

UPDATE

MID-YEAR  
2020

# sacramento BUSINESS REVIEW

Volume 12 Issue 2 » [sacbusinessreview.com](http://sacbusinessreview.com)

How is COVID-19 impacting our regional economy?

Labor Market & Regional Economy  
SBR/SAFE Credit Union Consumer Sentiment Survey  
Small Business  
Real Estate  
Capital Markets & Banking Forecast  
Human Capital Trends



MID-YEAR  
2020

# sacramento BUSINESS REVIEW

## MISSION

To educate consumers on the economic and financial health of the Sacramento Region.

## LABOR MARKET & REGIONAL ECONOMY

## SBR/SAFE CREDIT UNION CONSUMER SENTIMENT SURVEY

## SMALL BUSINESS

## REAL ESTATE

## CAPITAL MARKETS & BANKING

## HUMAN CAPITAL TRENDS

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# MESSAGE FROM THE CHIEF ECONOMIST

Dear Friends,

After the worst decline since the Great Depression, we expect the U.S. economy to recover in the Q4 of 2020 and first half of 2021. The stock market crashed viciously into a bear market and unemployment spiked to levels not seen in nearly 100 years. COVID-19 has wreaked havoc worldwide – our lives will not be the same again. But equally swift has been the response from Congress and the Federal Reserve to support the economy and markets. Work on vaccines and antibodies has been accelerated with the utmost speed.



Sacramento fared slightly better than the nation as a whole, with declines in the labor market, consumer confidence, business sentiment, small business lending, and commercial real estate (office, retail). We expect the housing market to stay flat to strong given the mass exodus of people from the Bay Area in search of better quality of life in a pandemic world that encourages work from home.

The U.S. consumer is strong, and if spending and income growth return as we expect in the latter part of the year, the economy will rebound, and growth will return. Keep in mind, the consumer accounts for roughly 70% of the U.S. economy. The U.S. remains the strongest anchor economy of the world, in spite of challenges seen elsewhere, including the coronavirus, protests in Hong Kong, and geopolitical risks from Iran and North Korea, to name a few.

History tells us that election years tend to be good for the market and the stock market does especially well if the incumbent party wins (regardless of political affiliation). The damage to corporate earnings from COVID-19 require careful selection in sectors and companies that have solid balance sheets, robust and resilient earnings, and good corporate governance and management. Overall, we expect to put the worst pandemic of our lifetime behind us, shrug off its damaging impact, and move on to a new day in both the economy and the market. All investment strategies must re-calibrate, re-adjust and rebalance to take advantage of the new opportunities emerging.

Warm regards,

A handwritten signature in black ink that reads "Sanjay Varshney". The signature is fluid and cursive.

Sanjay Varshney, PhD, CFA

Chief Economist, *Sacramento Business Review*

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# KEY POINTS

## LABOR MARKETS & REGIONAL ECONOMY

- Different places are experiencing the COVID-19 peak at different times while the overall hospitalization rate and death rate are dropping, at least for now.
- National and local economies were hit hard by the pandemic; however, data show the potential of a relatively quick economic recovery if the disease can be controlled.
- The economy can remain partially open if we exercise all the measures to keep flattening the curve.

## SBR/SAFE CREDIT UNION CONSUMER SENTIMENT SURVEY

- Overall, both regional and national consumer sentiment have declined substantially since our January release.
- For the first time since the inception of our survey, the regional index of consumer sentiment exceeds the national index of consumer sentiment.
- Consumers indicate less intent to acquire auto loans, credit cards, and similar types of debt in the near future.

## SMALL BUSINESS ECONOMY

- SBA Lending Activity is on track to decline 17% in 2020 as loan approvals slow down in all counties, except Yolo County, which is on pace to increase nearly 50% compared to its three-year moving average. If projections hold true, Yolo County should constitute 15% of total share volume in the Sacramento Metropolitan Statistical Area (MSA) for 2020, compared to 6% in 2019 and 7.89% three-year average.
- The overall business sentiment reading across all sectors surveyed showed a clear drop to levels not seen in several years. Business sentiment historically has taken anywhere from at least 6 months to 1 year to reach prior highs, but this time it may take longer because of the sharpness of the decline.
- At first glance, business transaction activity appears healthy, but metrics deteriorated versus prior quarters. The sales price of closed transactions remains near its one-year moving average.

## REAL ESTATE

- **Office Market:** The fundamentals remain strong, but the full impact of the economic shut down has yet to be seen. Look for increases in sublease space with little change in pricing in the short to medium term but some increases in landlord concessions.

- **Industrial Market:** This market remains near full occupancy with construction driving much of the activity in the short term. Industrial product is well positioned to weather the COVID-related economic slowdown as many occupiers have been deemed essential.
- **Retail:** The outlook is in doubt given the substantial impact that COVID-19 has had on the retail landscape. Fundamentals will likely reflect tenants' ability to adapt to the rapidly changing business climate.
- **Single Family:** The property value growth has increased in recent months as new home construction has slowed with the beginning of the pandemic. However, Sacramento may fare well as people look to relocate to less densely populated regions.

## CAPITAL MARKETS & BANKING FORECAST

- Consistent with other key areas of the regional economy, the pandemic wreaked havoc on Wall Street in the first half of the year before regaining lost ground into the second half of the year. Our initial target of low single digit equity returns for 2020 remains intact.
- Asset growth spiked in the second quarter of the year for regional financial institutions given the flight to safety, fewer spending options, and fiscal stimulus.
- Our SBR Financial Conditions Index performed as expected given the slowdown in economic activity and retraced levels not seen since 2014.

## HUMAN CAPITAL TRENDS

- Few of our local organizations were well prepared for a large-scale crisis, although a majority of organizations reported the existence of some type of crisis management plan prior to the pandemic.
- A majority of organizations did not have established crisis management teams. The pandemic has increased the awareness, and plans are underway at many organizations for better future preparation.
- Organizations need to be better prepared to handle organizational changes, and there is a dearth of leadership competency for change management in many organizations – something that needs to be addressed.
- The skills gap became even more prominent during the COVID-19 crisis – local organizations need to keep spending time and effort training their employees on job skills and leadership competencies.
- Effective communication with employees is the human capital effort predicted to have the most impact on business performance during the remainder of 2020.



