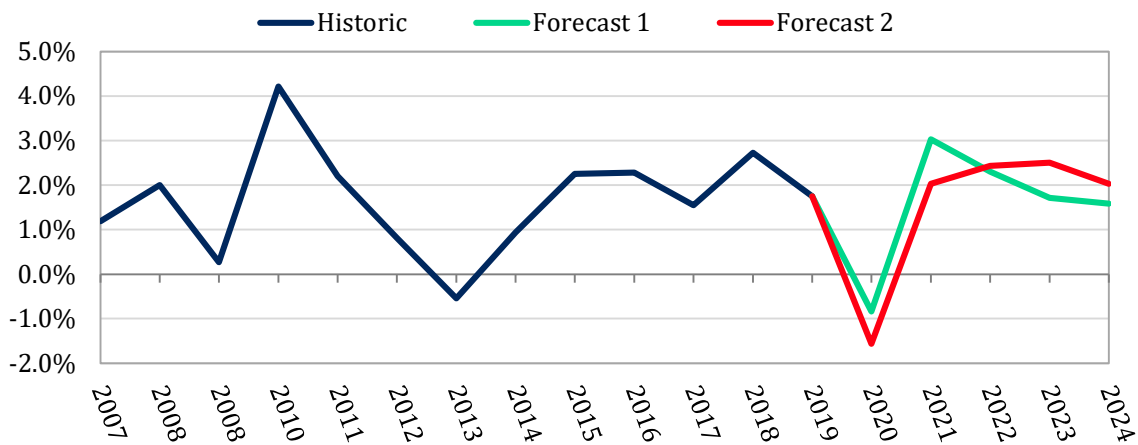


The Economic Impact of the Coronavirus Pandemic in the Washington Region Forecast as of March 30, 2020

With the continued worsening of the pandemic in the Washington region, the economy is projected to contract 0.8 percent in 2020 and rebound 3.0 percent in 2021 assuming that 1) the current containment strategies are sufficient, 2) normal business operations return in July and 3) consumer confidence and spending returns quickly. The regional outlook continues to have considerable uncertainty and even a modestly longer or more severe pandemic would result in a significantly larger contraction and a slower recovery.

Figure 1. Annual Change in the Washington Region's GRP, 2007 – 2019 – 2024

Forecast 1: Current Containment Strategy Successful by July & Quick Return of Consumer Sentiment
Forecast 2: Containment Period Lasts into Fall & Slower Return of Consumer Sentiment



Source: The Stephen S. Fuller Institute at the Schar School, GMU

I. Immediate Impacts of the Pandemic

Increased Uncertainty

Firms and households will postpone major decisions, some investments, and/or durable goods purchases until after the pandemic is controlled. If the pandemic is controlled within 1-3 months, many of these activities will resume relatively quickly.

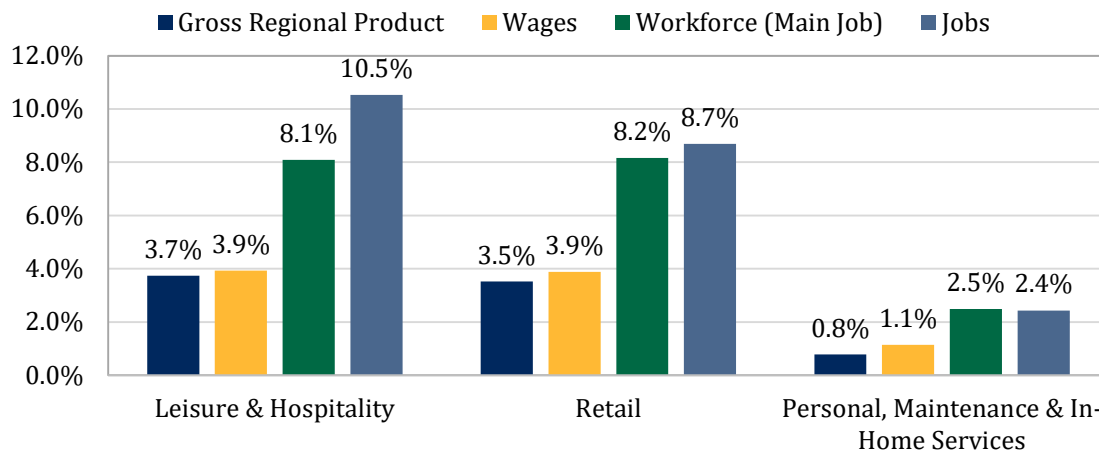
Lost Productivity from Professional Workforce

Workforce disruption and work-from-home policies or mandates have reduced the productivity of the professional workforce. While the Washington region's industries are somewhat better able to accommodate a remote workforce than other metros in the U.S., regional output has been reduced because of inefficiencies.

Shutdown of Leisure & Hospitality, Retail & Consumer Services Sectors

A near-total shutdown of these industries (Figure 2 on page 2) was in effect by mid-March. These sectors represent 18.7% of the region's workers (593,000 workers), 8.0% of the region's economic activity as measured by Gross Regional Product (GRP) and has accounted for the majority of pandemic-induced economic contraction so far.

Figure 2. Tourism & Consumer Services Industries as a Share of Economic Activity
Washington Region, 2018



Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; American Community Survey; The Stephen S. Fuller Institute at the Schar School, GMU

II. Downside Risks of a Worsened or Prolonged Pandemic

Semi-Shutdowns of Other Sectors

A more severe or prolonged pandemic that lasts past July would deepen the productivity losses associated with the region's professional firms, increase credit and financial constraints, and disrupt supply chains beyond the manufacturing and transportation sectors. As a result, the region's Construction, Professional & Business Services, Financial Activities, and Non-Profit/Association sectors would materially reduce output.

Income and Net Wealth Loss

The pandemic's immediate effects on net wealth have varied significantly by household but have thus far been isolated to Leisure & Hospitality, Retail and Consumer Service worker wages and stock/equity investments. In aggregate, these represent a small share of all disposable spending in the region and their loss or volatility is not likely to lead to changes in consumer demand after the pandemic is controlled. A longer pandemic would affect a larger share the region's industries and their worker's wages. As a result, post-pandemic consumer spending would not recover to its pre-pandemic level even after the health crisis is resolved.

Consumer Sentiment

If and when consumers return to the pre-pandemic spending will depend not only on how much income or wealth was lost but also on consumer sentiment. The pandemic, or the institutional response to it, may weaken consumer sentiment and result in a slower recovery. This is a more likely scenario if the pandemic worsens or lasts into the summer.

Economic Bottlenecks

The Washington region is less susceptible than other parts of the U.S. to the supply chain bottlenecks that have been caused by decreases in international manufacturing. However, economic bottlenecks from postponed activities will affect the region to some degree. The magnitude of these bottlenecks and how fast the region can catch-up from them will be determined by the length and severity of the pandemic.