

# Short-term U.S. Economic Impacts of the Novel Coronavirus

## Closure of All Non-Life-Sustaining Industries

States have begun suspending the physical operations of many economic sectors in hopes of decelerating the spread of the novel coronavirus. Using sector-specific guidance from Pennsylvania, FTI Consulting (“FTI”) forecasted the economic impacts if all states were to pursue similar guidance. Under this scenario, FTI estimates 65.4 million workers, or 33% of all U.S. workers, would have their jobs suspended in 2020 Q2. The impact to GDP would be \$1.18 trillion, which amounts to 5.7% of annual GDP or an annualized decline of 22.9%, in line with others forecasting a 12% to 30% annualized decline.

States such as California, Connecticut, Florida, Nevada, New Jersey, New York, and Pennsylvania have begun suspending the physical operations of many economic sectors in hopes of decelerating the spread of the novel coronavirus. Pennsylvania recently issued a detailed list of economic sectors<sup>1</sup> that can or cannot stay open based on whether they are “life-sustaining businesses.” These businesses include agriculture and natural resources, food and fuel production and distribution, utilities, certain key manufacturing and communications sectors, insurance, and healthcare services.

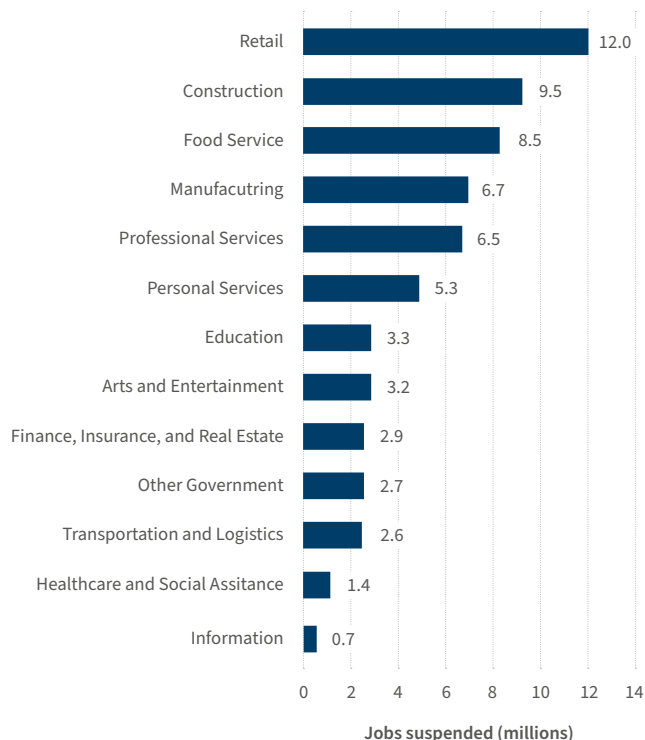
FTI examined the direct, short-term (3-month) economic activity at-risk if all states were to adopt similar guidance to that of Pennsylvania.<sup>2</sup> Roughly 65.4 million jobs at non-life-sustaining businesses – or 33% of all U.S. jobs – would be suspended with the strongest impacts in the retail sector, construction, and food service.<sup>3</sup>

<sup>1</sup> <https://www.inquirer.com/health/coronavirus/spl/pennsylvania-coronavirus-list-life-sustaining-businesses-shutdown-order-20200319.html>