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# Labor Markets & Regional Economy

## UNDERSTANDING COVID-19 AND ITS IMPACT ON THE REGIONAL ECONOMY

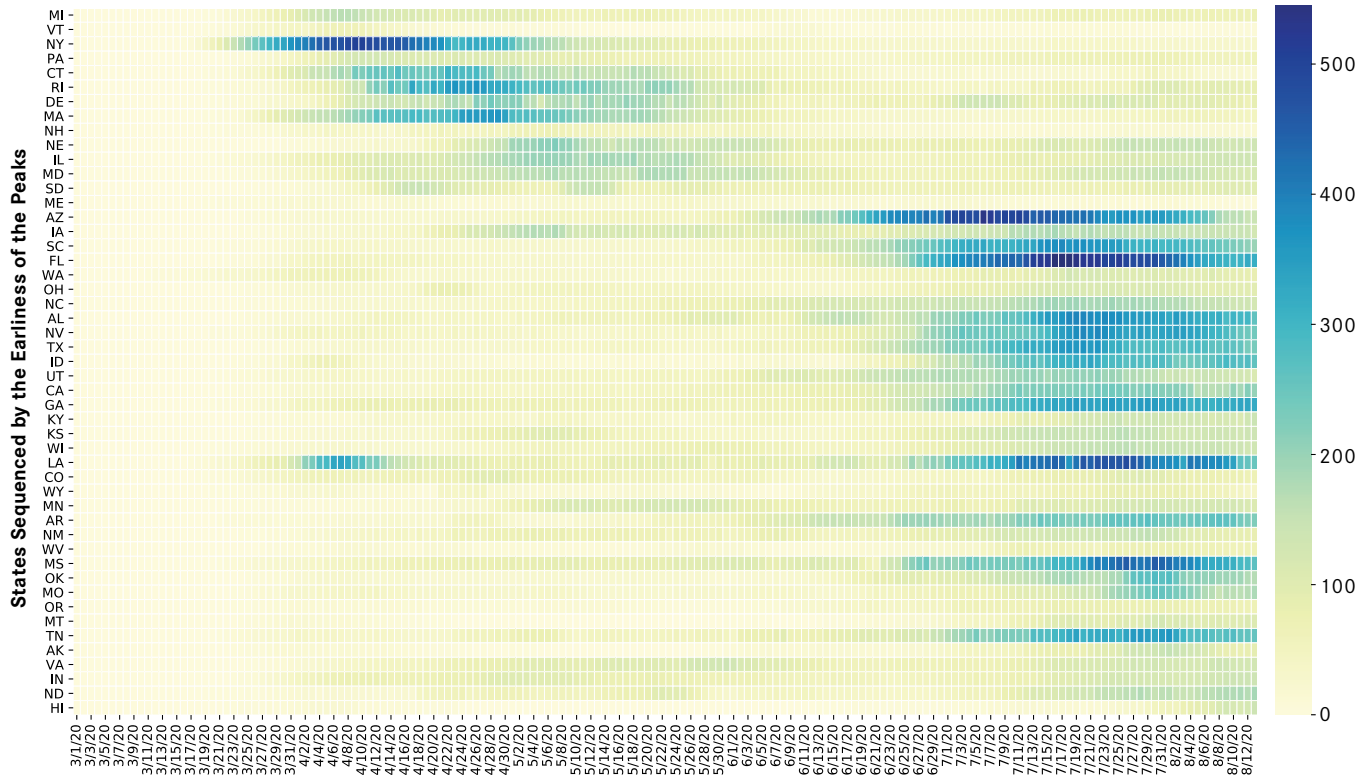
**C** OVID-19 is the dominant factor currently impacting the national and local economy. The following "heat chart" (Figure 1) plots the daily growth of cases across all 50 U.S. states. Darker blue represents a higher number of daily new cases per million population. States are sequenced in accordance with their respective peak times. The chart shows that the U.S. is not experiencing a second wave; rather, we are fighting the same wave of virus peaking in different locations at different times.

The summation of cases over various states makes the popularly displayed U.S. Daily New Cases chart appear to have two major peaks so far.

Part of the population will be infected by the new coronavirus, decreasing the at-risk percentage of the population. Some of them will be diagnosed through viral tests. Some of the infected people will need to be hospitalized, and some will die. In the U.S., the number of tests performed per day significantly increased from less than 10,000 in mid-March to

nearly a million per day in late July. The charts below show that the peak of hospitalization lags the peak of new cases for about a week, and the peak of deaths lags the peak of hospitalization for another week. As the demography of recent patients has shifted towards younger people and resources and treatment plans in hospitals have improved, we can see that the hospitalization rate in general is dropping, as is the death rate. Meanwhile, at the state and local levels, the number of new cases more closely follows the natural bell curve pattern.

**Figure 1**  
Daily New Cases Per Million Population by State (7-day Moving Average)

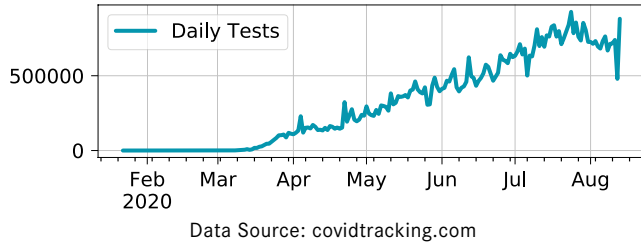


Periodically updated at [dryangsun.pythonanywhere.com](http://dryangsun.pythonanywhere.com) | Data Source: JHU CSSE

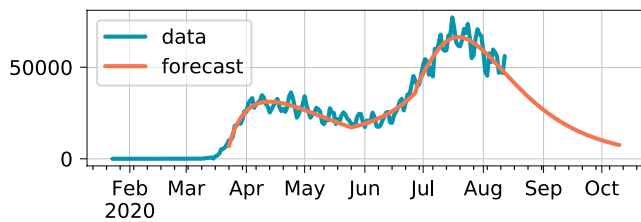




**Figure 2 • U.S. Daily Reported Test Results**

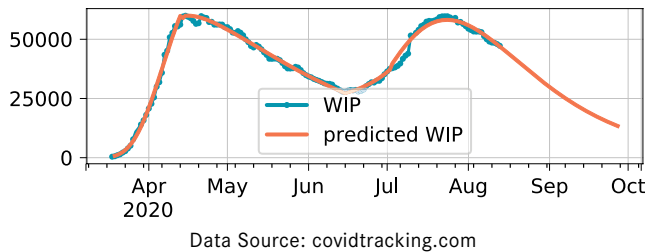


**Figure 3 • U.S. Daily New Cases**

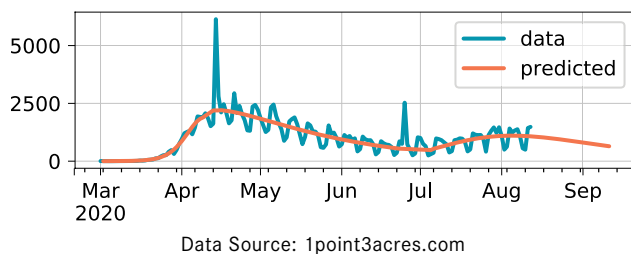


The U.S. model is the sum of forecasts from all 50 states modeled at dryangsun.pythonanywhere.com using data from JHU CSSE.

