

## JFO Economic and Revenue Update Notes – April 29, 2020

- Current economic conditions are dominated by epidemiological and federal policy events with massive economic consequences, not business cycle economic imbalances in need of correction. As a result of this, future State economic activity and revenue flows will be primarily controlled by the progression and characteristics of the COVID-19 pandemic - and the federal responses to mitigate some of its effects.
- Epidemiological unknowns include: detailed transmission characteristics, immunity duration, “second wave” risks and likelihood, vaccine development timelines, other medical treatment development, asymptomatic prevalence and possible seasonality. The lack of widespread testing has been a hindrance in better understanding the virus and its spread, and will be critical in later containment stage efforts, including contact tracing and rapid quarantining of new cases. Serological immunity tests have been plagued by accuracy problems and are not yet useful components of containment strategies.
- Federal policy unknowns include: the ultimate magnitude and scope of unprecedented federal spending to offset some of the negative economic impacts of the pandemic, how much of this spending will accrue to Vermont, the exact uses of these funds and the timing of these uses.
- Consumer behavioral responses to all this will be as important as specific policies. Behavioral unknowns include: Will consumers return to re-opened businesses quickly? Will workers feel safe enough to return to jobs – especially if they are receiving more generous UI benefits (through July 31)? To what extent will initial re-opening restrictions reduce business activity? What sectors may experience more long-lasting or permanent losses?
- The economic statistics coming out of the second quarter of 2020 will not be comparable to anything seen in U.S. economic history. Standard economic terminology is ill-equipped to describe the event, since it is less a “recession” than a directed, temporary shutdown of certain sectors of the U.S. economy in order to avoid likely catastrophic health outcomes.
- Examples of this will be the soon to be released April unemployment rate numbers. Based on unemployment insurance claims, Vermont unemployment currently exceeds 20%, however, the survey process, which includes “modeling” of some of the data collected, and questions asked to determine unemployment status, may exclude many from being counted as unemployed by the standard definition (U3). This could result in a published rate that is half or less of actual unemployment.
- The revenue estimates in the attached table are best understood as “order of magnitude” placeholders in an ongoing process to gain greater clarity on likely revenue impacts as events unfold in the coming weeks and months. FY20 estimates are consensus basis and there will be a consensus version of FY21 within two weeks, following the release of the April tax data and a clearer understanding of the end of the lockdown period on May 15.
- FY21 revenue reductions from the prior January 2020 forecast across all three funds analyzed are likely to be significantly larger than FY20 losses – by a factor of about three. This analysis is ongoing and will be updated as new analysis and information becomes available.