



Washington State COVID-19 economic impact

UPDATED AS OF MAY 4, 2020

Prepared at the request of



Important Context regarding this document

This document is an overview and framework for consideration only, and does not include legal or regulatory advice or recommendations on how to address the COVID-19 situation for your business or employees. Each business is responsible to seek appropriate and up to date guidance and follow rules from public authorities before implementation of any measures.

The situation surrounding COVID-19 is dynamic and rapidly evolving, on a daily basis. This document represents one scenario based on discrete data from a particular point in time. It is not intended as a prediction or forecast about duration of lockdown; peak of viral infections; efficacy of government or health care responses to the virus; or other health or societal impacts, and does not represent an “official BCG view.” It also is not intended to: (i) constitute medical or safety advice, nor be a substitute for the same; nor (ii) be seen as a formal endorsement or recommendation of a particular response. As such you are advised to make your own assessment as to the appropriate course of action to take, using this presentation as guidance. Please carefully consider local laws and guidance in your area, particularly the most recent advice issued by your local (and national) health authorities, before making any decision.

Summary findings

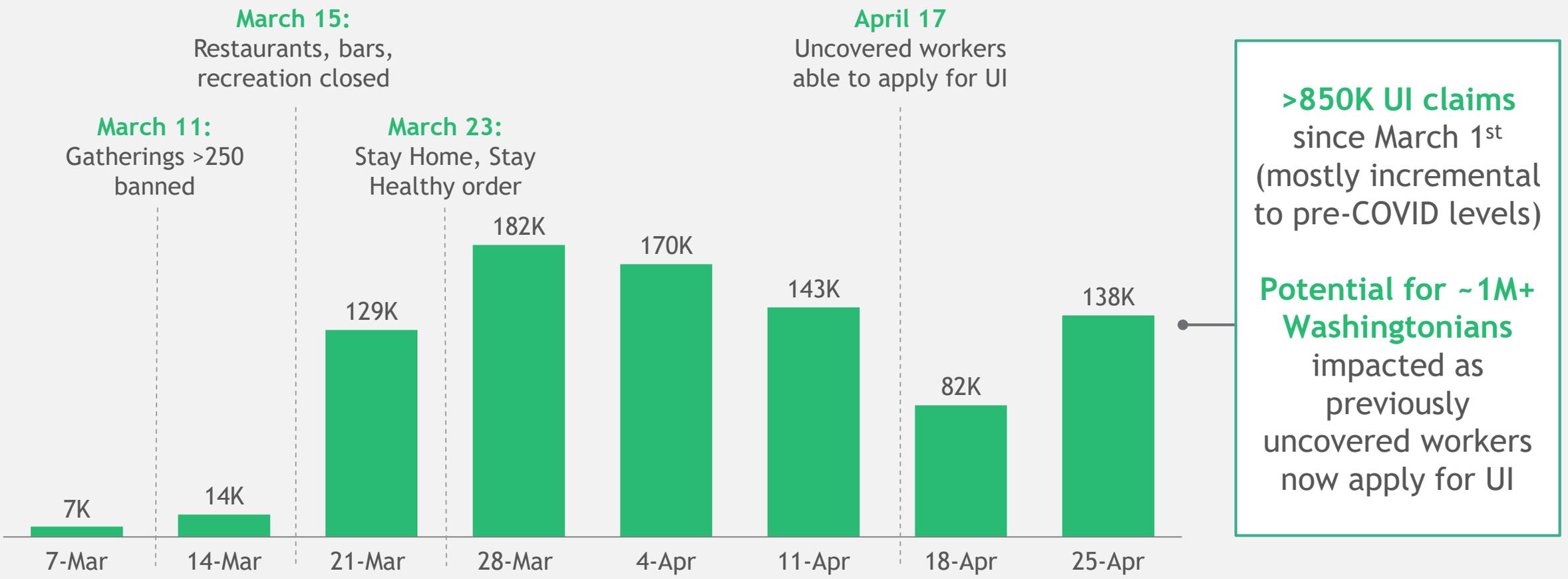
Topics explored	Findings
Unemployment trends	<ul style="list-style-type: none">• Over 850K unemployment claims to-date; now surpassing 20% of pre-COVID workforce with potential for 1M+ lost jobs• Impact spans many sectors; five sectors with 50K+ claims and seven sectors with 30%+ job loss as a percent of pre-COVID workforce
Recovery implications from prior economic shocks	<ul style="list-style-type: none">• COVID unemployment is already over 4 times higher than recent WA economic shocks including the 'Great Recession' of 2008-2010• History suggests a multi-year recovery; 'Great Recession' of 2008-10 took ~5.5 years to return to prior pre-crisis employment levels• Past recoveries imply gradual and uneven recovery; ~25% recovery of jobs lost was the fastest observed rate in the first 6 months following the crisis' trough• Implication is over 500K jobs in WA will still <u>not</u> have been recovered before 2021 at the current level of unemployment claims (which is still rapidly growing)
Vulnerable household implications	<ul style="list-style-type: none">• Lower income jobs (under \$50K annually) are the majority of the workforce for 7 of the 10 most highest impacted industries in terms of total unemployment claims• Spending trends indicate a gap between UI and SNAP benefits and basic necessities <u>without</u> the expanded Cares Act benefits (which currently provide 4 months coverage)• Implication is significant number of households will need additional support as soon as late this summer once the 4 months of expanded Cares Act benefits are consumed
State revenue impacts	<ul style="list-style-type: none">• Estimated state revenue impact of \$3-5B in current budget cycle