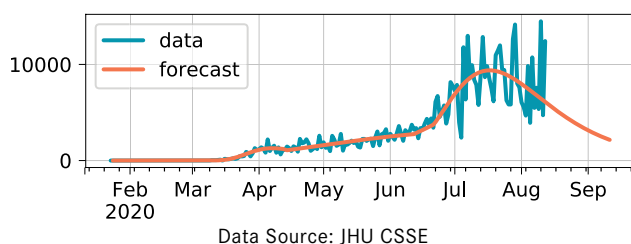
**Figure 4 • U.S. Currently Hospitalized Work-in-process**



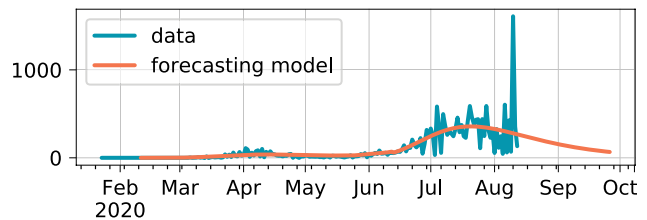
**Figure 5 • U.S. Daily New COVID-19 Deaths**



**Figure 6 • California Daily New Cases**



**Figure 7 • 7-County Sacramento Region Daily New Cases**



2019 was a spectacular year for the U.S. economy. The year 2020 also began on a positive note both nationally and locally with unemployment rates below 4.0%. Then the perfect storm came as COVID-19 entered the U.S. The stock market declined quickly, hitting a low on March 23, 37% below the previous high, sending people and investors into a panic. By late-March, both state governments and the Federal government imposed shelter-in-place/stay-at-home orders. Millions were immediately unemployed and many small businesses that depended on daily earnings were sent into a state of shock and uncertainty.

The Sacramento Region's labor market has been slammed by the coronavirus and the corresponding economic restrictions. The unemployment rate in the region spiked in March and April, quickly exceeding the highs from the Great Recession. The Sacramento unemployment rate reached 14% in April, roughly in-line with the national unemployment rate for the same time period. In just two months, the Sacramento economy lost more jobs than were gained during the 10-year recovery from the 2009 recession. Every sector of the Sacramento economy has been negatively impacted, although some have been hit harder than others. Especially hard hit were the leisure and entertainment; trade, transportation, and utilities; and other services sectors. Service jobs were more greatly impacted than goods producing jobs with service jobs down 16.4% compared to an 11.5% decline for goods producing jobs.

Fortunately, there is hope that most of the job losses are temporary, and some early signs show that the economy may bounce back quickly. Some jobs were already regained since May, and a number of indicators show that economic activities have started to rebound both locally and nationally.

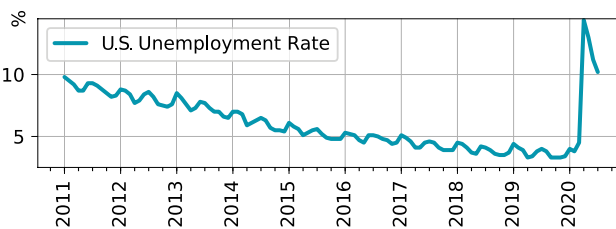
**Table 1**  
**Sacramento Region Feb-Apr 2020 Job Loss**

Leisure and Entertainment	-52.11%
Other Services	-38.40%
Trade, Transport, & Utilities	-21.30%
Construction	-13.47%
Health Care	-8.96%
Professional Services	-8.95%
Manufacturing	-8.09%
Information	-6.84%
Government	-1.61%
Finance	-1.12%

Source: Economagic.com

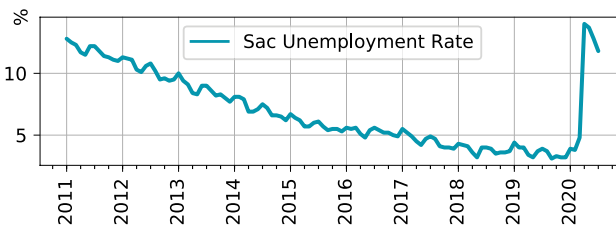
The economy will likely not make a full recovery for quite some time. While the impact from underemployment, reduced consumer sentiment, a disrupted global supply chain and continued trade tension can be long term, in the short term, the economy can remain partially open if we continue to implement measures to keep flattening the curve while we wait for the vaccines. This too shall pass.

**Figure 8 • U.S. Unemployment Rate**



Data Source: BLS

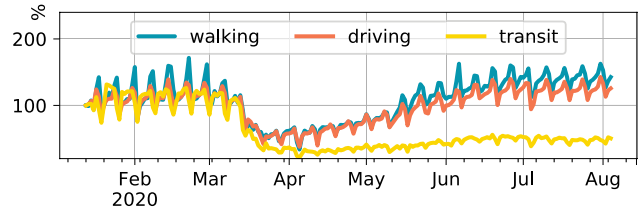
**Figure 9 • Sacramento Unemployment Rate**



Data Source: BLS

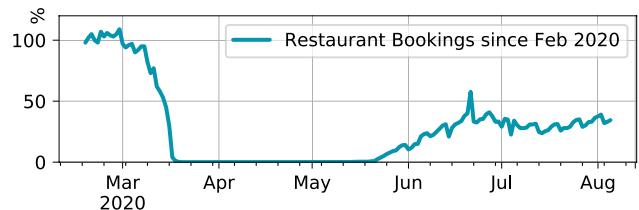
*The economy will likely not make a full recovery for quite some time.*

**Figure 10 • Sacramento Mobility Trends Since January 2020**



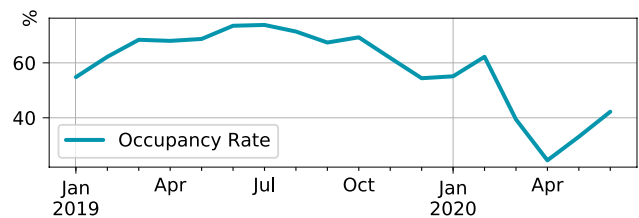
Data Source: apple.com

**Figure 11 • Restaurant Bookings in California**



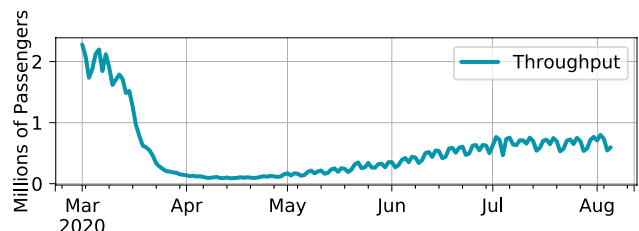
Data Source: OpenTable

**Figure 12 • U.S. Monthly Hotel Occupancy Rate**



Data Source: str

**Figure 13 • U.S. Airport TSA Throughput Data**



Data Source: TSA

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# Consumer Sentiment *Survey*

For the mid-year update, the Sacramento Business Review (SBR), in partnership with SAFE Credit Union, conducted another round of our regional consumer sentiment survey. The survey included measures of personal and regional economic conditions along with purchasing and credit utilization.

