

APRIL 16, 2020

Preliminary Assessment of the Economic Impact of COVID-19

PRESENTED TO: Senate Budget and Fiscal Review Committee
Hon. Holly J. Mitchell, Chair



LEGISLATIVE ANALYST'S OFFICE

COVID-19: Recession and Recovery

- ▶ **Job Loss and Abrupt Halting of Economic Activity Make it Clear That We Have Entered a Recession**

- ▶ **From This Point, Two Paths Seem Plausible:**
 - *U-Shape*. Sharp downturn with depressed level of activity persisting for some period of time, followed by a pronounced recovery.
 - *L-Shape*. Sharp downturn, slow resolution to the virus, and inadequate federal fiscal stimulus leads to protracted recession with high unemployment rates.

- ▶ **Which Shape the Recovery Takes Likely Depends on the Trajectory of Virus Itself**



What Is the Role of the Federal Government?

- ▶ **Given Its Ability to Run Deficits, the Federal Role Is Indispensable**

- ▶ **Adequacy of the Federal Fiscal Response Will Determine Much About the Pace of the Eventual Economic Recovery**

- ▶ **Federal Package To-Date Was Historic, in Size and the Speed With Which It Was Enacted. That Said:**
 - It is likely that more action will be needed.
 - Misses the opportunity to move significant sums of money quickly—states represent an ideal vehicle for this.



California Likely Faces a Challenging Fiscal Outlook

- ▶ **Fiscal Outlook Has Gone From Anticipated Surplus to Very Likely Facing a Budget Problem**
 - Budget picture will evolve over the next few months as data become available.
 - Timing of downturn creates higher than usual level of uncertainty.

- ▶ **Fiscal Effects of the Recession Will Likely Span More Than One Budget Year**
 - Historic reserve balances are very helpful, but likely not enough to cover revenue losses.
 - In the near term, judicious use of budget reserves is warranted.

- ▶ **Lacking Solid Basis for Revenue Estimates, Adoption of a Cautious Budget in June Is Justified**
 - A prudent “baseline” budget will make addressing the potential budget problem easier.
 - Baseline (or “workload”) budget is cost to maintain existing service levels.
 - We are updating our November *Fiscal Outlook* to estimate cost of baseline.
 - What constitutes a “baseline budget” is open to some interpretation.
 - Therefore, our office is also developing an alternative “baseline-low.”