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Unemployment claim trends

Unemployment claim trend from w/e 3/7 thru w/e 4/25

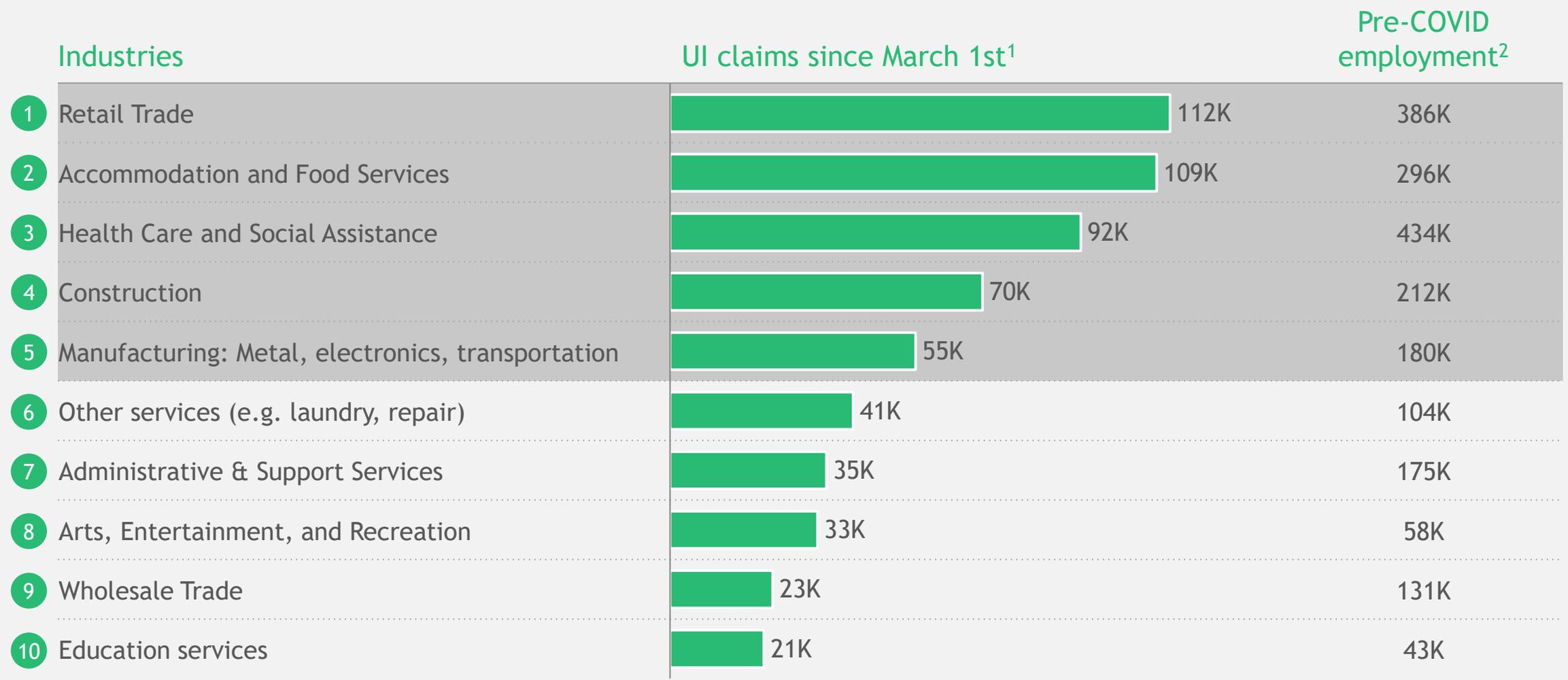


Sources: Labor Market & Economic Analysis (LMEA) Division, Employment Security Department, State of Washington; BCG analysis