## Regional vs. National Sentiment

The SBR team once again compared regional sentiment with national sentiment measures with the results shown in Table 1. To measure sentiment, we utilized questions from the University of Michigan Consumer Sentiment® survey that were adapted to specifically address the Sacramento region. Per methods used by the University of Michigan survey, we calculated the following three indices for the region and compared them to the national data.

- (1) Index of Consumer Sentiment:** An overall measure of how consumers assess their own personal economic prospects and broader regional or national economic conditions.
- (2) Index of Current Economic Conditions:** A measure of how consumers assess their own personal economic prospects compared to a year ago along with perceptions about the current market for making major household purchases.

- (3) Index of Consumer Expectations:** A measure of what consumers expect to happen in the future for their own finances and the regional or national economy.

Consumer sentiment dropped substantially since our January 2020 release. Nationally, consumer sentiment dropped by between 22.7 to 31.3 points across the three categories. At the regional level, the drop was somewhat less pronounced, ranging between 18.6 and 20.5 points. Both regionally and nationally, the index of current economic conditions saw the largest decline, whereas the index measuring future expectations showed the smallest decline (see Table 1). For the first time since the inception of our regional survey, the regional index of consumer sentiment is above the national index of consumer sentiment (see Figure 1).

## Regional Consumer Sentiment and Household Income

The data suggest that consumer sentiment varies considerably by household income level. Regional sentiment is down across all income levels compared to our January 2020 release. Also, though consumer sentiment remains higher among those with higher household incomes, the gap between the lowest and highest income groups has narrowed considerably since our January release (see Figure 2).

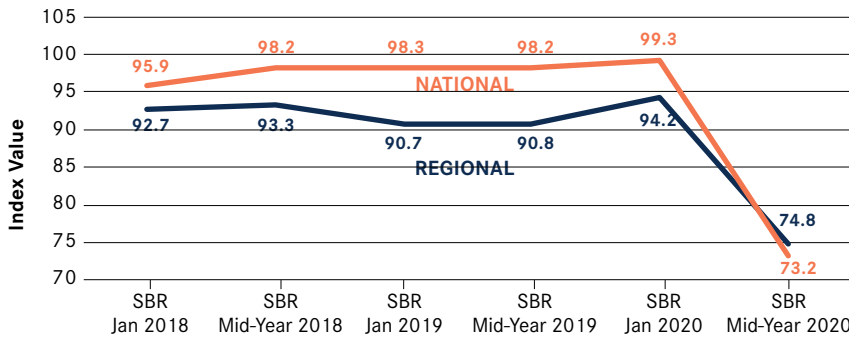
**Table 1**  
**Regional vs. National**

	Regional Index Score		National Index Score	
	Mid Year Update	Change Since January 2020	Mid Year Update	Change Since January 2020
Index of Consumer Sentiment	74.8	-19.4	73.2	-26.1
Index of Current Economic Conditions	78.5	-20.5	84.2	-31.3
Index of Consumer Expectations	72.5	-18.6	66.2	-22.7

Notes: National data obtained from the University of Michigan Consumer Sentiment Survey July 2020 Preliminary Data, available at: <https://data.sca.isr.umich.edu/>. Indices calculated using the methods specified at: <https://data.sca.isr.umich.edu/fetchdoc.php?docid=24770>.



**Figure 1**  
**Regional and National Consumer Sentiment**



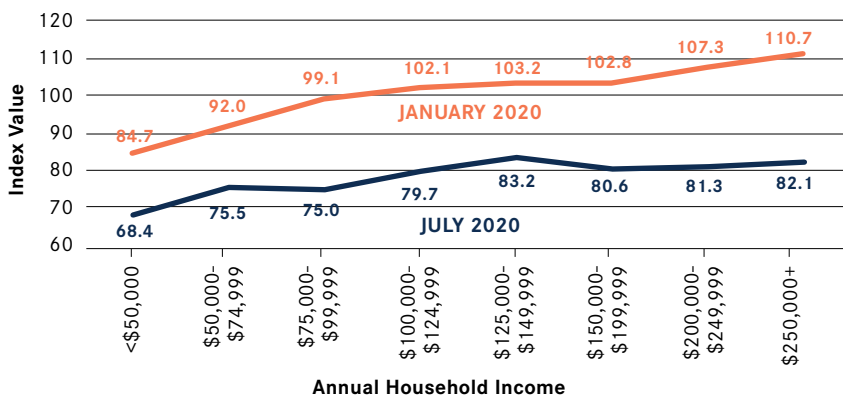
Notes: National data obtained from the University of Michigan Consumer Sentiment Survey, available at: <https://data.sca.isr.umich.edu/>. Indices calculated using the methods specified at: <https://data.sca.isr.umich.edu/fetchdoc.php?docid=24770>.

**CONSUMER PERCEPTIONS OF CURRENT ECONOMIC WELL-BEING HAVE DECLINED THE MOST.**



CONSUMER SENTIMENT

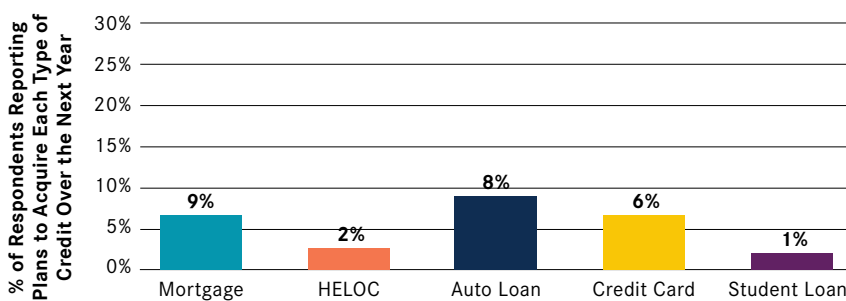
**Figure 2**  
**Index of Consumer Sentiment by Household Income Level**



### Purchasing and Credit

We again asked regional respondents about the types of credit they currently hold and their plans to acquire credit over the next year. While we didn't see a large change in patterns of credit held, plans for acquisition suggest somewhat lower intent of regional consumers to acquire auto loans, credit cards, HELOCs, and student loans. Notably, there was a slight uptick in plans to acquire mortgages, which could be related to historically low mortgage interest rates (see Figure 3).

