The Pandemic Economy and State Budgets

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The Pandemic Economy
U.S. Real GDP, Moody’s Analytics Baseline Scenario, Trillions 2012$, SAAR

Sources: BEA, Moody’s Analytics
Sliding Sideways Into the End of the Year

Nonfarm employment, mil, 2020

% of Jan 2020 employment

Sources: BLS, Moody’s Analytics
Spending Focusses on Essentials, Homes, Autos

Retail sales, Aug 2020, % change yr ago

Online (nonstore)  Building & garden  Grocery stores  Drugstores  Motor vehicles  Furniture  Total  Electronics/appliance  Gas stations  Restaurants  Department  Clothing

Sources: Commerce Department, Moody’s Analytics
Normal Is a Relative Term

Moody’s Analytics/CNN Money “Back-to-Normal Index,” as of 9/23

Sources: CNN, Moody’s Analytics
Where the Economy Is Most Vulnerable
COVID Economic Exposure Score, 0=metro area avg, Oct 2020

MA Economic Exposure Score Key Components:
- Previous infections
- Demographics
- Commuting patterns
- Population density
- Industrial mix
- Income levels

Source: Moody’s Analytics
Not Your Normal Recession

% change yr ago, U.S.

Sources: BEA, Moody’s Analytics
What Scenarios Are We Looking At?

Scenario assumptions behind MA’s most recent stress tests

Baseline – Moderate Stress Scenario

Assumes the worst of the pandemic will end with the summer.
By Q4 of 2021 the jobless rate is still around 8% and real GDP is at the same level it was to end 2019.
Job market doesn’t recover previous peak until late 2023.

S3 – Severe Stress Scenario

Assumes a second round of outbreaks leads to a double-dip recession.
By Q4 of 2021 the jobless rate is almost 11% and real GDP is nearly 6% lower than at the end of 2019.
Job market doesn’t recover previous peak until early 2027.
Lots of Downside Without More Stimulus

U.S. disposable personal income, % change yr ago

Sources: BEA, Moody’s Analytics
Unemployment and Medicaid

Number of unemployed persons in the U.S., mil

23M unemployed Americans at peak in April. More than 12.5M still unemployed as of September.

In September 4.6M Americans still listed as unemployed for temporary reasons.

Sources: BEA, Moody’s Analytics
Baseline Outlook

Aggregate fiscal shock across all 50 states

What was severe has become the baseline:

Revenue losses and Medicaid surge are likely to extend across at least three fiscal years.

Majority of the pain will still be concentrated on the revenue side of the ledger.

Including local governments, total need could be as high as $450 billion.
Baseline Outlook

Three-year fiscal shock as a % of Gross State Product

Implications Vary Across States

Overall fiscal shock, not including the use of rainy-day reserves.

States seeing the most risk are those whose economies rely heavily on the public sector, tourism, and energy. Also those with exceptionally high exposure rates/business restrictions.
Severe Outlook
Aggregate fiscal shock across all 50 states

Reimagining the meaning of the word severe:
A double-dip recession would create unprecedented fiscal stress for state budgets.

Including local governments, total need could be as high as $650 billion
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16