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Industries with highest total UI claims to-date

Top 10 industries shown (73% of total claims)



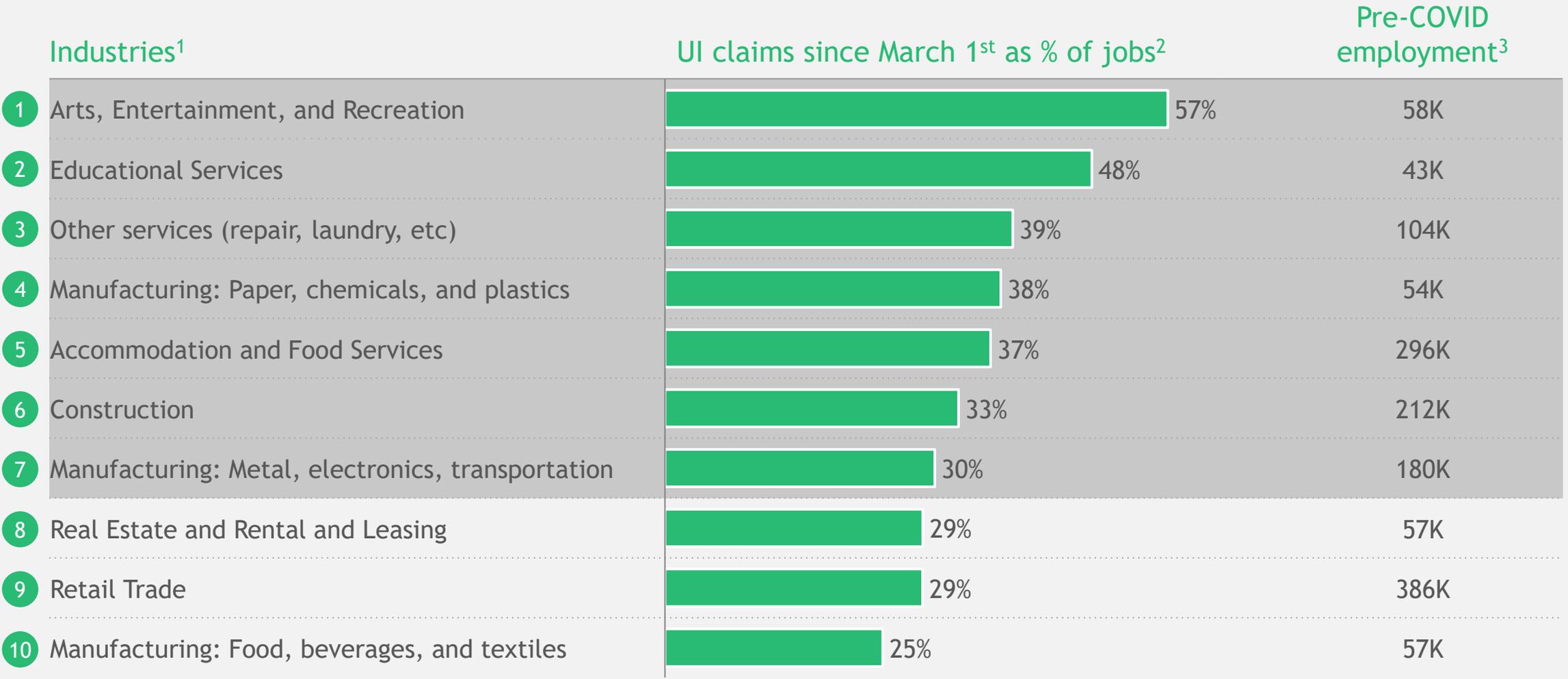
1. Total claims from March 1st to April 25th, adjusted for steady-state claims; 2. As of Q3 2019
 Source: Washington State Employment Security Department data, BCG analysis