**Figure 3**  
**Types of Credit Planned Over the Next Year**



### Summary

The economic impact of COVID-19 is reflected in the decline of consumer sentiment since the beginning of the year. Consumer perceptions of current economic well-being have declined the most, but consumers are also indicating decreased optimism for the future. The data also suggests potential for tightening of regional consumer spending over the next year.

# The Small Business Economy


For the mid-year update, the Sacramento Business Review (SBR) team, measured and mapped the small business economy with the usual data available to them. A quick look tells us that lending activity, business sentiment, and business sales metrics deteriorated from our last update in January 2020.

Lending activity has seen a meaningful slowdown across all counties, except for Yolo, which is on pace to increase nearly 50% from its three-year moving average. El Dorado and Placer Counties saw the steepest year-over-year declines in lending activity with drops of 31% and 41%, respectively. Placer County appears to have the sharpest decline as it goes back to levels last seen in 2012. Despite their smaller composition by loan volume, El Dorado and Placer Counties make up roughly 1/3 of

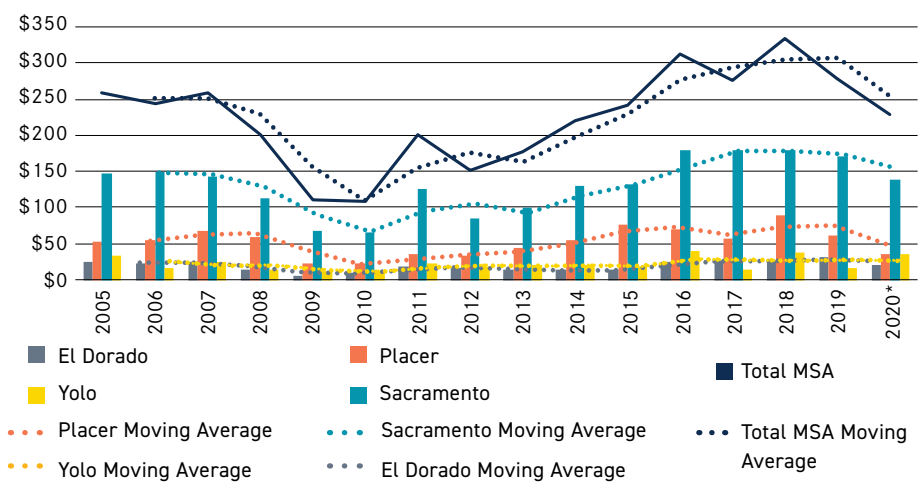
the overall loan volume in the Sacramento (MSA) and thus have a big role to play in the recovery of the region. Sacramento County is on pace to decline nearly 20%, but being the largest by volume, its decline is impacting 49% of the overall forecasted decline for 2020.

The business sentiment of respondents in the last reading of our Small Business Confidence Index (SBCI) declined substantially. Overall, confidence appears to have reverted back to 2011-2012 levels. It's clear that 2019 marked an all-time high in business confidence. Historically, it has taken several months to at least one year for business sentiment to recover. One may argue that it could take longer to recover this time since the decline was very sharp and fast; however, due to the nature of this recession, we may see just as swift of a bounce in sentiment as we did for the decline.

**LENDING ACTIVITY IN ALL COUNTIES SLOWED DOWN MEANINGFULLY, EXCEPT FOR YOLO COUNTY.**



**Figure 1**  
Total SBA Loan Approvals By County (in millions, 2-Year Moving Average)



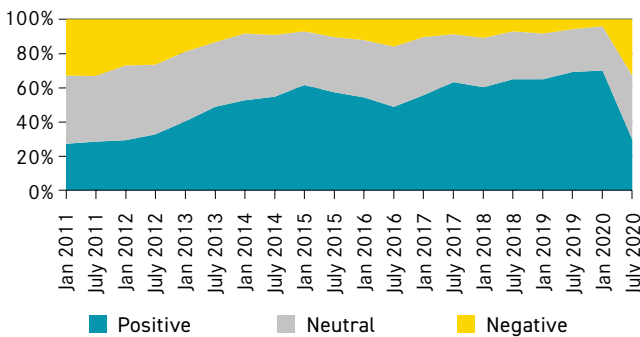
Moving Average is average of two previous data points. \*FY: October 2019 through June 2020

**Table 1**  
**SBA Loan Growth Rate by County**

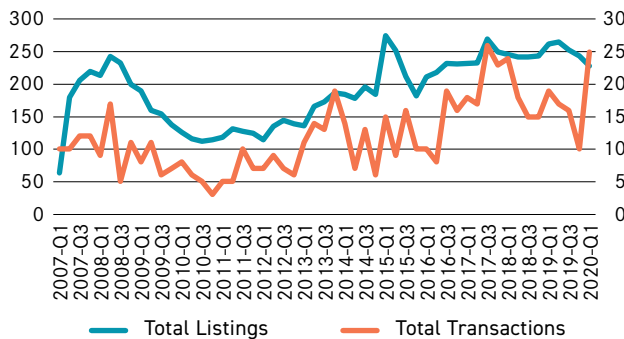
County	Share of 2020 Loan Volume	YoY Change
El Dorado	9%	-30.6%
Placer	16%	-40.9%
Sacramento	60%	-19.2%
Yolo	15%	104.2%
<b>Total MSA</b>	<b>100%</b>	<b>-17.6%</b>

\*October 2019 to June 2020

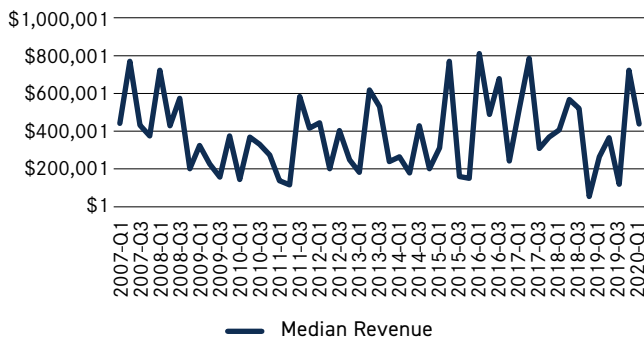
**Figure 2**  
**SBCI Overall Sentiment Responses**  
(January 2011 - July 2020)



