The COVID-19 Economy

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April 20, 2020
Not Since the Great Depression

U.S. unemployment rate, %

1930s Depression
WWII
Fed slays inflation
Financial crisis
COVID crisis

Sources: Federal Reserve, BEA, Moody’s Analytics
Spending Shifts – Losers Swamp Winners

Retail sales, % change, March 2020

Sources: Census Bureau, Moody’s Analytics
Low Wage Workers Bearing Brunt of Losses

Share of jobs by wage tier, %

Sources: BLS, Moody’s Analytics

MOODY’S ANALYTICS
Small Business Vulnerability

Small business* employment, % of total private, 2016

*Defined as establishment with <500 employees

U.S. avg = 47%

- <44%
- 44% - <47%
- 47% - <54%
- ≥54%

Sources: Census Bureau, Moody’s Analytics

MOODY’S ANALYTICS
Timing Is Everything in the Forecast

U.S. real GDP, % change yr ago

Sources: BEA, Moody’s Analytics
Lots of Pain, but Not All the Same

Change in unemployment rate 2019Q4 to 2020Q2, ppts

Key Characteristics
» COVID-19 Infection Rate
» Exposure to small business
» Industry mix
» International connectivity

Sources: BEA, Moody’s Analytics
Historic Declines On Tap

Aggregate state general fund revenue declines through fiscal 2021, $ bil

Sources: NASBO, Moody’s Analytics
Wide Range of Revenue Outcomes

Estimated revenue declines, % of 2019 general fund revenues

**Largest impacts (S3):**
- Alaska – 79.6
- Louisiana – 45.7
- North Dakota – 44.3
- West Virginia – 39.4
- Wyoming – 36.9
- New Jersey – 34.7

**Smallest impacts (S3):**
- Pennsylvania – 8.2
- Maryland – 10.1
- Massachusetts – 10.5
- Alabama – 11.1
- Arkansas – 11.9
- South Dakota – 12.2

Source: Moody’s Analytics
Inescapable Shortfalls

Shortfall net of reserves under baseline, % of 2019 revenues

» Only 17 states have adequate reserves available to absorb baseline with relatively minor difficulty.

» An unprecedented 21 states would have to go through the painful process of filling budget holes of 10% or more.

» Under the severe-S3 scenario, up to 34 states would need to fill budget holes of 10% or more. Some as large as 40%.

Sources: NASBO, Moody’s Analytics
Overall Cost Will Be Too Much to Handle

State governments through fiscal 2021, $ bil

Potential needs
- Economic impacts: $203b\(^1\)
- COVID-19 emergency spending: $150b

Usable resources
- CARES: $110b
- Family First: $35b
- Reserve drawdowns: $36b\(^2\)
- Estimated shortfall (spending cuts and tax increases): $172B

1) Impacts through FY21. Impacts through FY22 could be at least another $100 bil.
2) Assumes states will initially only draw on approximately half of their reserves.

Sources: NASBO, Moody’s Analytics
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