

# U.S. Forecast: The Sum of All Fears

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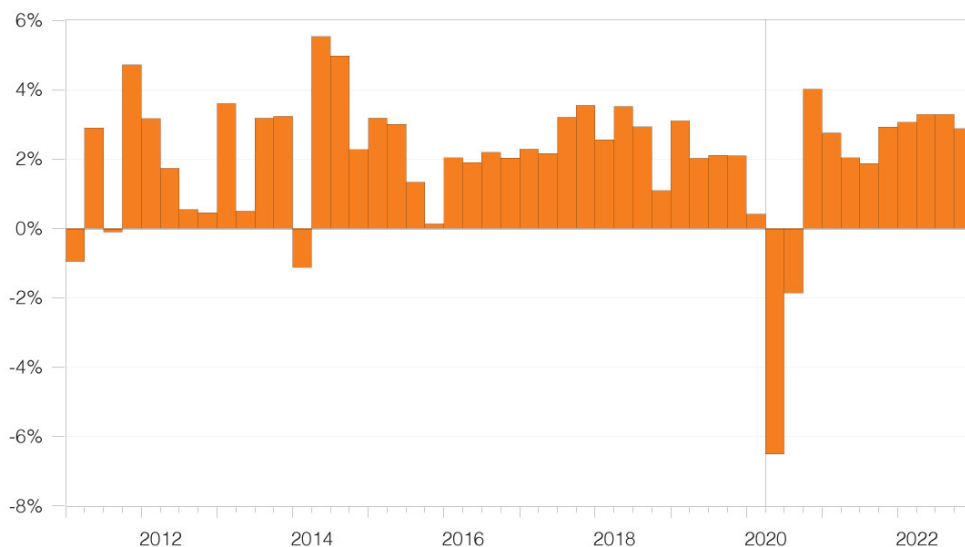
March 2020 Interim Forecast

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.

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 damages 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:

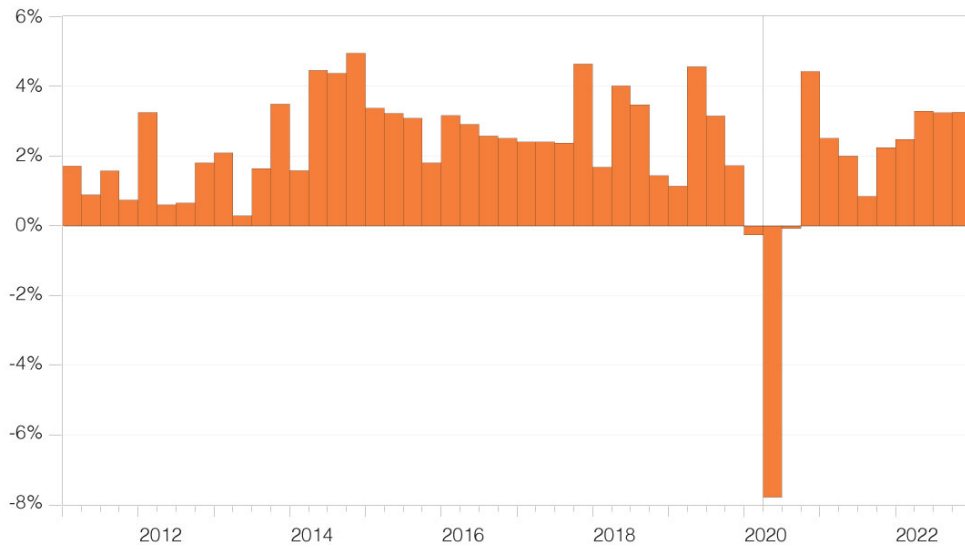
- Real GDP declines by 6.5% and 1.9% in 2Q and 3Q, respectively. Growth rebounds in the 4Q a 4% clip. (Figure 1)
- Social distancing causes real consumption to fall by 7.8% in 2Q. (Figure 2)
- Real Business Fixed Investment declines throughout the year. (Figure 3)
- Two million jobs are lost between 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 QE. (Figure 6)
- Inflation remains muted. (Figure 7)

