Preliminary Assessment of the Economic Impact of COVID-19

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