Shaded = industries with >50k UI claims

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Industries with highest claims as percent of jobs to-date

Top 10 industries shown



1. Excluding Mining and Utilities; 2. Total claims from March 1st to April 25th, adjusted for steady-state claims; 3. As of Q3 2019
Source: Washington State Employment Security Department data, BCG analysis

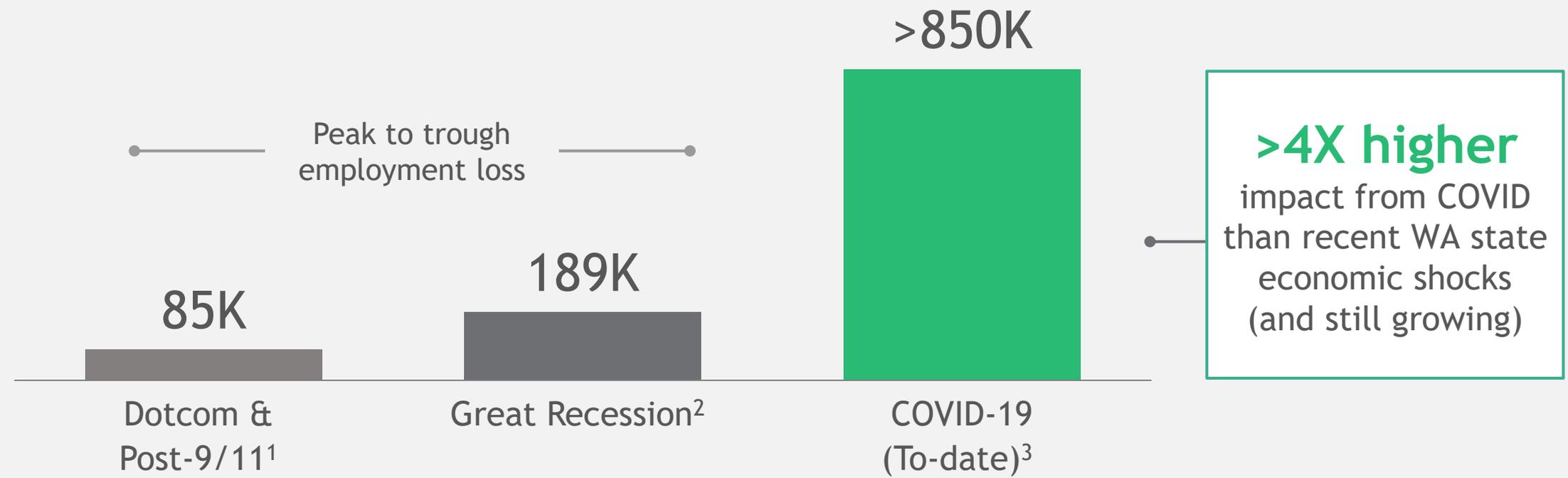
Shaded = industries with 30%+ UI claims/total jobs