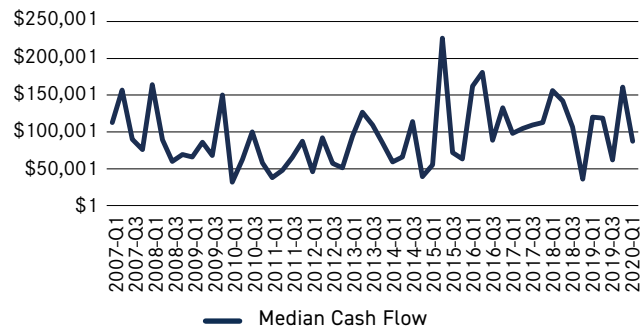
**Figure 3**  
**Number of Listings vs. Actual Sales (Quarterly)**



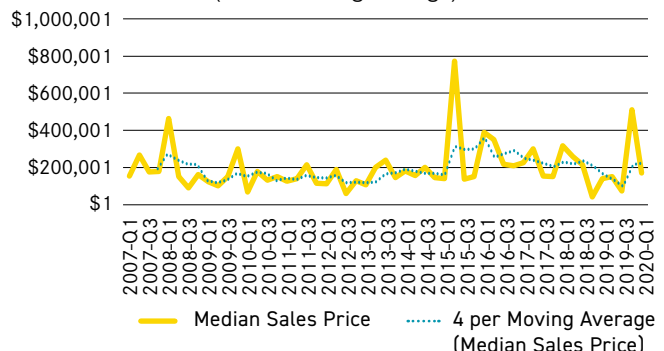
**Figure 4**  
**Median Revenue of Closed Sales (Quarterly)**



**Figure 5**  
**Median Cash Flow of Closed Sales (Quarterly)**



**Figure 6**  
**Median Closed Sales Price (Quarterly)**  
(1-Year Moving Average)



Data Source (Figures 3-6): BizBuySell



*Both the median revenue and cash flow of closed transactions weakened.*

At first glance, business transactions in the region appear to be moving in the right direction. However, diving into the numbers, one can see that even though transactions saw a healthy bounce and listings remained at a good level, the metrics for these transactions deteriorated. Both the median revenue and cash flow of closed transactions weakened. The silver lining in the transaction data is that the actual sales price of the activity appears to remain near its one-year moving average.

# Real Estate

## Office

The impact of the economic shutdown can be seen by the decrease in market activity, especially in the second quarter of 2020. However, the true impact is not yet fully apparent. Market fundamentals are strong to start the year with net absorption exceeding 400,000 square feet (sf), an overall vacancy rate of 7.4%. The overall asking lease rate surpassed \$2.00 per square foot per month on a full services gross basis (FSG) for the first time since the second half of 2008.

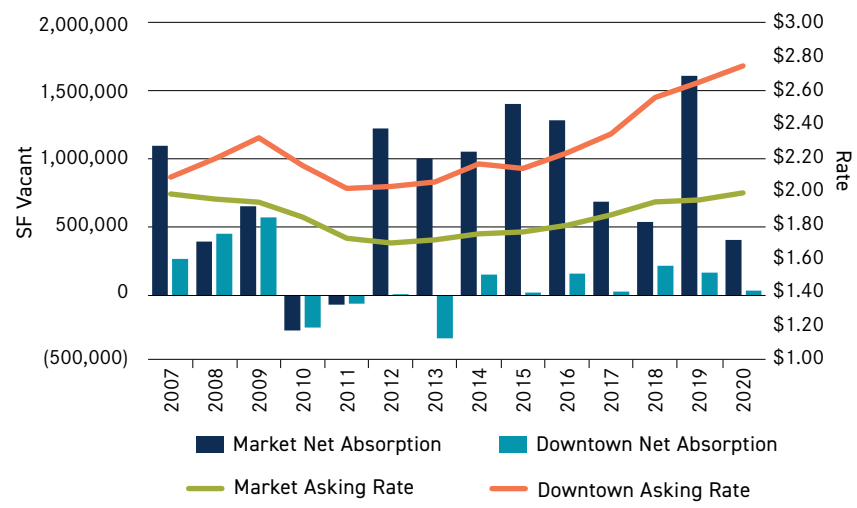
Looking long-term, the office market is well-positioned to weather the impact of COVID-19. Being a primarily suburban market, office buildings are low-rise and spread throughout the region. This alleviates some of the population density concerns that plague competing centralized, highly populated areas. However, the impact that increasing remote working will have on levels of demand remains to be seen.

## Industrial

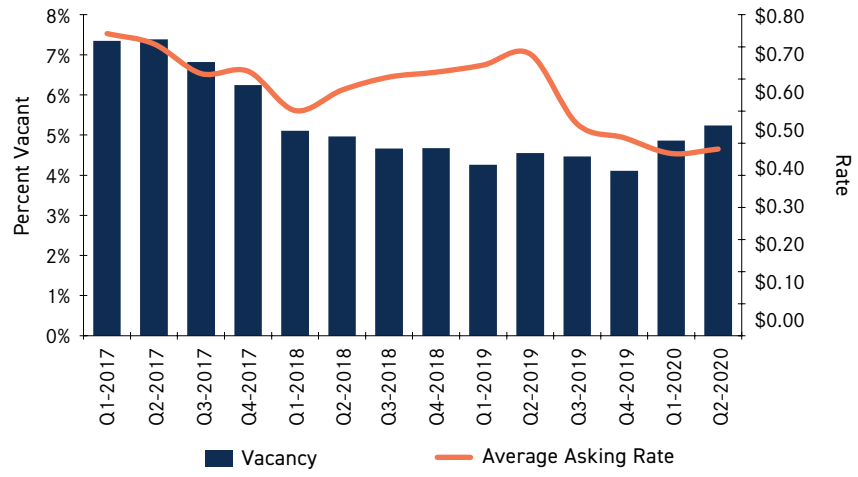
Similar to the office market, the industrial market saw a decrease in activity. Net absorption totals -422,000 sf for the year. The vacancy ticked up, climbing 70 basis points (bps) in the last year but remains near full occupancy with only 5.2% vacant. Construction remains a major market component with 2.2 million sf under construction, including a 1.1 million sf Wal-Mart distribution center at Metro Air Park and 351,000 sf completed so far this year.

Industrial product is expected to be the least affected by the pandemic. The large footprint of many users, particularly distribution users, combined with the scheduling flexibility that comes with shiftwork allows for greater distancing between workers.

