

UCLA ECONOMIC LETTER

REAL ESTATE AND THE MACROECONOMY



A partnership between the UCLA Ziman Center for Real Estate and the UCLA Anderson Forecast sponsored by the Ziman Center's UCLA Rosalinde and Arthur Gilbert Program in Real Estate, Finance and Urban Economics

MARCH 2020

Monthly condensed analyses of crucial real estate and economic issues offered by UCLA Anderson Forecast and UCLA Ziman Center for Real Estate. Here, David Shulman, Senior Economist for the UCLA Ziman Center for Real Estate and UCLA Anderson Forecast, updates the March 2020 Anderson Forecast to include very recent coronavirus and economic events, and adds a section on real estate impacts. Here is a [link](#) to the entire revised Forecast.

The Sum of All Fears¹

Updated Forecast – Including Real Estate – from UCLA Anderson

By [David Shulman](#)

As we noted in our quarterly March report, the forecast represented an “attempt to distill incomplete and rapidly evolving information into a framework about the future course of the economy.” We now have new information that has confirmed the coronavirus is spreading rapidly, the travel and recreation sectors of the economy are shutting down, oil prices continued to plunge in response to the Russian war on the American fracking industry, credit spreads have widened dramatically thereby tightening financial conditions, and stocks remain volatile with a downward bias.

“Because of social distancing¹ and outright fear, commercial and residential real estate has been placed under stress by the coronavirus recession now underway.”

¹ With apologies to Tom Clancy.

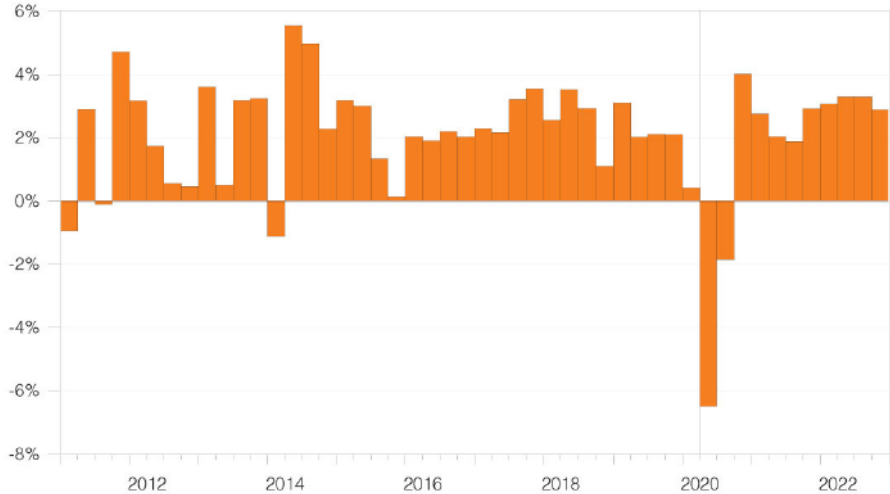
As a result we have changed our forecast. Simply put we believe that when the business cycle dating committee of the National Bureau of Economic Research meets they will note that the 2020 recession began this month. Significant increases in Federal spending to support individuals and industries damaged by the coronavirus and a new program of quantitative easing by the Fed will limit, but not avert, the decline in economic activity that we foresee. In summary our new forecast is as follows:

- Real GDP declines by 6.5% and 1.9% in 2Q and 3Q, respectively. Growth rebounds in the 4Q a 4% clip. (Figure 1)
- Social distancing causes real consumption to fall by 7.8% in 2Q. (Figure 2)
- Real Business Fixed Investment declines throughout the year. (Figure 3)
- Two million jobs are lost between 1Q20 to 1Q21. (Figure 4)
- The unemployment rate rises from 3.6% to 5.0%. (Figure 5)
- The Fed responds with a zero interest rate policy and QE. (Figure 6)
- Inflation remains muted. (Figure 7)

In addition, we have the following forecast addendum on the real estate sectors:

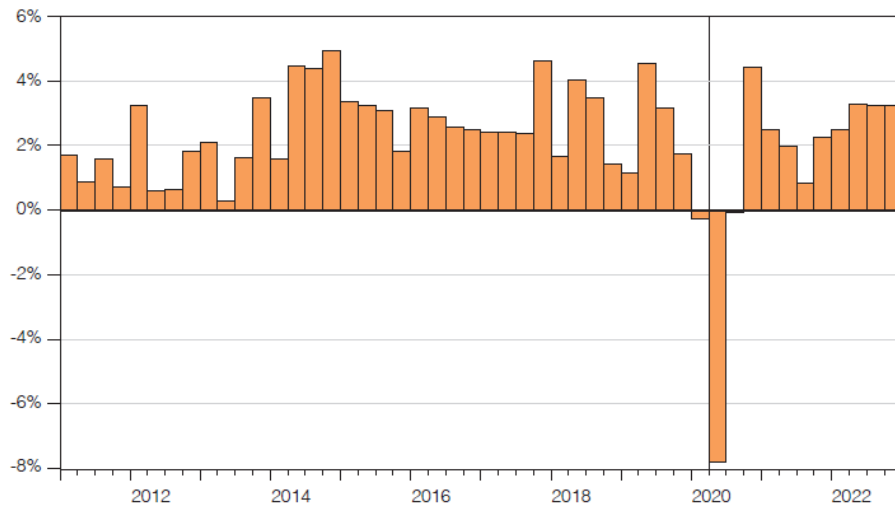
Because of social distancing and outright fear, commercial and residential real estate has been placed under stress by the coronavirus recession now underway. Particularly hard hit will be hotels, retail (especially malls), senior housing and nursing homes. The office, industrial and apartment sectors will be negatively impacted by the two million job losses we foresee. Housing activity is being pressured by the weak economic environment and the unwillingness of consumers to visit new developments. Further, it is likely that realtors will call off open houses. If that is not enough, deal making will slow down because of the reduction in face-to-face contacts. In sum, it will not be a pretty picture over the next several months.

Figure 1. Real GDP Growth 2011Q1 -2022Q4F, Percent Change, SAAR



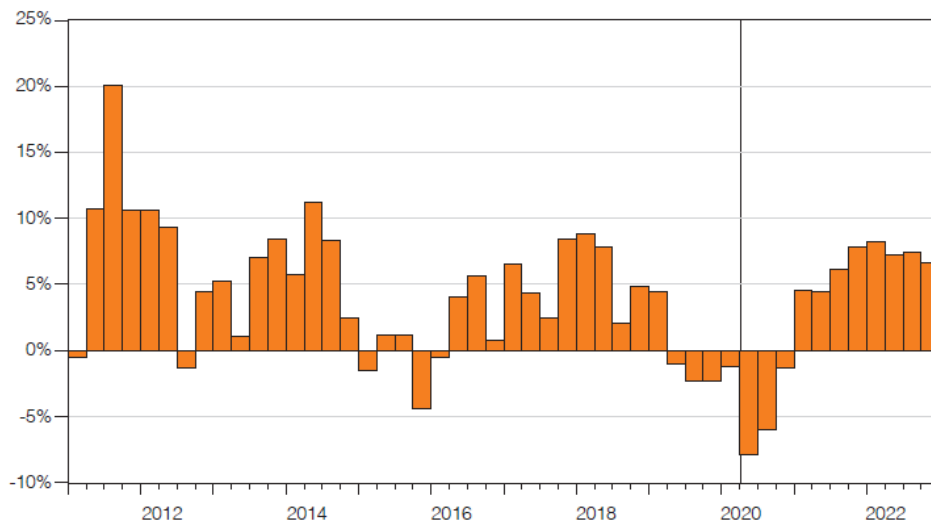
Sources: U.S. Department of Commerce and UCLA Anderson Forecast

Figure 2. Real Consumption Spending, 2011Q1-2022Q4F, Percent Change, SAAR



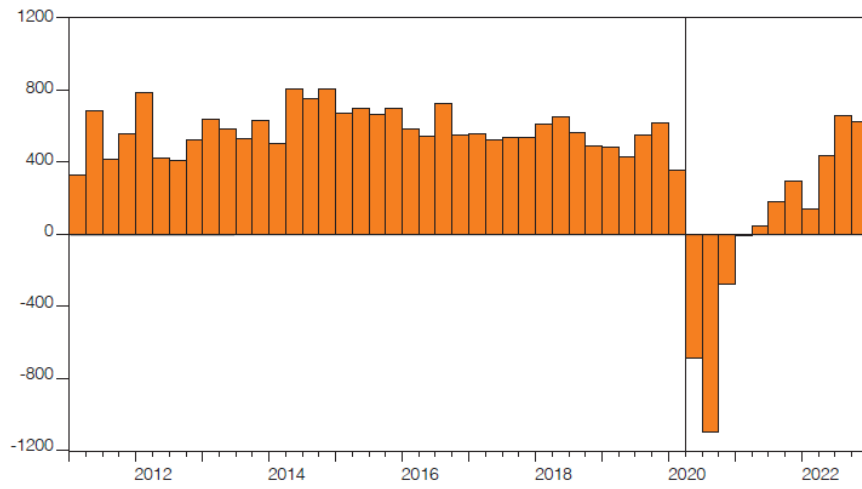
Sources: U.S. Department of Commerce and UCLA Anderson Forecast