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Recovery implications from prior economic shocks

Comparison to past recessions in Washington



1. Cumulative employment loss Dec 2000 - Mar 2002; 2. Cumulative employment loss Feb 2008 - Feb 2010; 3. Cumulative initial unemployment claims from March 1-April 25th
Source: Washington State Employment Security Department; Washington State Office of Financial Management

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History suggests job recovery will take multiple years

Economic shock	Job loss	Time to return to pre-crisis 'peak'		Downturn period <i>Pre-crisis peak to trough</i>		Recovery period <i>Trough to pre-crisis peak</i>
Washington State Dotcom & post-9/11	85K	~4 years <i>(48 months)</i>	=	15 months	+	33 months
Washington State 'Great Recession'	189K	~5.5 years <i>(68 months)</i>	=	24 months	+	44 months
Louisiana Post-Katrina	80K	~2.5 years <i>(28 months)</i>	=	7 months	+	21 months
New York State Dotcom & post-9/11	230K	~6.5 years <i>(77 months)</i>	=	31 months	+	46 months

Source: Bureau of Labor Statistics; Bureau of Economic Analysis; BCG analysis

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Recovery from 'trough' is commonly gradual and uneven

●———— Percent of jobs recovered ————●

Economic shock	Job loss at 'trough'	3 months after 'trough'	6 months after 'trough'	12 months after 'trough'
Washington State Dotcom & post-9/11	85K	11%	13%	9%
Washington State 'Great Recession'	189K	12%	7%	20%
Louisiana State Post-Katrina	80K	16%	27%	71%
New York State Dotcom & post-9/11	230K	6%	6%	20%

Fastest observed recovery
 16% 27% 71%

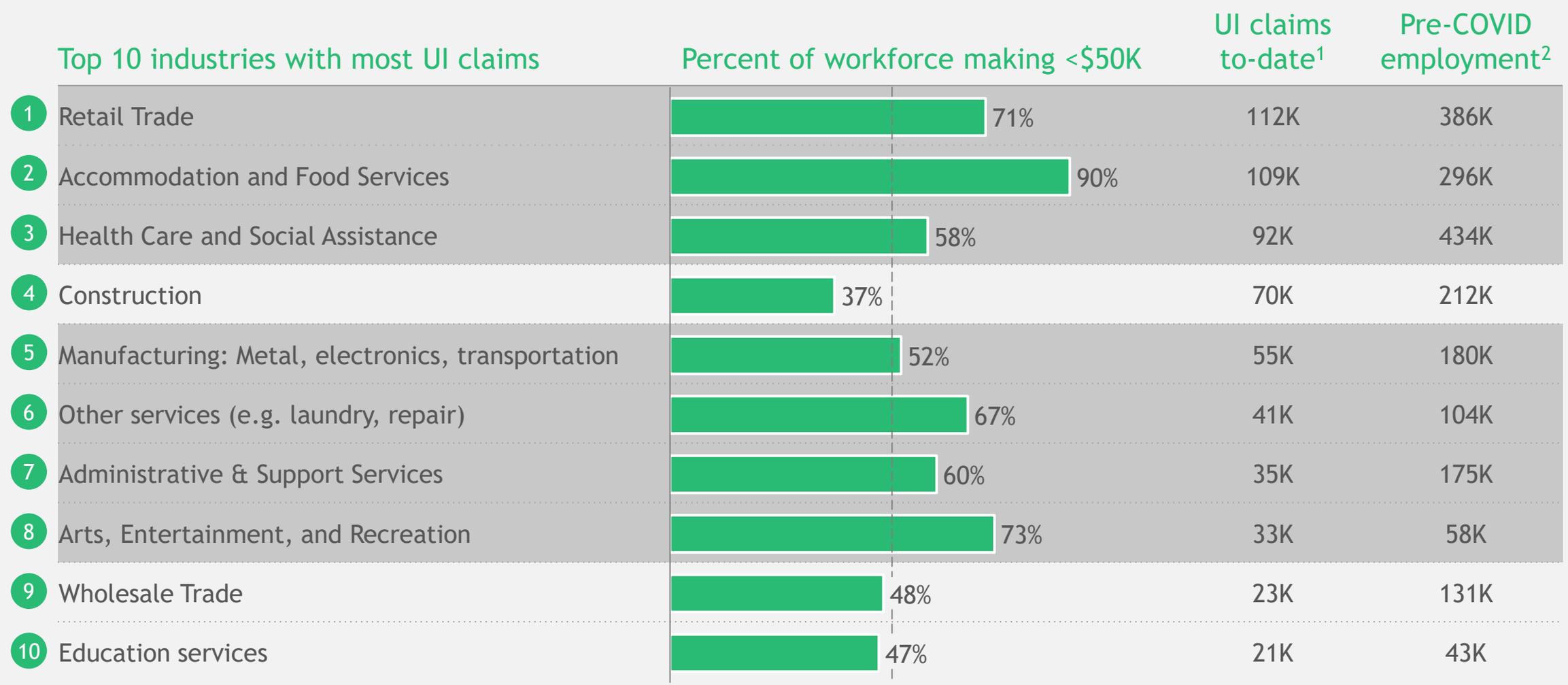
Implies >500K WA jobs not yet recovered by early 2021