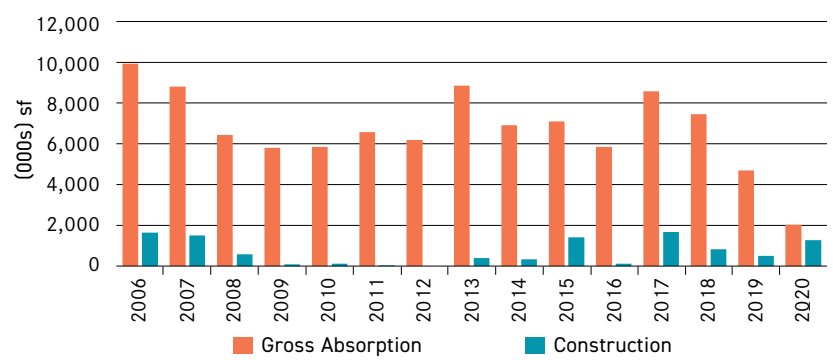
**Figure 1**  
**Office Market Activity 2007 - YTD 2020**



**Figure 2**  
**Industrial Asking Rate & Vacancy Rate 2017 - 2020**



**Figure 3**  
**Gross Absorption & Construction 2006 - YTD 2020**







## Retail

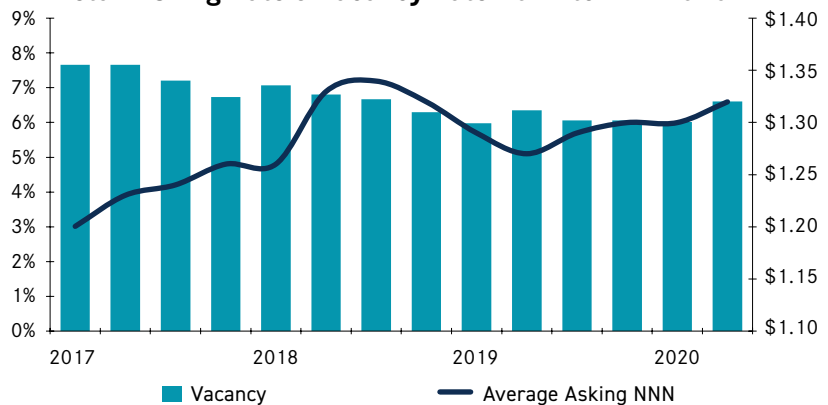
The retail sector has been the most substantially affected by the pandemic. Mandatory shut down of many retail establishments including restaurants, hair and nail salons and soft goods retailers has resulted in layoffs and business closures. As a result, net absorption for the first half of 2020 totaled -338,000 sf. Vacancy was on the rise as well, increasing 50 bps since the end of 2019. The hope, with retailers reopening, is that the market will stabilize going into the back half of the year.

Retail market fundamentals will be closely linked to tenant's capacity to adapt with the changing restrictions and fluctuating customer expectations regarding safety. Additionally, the increasing importance of online shopping could put big box retailers and shopping malls in a difficult position going forward.

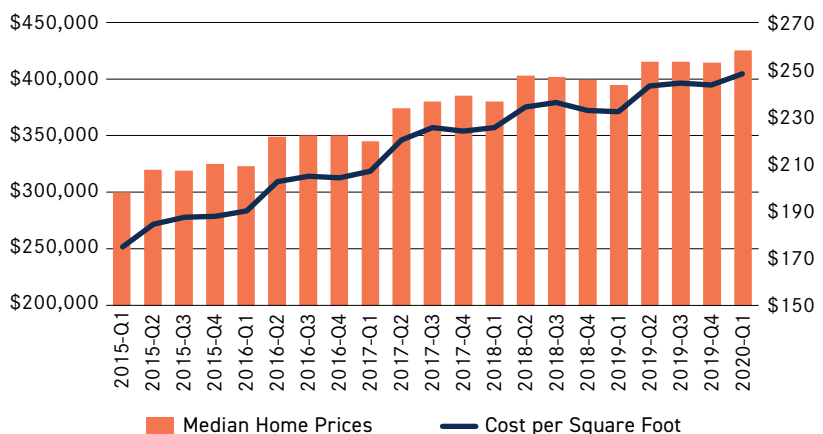
## Single Family

The single-family housing market continues to see growth. The median sale price reached \$425,000, an increase of 7.7% year-over-year. With that said, the market transacts primarily at mid-range pricing, with 78.5% of all sales occurring between \$200,000 and \$600,000. Looking forward, resale prices could continue to climb as housing starts, which set a price ceiling on resales, decreased significantly with the economic shutdown. For example, in April of 2019, 833 new building permits were pulled for new single-family houses compared to 363 in April of 2020. This difference is especially stark given that 2,717 permits were pulled in Q1 2020, 849 more than during the same period in 2019. Buyers, who would have previously considered a new build are now focusing on resales, increasing demand and potentially driving up pricing.

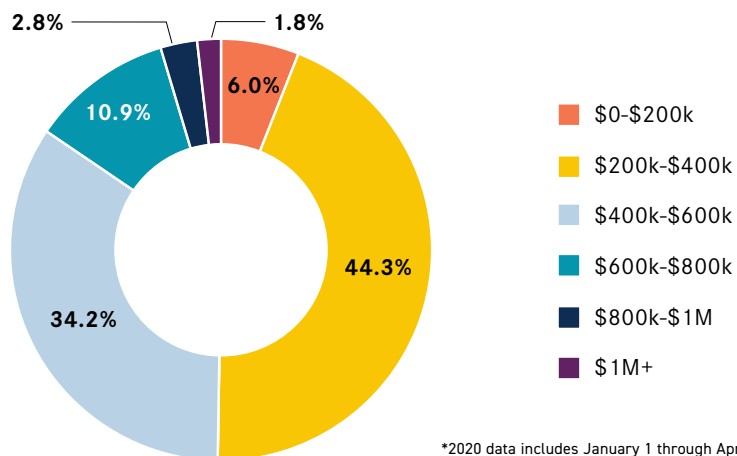
**Figure 4**  
Retail Asking Rate & Vacancy Rate 2017 to YTD 2020