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



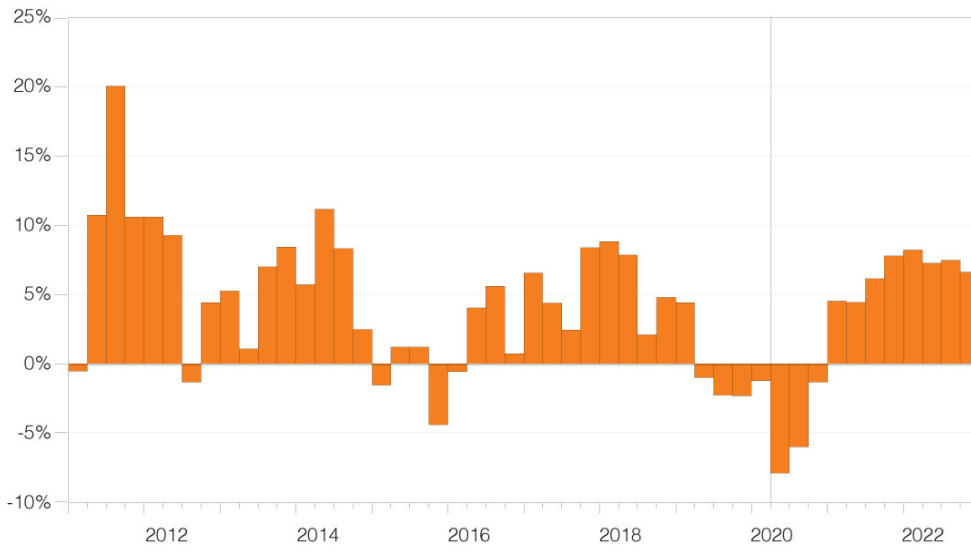
Sources: U.S. Department of Commerce and UCLA Anderson Forecast

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



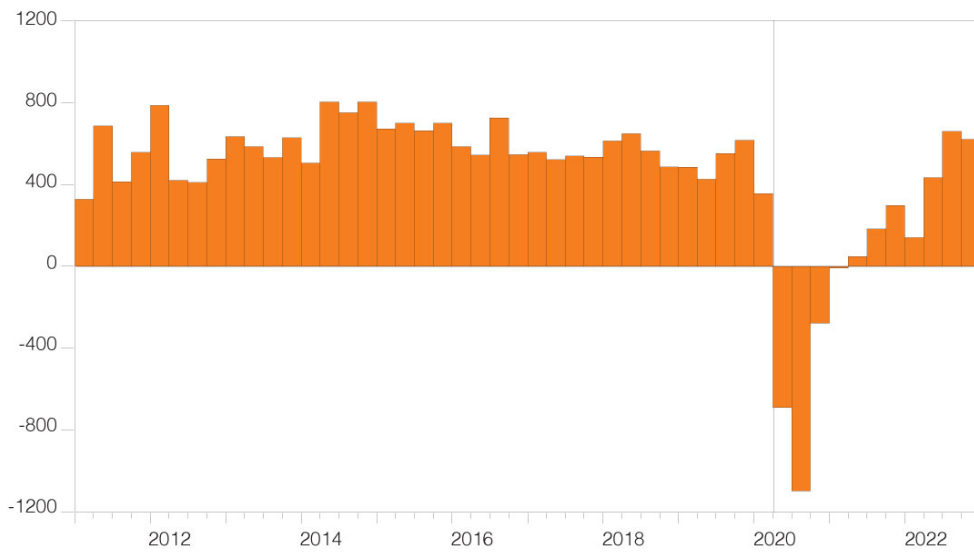
Sources: U.S. Department of Commerce and UCLA Anderson Forecast

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



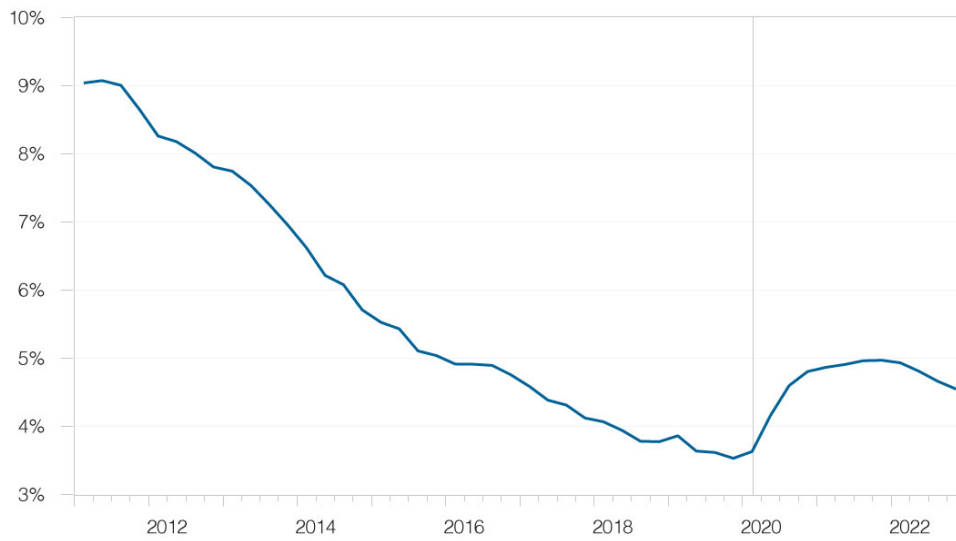
Sources: U.S. Department of Commerce and UCLA Anderson Forecast