Source: Bureau of Labor Statistics; Bureau of Economic Analysis; BCG analysis



Vulnerable household implications

Workers earning <\$50K/yr are majority of workforce most industries with highest UI claims to-date



1. Cumulative total 1 Mar - 25 Apr; 2. As of Q3 2019; Source: Washington State Employment Security Department data, BCG analysis

▲ 50% of jobs

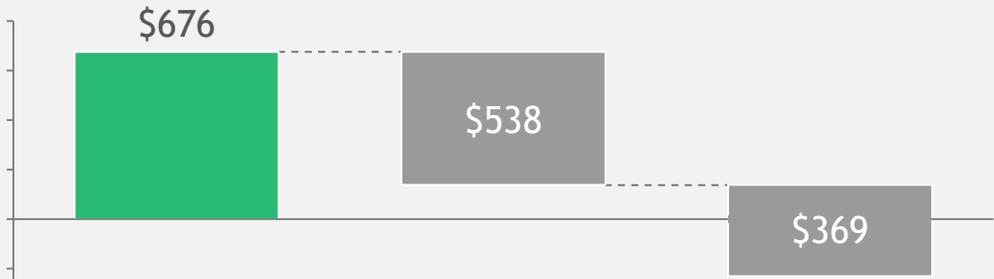
Shaded = industries with 50%+ making <\$50K

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Illustrative weekly finances for \$30-40K annual income

E.g., average wage in arts & rec, food and more

Before COVID: No net savings to cover gaps & lapses in income



- | | |
|---|---|
| <ul style="list-style-type: none"> • Housing • Food • Healthcare | <ul style="list-style-type: none"> • Discretionary¹ • Transportation • Education • Other² |
|---|---|

After COVID: \$100/wk gap between UI/SNAP payout and basic necessities



- | | |
|---|---|
| <ul style="list-style-type: none"> • Housing • Food • Healthcare | <ul style="list-style-type: none"> • Discretionary¹ • Transportation • Education • Other² |
|---|---|

1. Discretionary includes Apparel, Entertainment, Personal Care Products & Services, Reading, Tobacco, Alcohol; 2. Other includes Miscellaneous, Cash Contributions, Personal Insurance and Pension Contributions
 Source: Bureau of Labor Statistics, <https://www.bls.gov/cex/2018/CrossTabs/regbyinc/xregnw.PDF>

