, like the Great Recession.

# It REALLY is different this time

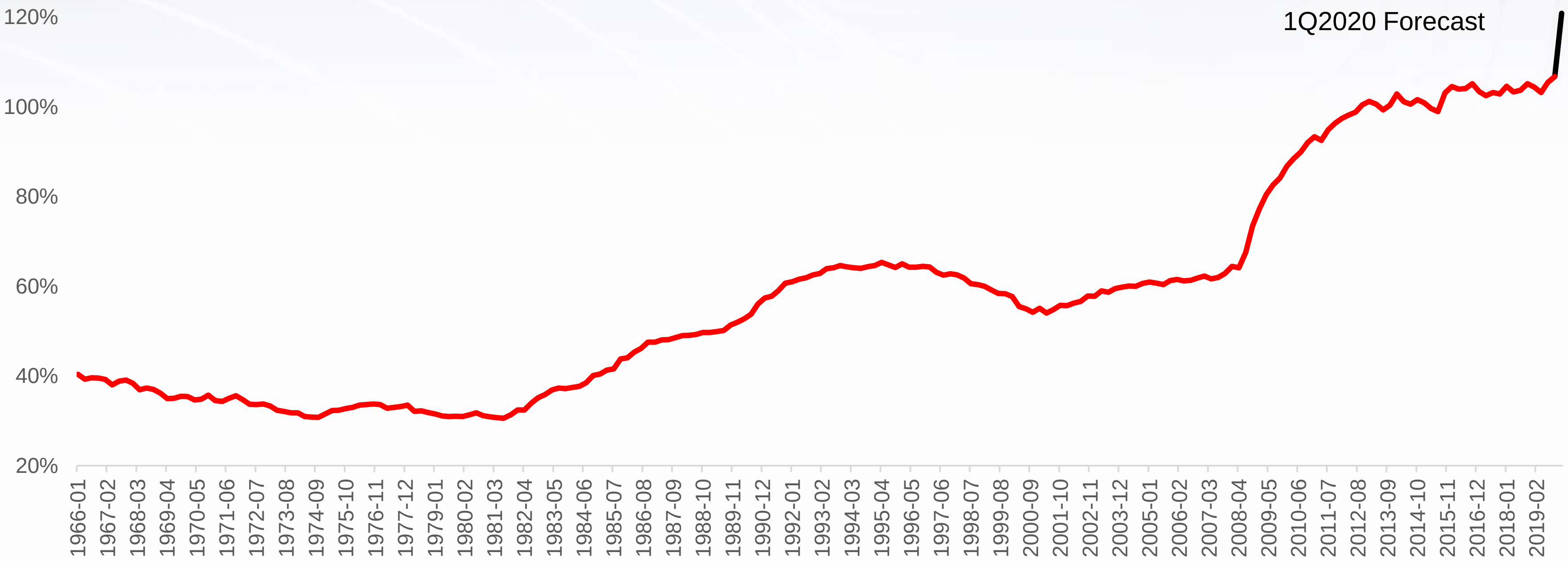
## Coronavirus recession technically short, but unusually severe




*Sources: JLL Research, NBER; BLS*

# Government debt headed higher

Gross debt/GDP ratio not currently a cause for concern, but increases during crises become permanent and untenable in the long run. Problems can arise around 250% debt/GDP.




*Sources: Federal Reserve; BEA; JLL Research*

# Are we in a *geopolitical risk* recession?


*Sources: JLL Research; Eurasia Group; CFR; The Economist*

# Key downside risks to base case scenario

## Secondary Lockdowns

Probability: Low

Most governors will likely resist secondary lockdowns, even amidst growing cases.

## Human Behavior

Probability: Medium

Surging cases could cause consumers to refrain from certain activities out of fear, or illness prevents them from participating in the economy.

## Austerity

Probability: Medium

Expiration of government stimulus programs reduces incomes and eliminates support for employment

# Property sector demand drivers

## Medium term looks murky, but long-term trends intact

| | Office | Industrial | Retail | Multi-housing | Hotels |
|---|---|---|---|---|---|
| **Exogenous demand driver** | Office-using employment | Production (GDP/GMP) | Retail Sales | Household formation | Leisure and business travel expenditure |
| **Cyclical behavior** | Increase during economic expansions, decrease during contractions | | | | |
| **Structural factors** | Potential increase in WFH versus de-densification of space; use of flexible space | Increase in ecommerce sales and use of 3PL firms | Increase in ecommerce, preference for experiences, shift away from goods to services consumption | Younger demographics tend to rent versus own | Leisure travel could take years to return to pre-pandemic levels, business travel could be permanently reduced |

*Sources: JLL Research*

# Takeaways

- Abrupt slowdown because of shock to aggregate demand and aggregate supply.
- Data will seem odd and unsettling for weeks.
- Duration should be relatively short once health situation improves.


Questions?

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