RESEARCH BRIEF

Marcus & Millichap

GROSS DOMESTIC PRODUCT

SECOND QUARTER

Economic Damage From Health Crisis Comes Into Focus

Economy suffers most in postwar period. Gross domestic product (GDP) declined by 32.9 percent in the second quarter as businesses were closed or forced into limited operation to prevent overwhelming the nation's healthcare system. The decline was in line with expectations and sets the stage for a recovery featuring the largest ever gain in GDP in the third quarter of this year. Although the reduction in the broadest measure of the economy highlights the depth of the recession, the country may already be moving into an expansionary period. GDP and other economic indicators point to an increase in the probability of a check mark-shaped recovery.

Social benefits lead to jump in income. The $600 weekly unemployment supplement from the federal government helped drive a $1.4 trillion increase in personal income in the April-to-June period. By comparison, personal income increased $193 billion in the first quarter. The federal supplement expired at the end of July and is unlikely to be replaced at the same level when Congress passes the next stimulus bill. The increase in income, limited consumption opportunities, and heightened uncertainty surrounding the recession pushed the personal savings rate to $4.7 trillion in the second quarter, triple the first-quarter level. As a percentage of disposable income, personal savings jumped to 25.7 percent last quarter. Typically, the rate hovers in the 7 percent range.

GDP offers glimpse into third-quarter property performance. Aggressive action by the Fed flooded the economy with liquidity over the past few months. The elevated savings rate and previously extended Paycheck Protection Program (PPP) should help prevent sizable rent and mortgage payment delinquencies. Personal consumption, which fell 34.6 percent last quarter, will recover in the third quarter as more of the economy opened, preserving more retailer-sector businesses. The rise in consumption will hinge on consumer confidence improving alongside business activity. Barring another setback, the second half of 2020 has the potential to be among the strongest growth periods in the nation's history, though the jumping-off point was extremely low.

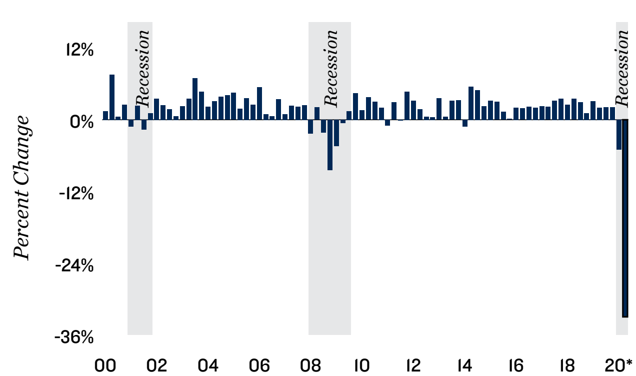
Next Few Months Key to Growth

Third quarter critical to economic recovery. Policy decisions, both public health and economic, will shape the trajectory of the economy out of the recession. Previously passed legislation largely targeted keeping households and businesses afloat during the shutdown. While the next coronavirus bill was anticipated to focus on stimulating the economy, a spike in infections that slowed reopening plans will necessitate a hybrid bill that supports economic growth and maintains the expanded social safety net.

Real estate investors emerging from sidelines. Similar to the national economy, the third quarter could see stronger investment activity relative to the April-to-June period. Companies and consumers are beginning to formulate long-term plans that will enable investors to decide how to deploy stockpiled capital. Furthermore, lender uncertainty is receding and they are no longer hamstrung processing a deluge of PPP loans while transitioning to a remote work model. Utilizing low interest rates, buyers are expected to target lower-risk properties and any available distressed assets that come to market.

32.9% *Annualized 2Q Decrease in GDP*	25.7% *2Q Personal Savings Rate*

2Q Decline Sets Stage for Record Recovery



** Through 2Q*

Sources: Marcus & Millichap Research Services; Bureau of Economic Analysis