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State revenue impacts

State revenue impacts

In March, we estimated impacts on state revenues

\$3-5B estimated revenue loss in current biennium budget

At risk revenues include:

- Retail sales and use
- B&O
- Real estate excise

Recent forecasts are in line with our earlier estimates

\$3.8B revenue loss in current budget cycle estimated by Washington Economic and Revenue Forecast Council

\$3.3B additional impact in 2021-2023

Additional details on Washington ERFC estimates can be found at this [link](#)

Source: Labor Market & Economic Analysis (LMEA) Division, Employment Security Department, State of Washington; Research and Fiscal Analysis Division, Department of Revenue, State of Washington; BCG analysis; Seattle Times

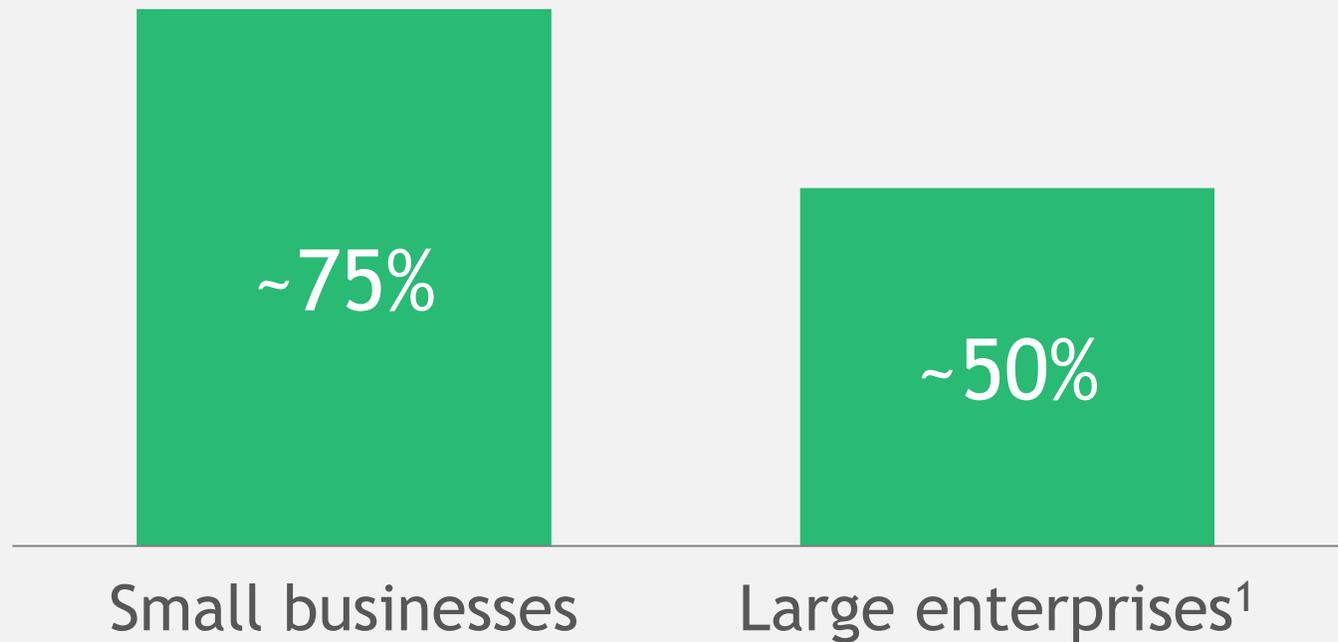
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Appendix