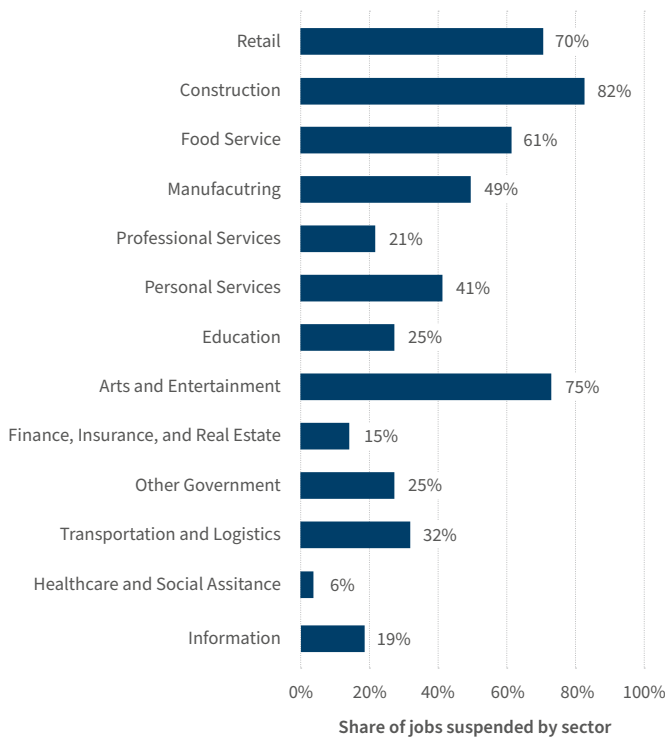
<sup>2</sup> We assumed certain economic sectors, even if deemed non-life-sustaining business, can continue to operate. These include professionals working from home at 75% capacity in sectors such as information, finance, real estate, professional services, education, some types of personal services, and government. We also assumed that food service continues to operate at 50% capacity through takeout orders and arts and entertainment continues to operate at 25% capacity through the Internet.

<sup>3</sup> We expect minimal impacts to sectors such as agriculture and natural resources, fossil fuel extraction, utilities, and wholesale trade.

**Figure 1 - Suspended Non-Life-Sustaining Jobs by Economic Sector**



**Figure 2 - Share of Total Jobs by Economic Sector**



FTI estimates the direct losses to GDP would total \$1.18 trillion in 2020 Q2, which equals to a 22.9% annualized decline or roughly 5.7% of annual GDP. Other forecasts have estimated comparable annualized GDP losses for 2020 Q2. These include the University of Michigan (12%),<sup>4</sup> Goldman Sachs (24%),<sup>5</sup> and Bridgewater Associates (30%).<sup>6</sup>

<sup>4</sup> University of Michigan, [https://lsa.umich.edu/content/dam/econ-assets/Econdocs/RSQE%20PDFs/RSQE\\_Forecast\\_Update\\_\(2020.03\).pdf](https://lsa.umich.edu/content/dam/econ-assets/Econdocs/RSQE%20PDFs/RSQE_Forecast_Update_(2020.03).pdf)

<sup>5</sup> Goldman Sachs, <https://www.cnbc.com/2020/03/20/goldman-sees-an-unprecedented-stop-of-economic-activity-with-2nd-quarter-gdp-contracting-by-24percent.html>

<sup>6</sup> Bridgewater Associates, <https://www.bridgewater.com/research-library/daily-observations/Greg-Jensen-the-coronavirus-4-trillion-hit-to-us-corporations/>

In comparison to other major recessionary events over the past 100 years, the novel coronavirus will likely engender a historical economic event. The worst annualized quarterly GDP growth rate on record since the Second World War was a decline of 10.0% in 1958 Q1.<sup>7</sup> Large annualized declines also took place in 1980 Q2 (8.0%) and 2008 Q4 (8.4%). In 1932, at the nadir of the Great Depression, the economy contracted 12.9% relative to the previous year.<sup>8</sup>

The broader macroeconomic impact could be much larger under a scenario where non-life-sustaining businesses would not operate for a prolonged period, which could result in a ripple effect throughout the economy. For instance, manufacturers lose sales orders when construction projects are postponed or cancelled, and all economic sectors lose revenues when American consumers lose their jobs and can no longer spend as much as before.

**Conclusion**

Effective and strong monetary and fiscal policy will help curb the economic impact from the novel coronavirus in 2020 Q2 and mitigate its effects throughout the remainder of the year. Direct support for American households will have the greatest impact, especially for low-income households which are most likely to spend their relief and boost the economy in the short-term. Support funds and loan programs to assist the most strongly affected industries and small businesses will provide them with some of the resources needed to keep operations and payroll afloat.

<sup>7</sup> <https://fred.stlouisfed.org/series/A191RL1Q225SBEA>

<sup>8</sup> <https://www.thebalance.com/u-s-gdp-growth-3306008>

**SCOTT NYSTROM**

Senior Director  
+1 515 290 6990  
scott.nystrom@fticonsulting.com

**MITCH DERUBIS**

Director  
+1 412 808 1163  
mitch.derubis@fticonsulting.com

**KEN DITZEL**

Managing Director  
+1 703 966 1954  
ken.ditzel@fticonsulting.com