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



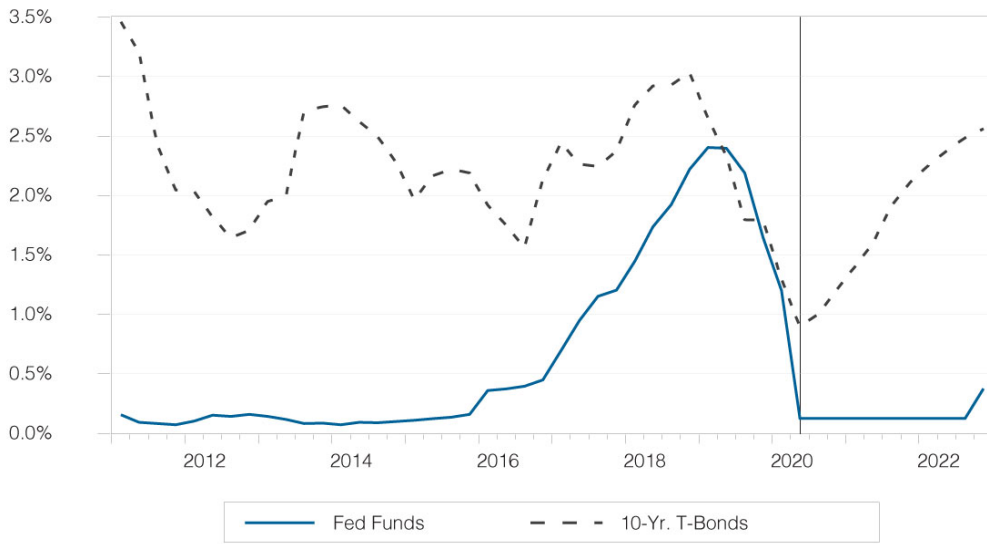
Sources: Bureau of Labor Statistics and UCLA Anderson Forecast

Figure 5. Unemployment Rate, SA



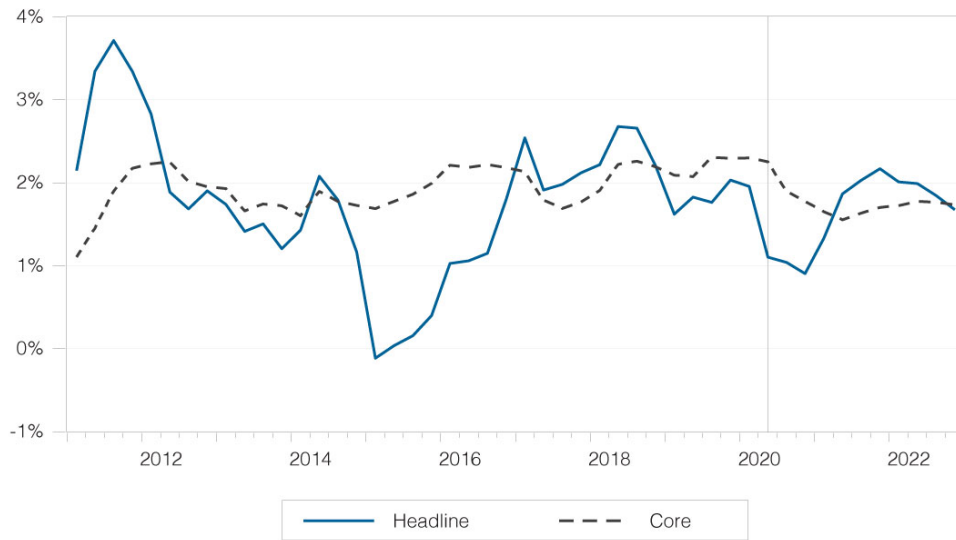
Sources: U.S. Bureau of Labor Statistics and UCLA Anderson Forecast

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