Percent of businesses with limited cash reserves for multi-month disruption

Risk to businesses of all sizes:
% with <2 months of cash reserves



May 4 marks 6 weeks since Stay Home Stay Healthy

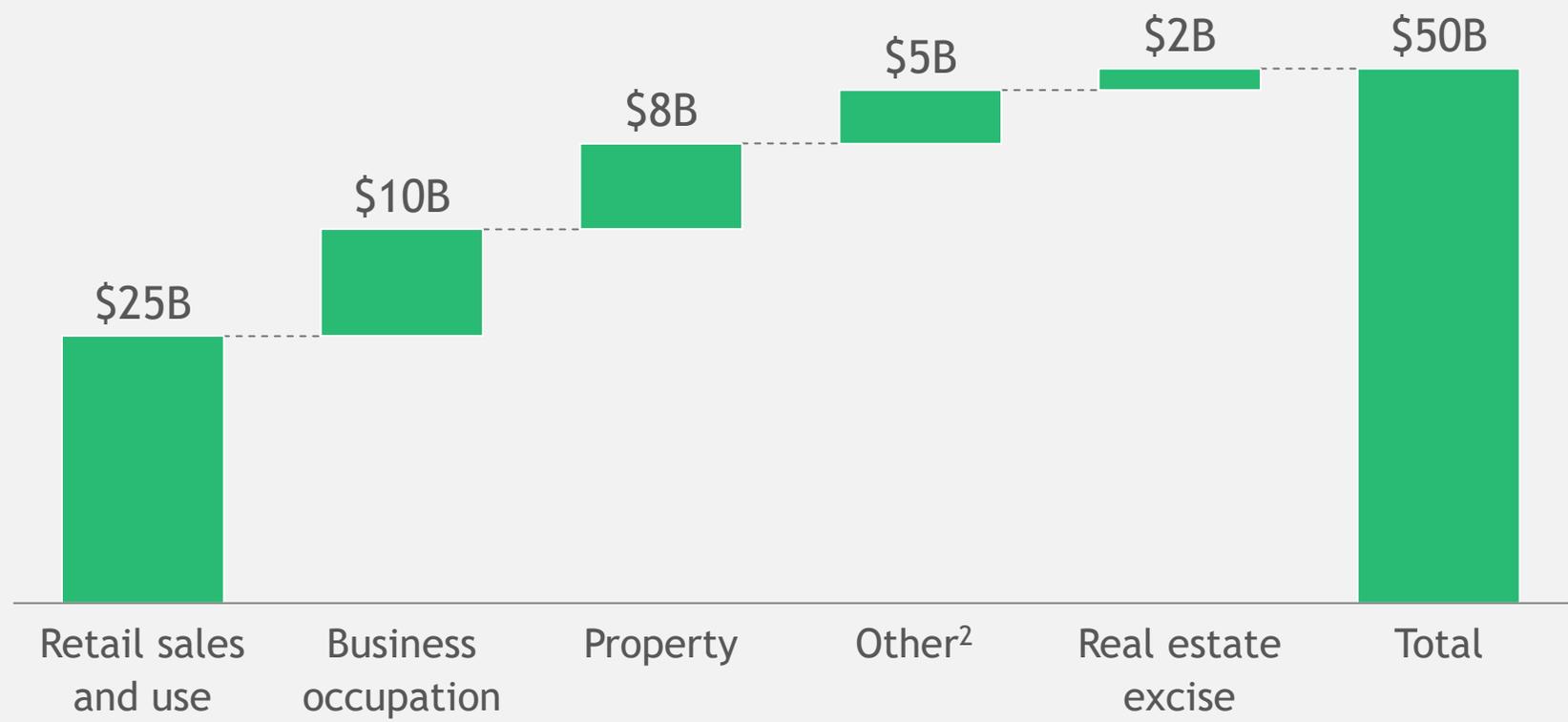
>150K establishments are in industries with top 10 highest unemployment claims

1. Data from S&P 1500
Sources: Labor Market & Economic Analysis (LMEA) Division, Employment Security Department, State of Washington; JP Morgan and Chase Co Institute; BCG Value Science; BCG analysis

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Sources of state revenue pre-COVID-19

Sources of general fund Washington State Tax Revenue, 2019-2021 biennium estimates¹



1. June 2019 revenue forecast; 2. includes liquor sales, tobacco taxes, insurance premiums, etc.
Source: Office of Financial Management

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