Figure 3. Real Business Fixed Investment, 2011Q1-2022Q4F, Percent Change, SAAR



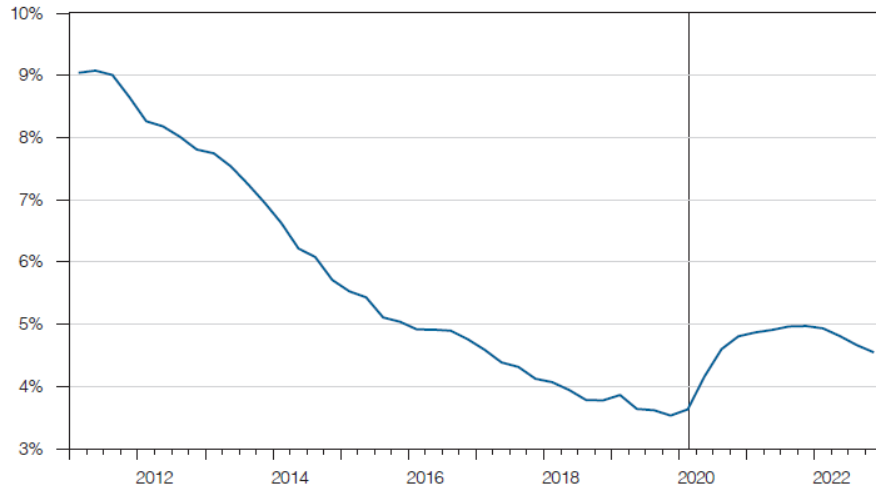
Sources: U.S. Department of Commerce and UCLA Anderson Forecast

Figure 4. Payroll Employment, Quarterly Change, In Thousands of Jobs, SA



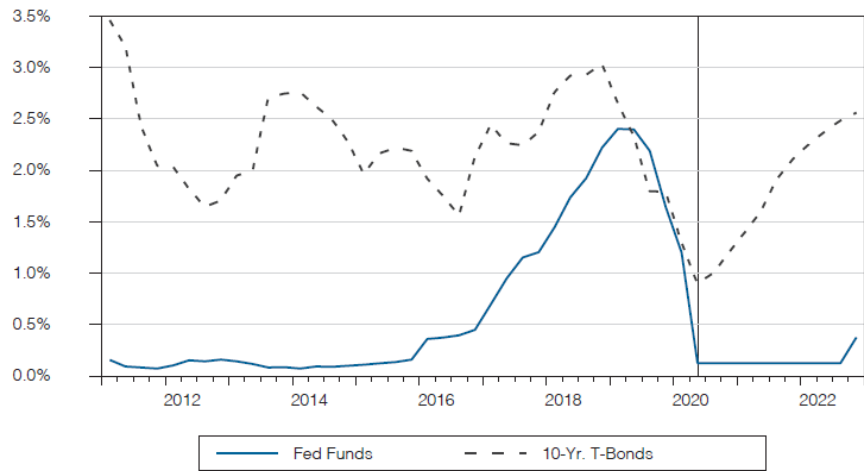
Sources: Bureau of Labor Statistics and UCLA Anderson Forecast

Figure 5. Unemployment Rate, SA



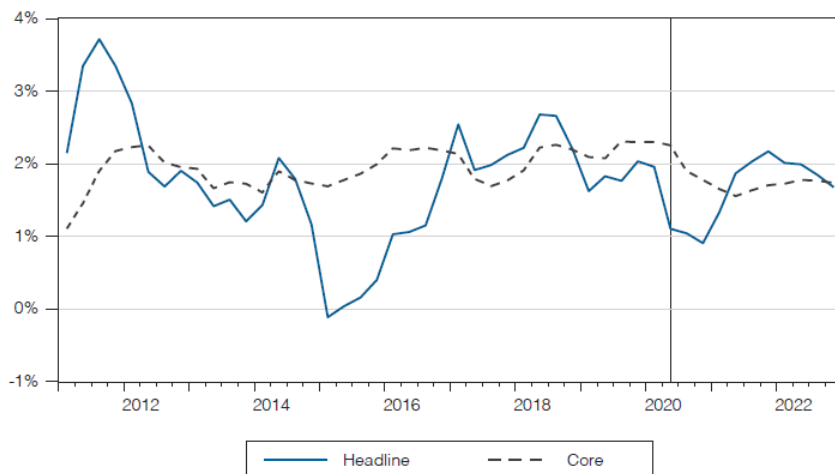
Sources: U.S. Bureau of Labor Statistics and UCLA Anderson Forecast

Figure 6. Federal Funds Rate vs. 10-Year U.S. Treasury Bonds, 2011Q4 - 2022Q4F



Federal Reserve Board and UCLA Anderson Forecast

Figure 7. Headline Consumer Price Index vs. Core CPI, 2011Q1-2022Q4F, Percent Change a Year Ago



Sources: Bureau of Labor Statistics and UCLA Anderson Forecast