**Figure 5**  
Median Home Prices & Cost Per Square Foot 2015 - 2020



**Figure 6**  
Home Sales by Price: YTD 2020



\*2020 data includes January 1 through April 30

REAL ESTATE

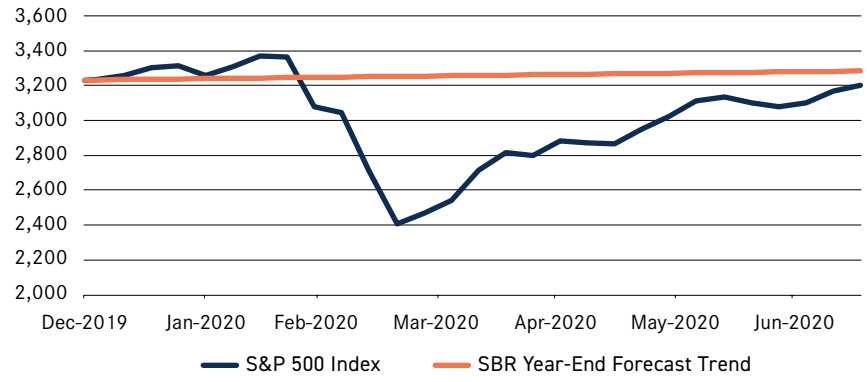
# Capital Markets & Banking Forecast

What a difference half a year makes! The pandemic situation has brought with it a tremendous amount of financial market volatility, which we do not expect to abate any time soon. The upcoming election, along with the persistent uncertainty surrounding COVID-19, will have investors guessing well into 2021. Markets appear to have the full support of central banks globally, and our own Federal Reserve is no exception. The Fed has grown its balance sheet by more than \$3.5 trillion to help stave off extreme financial ruin, and it continues to stand at the ready, willing to do whatever it takes to keep markets functioning. Equity returns fell off a cliff in March, but they have surprisingly bounced back and seem to be ignoring the National Bureau of Economic Research, which has officially declared that the fun is over (i.e., we are in a recession). It is no easy task to predict whether or not equity returns end the year on a positive note, but so far, the SBR team is right on track with its forecast at the beginning of the year.

## Regional Financial Institution Trends

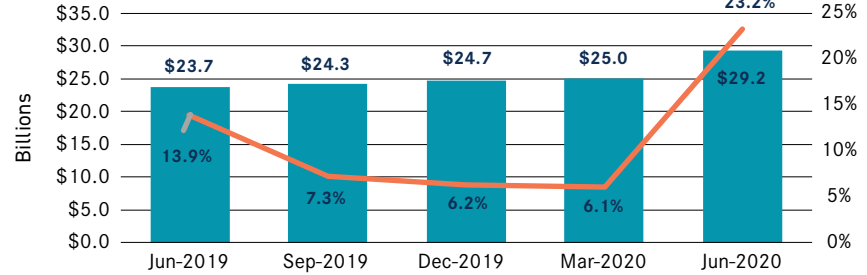
Regional Financial Institutions (FIs) have spent the first half of the year tearing up their initial 2020 financial

**Figure 1**  
S&P 500 Performance vs. SBR Forecast

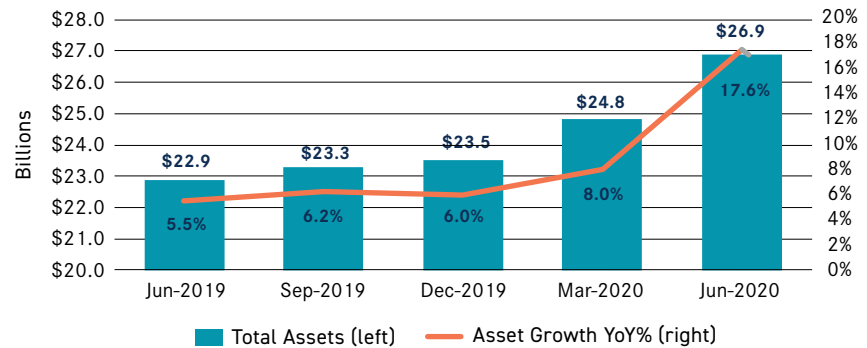


Source: S&P Dow Jones Indices LLC, retrieved from FRED

**Figure 2**  
Regional Banks – Asset Trends



**Regional Credit Unions – Asset Trends**

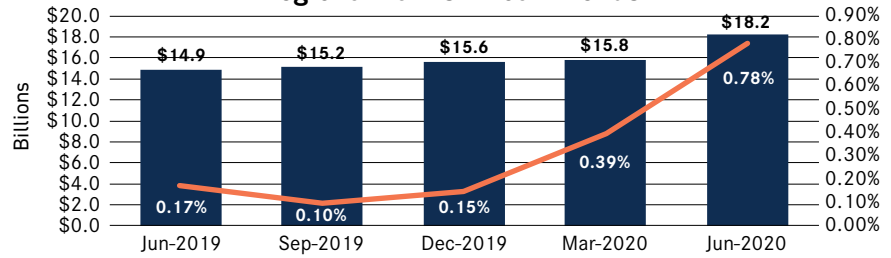


Sources: NCUA & FDIC

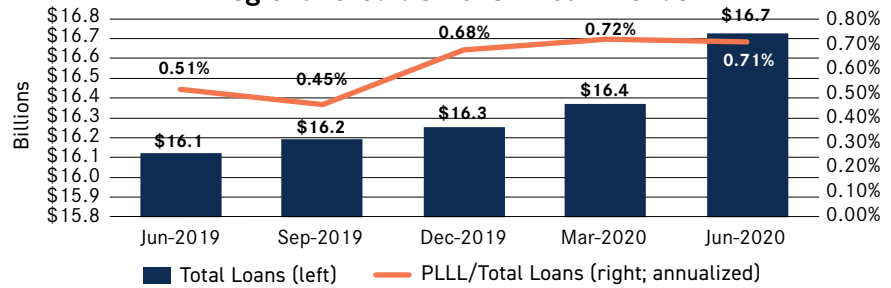
plans and putting all hands on deck to assist their clients and members with the economic fallout caused by the pandemic. Reduced business activity due to shelter-in-place orders and guidance to remain at home has led to many job losses for the region and the inability for both consumers and businesses to remain current on their loans without assistance. Regional FIs have been able to provide loan deferrals and forbearances for many, but these delayed payment programs have made it difficult to fully understand the potential credit deterioration facing many local institutions. It will not be until the end of this year that delinquency and credit loss trends begin to materialize and reveal the extent to which borrowers have been impacted by the pandemic.

Regional FIs have been essential in facilitating the Treasury Department's Payment Protection Program, which has provided for an estimated \$5.5 billion in emergency funding for the region and helped to retain approximately 500,000 jobs.

**Figure 3**  
**Regional Banks – Loan Trends**



**Regional Credit Unions – Loan Trends**

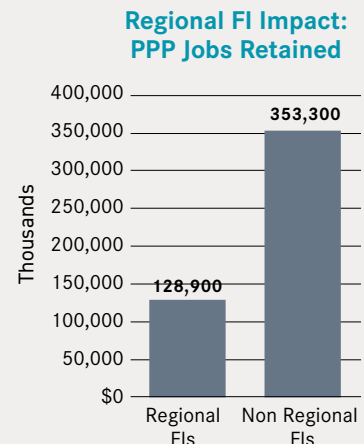
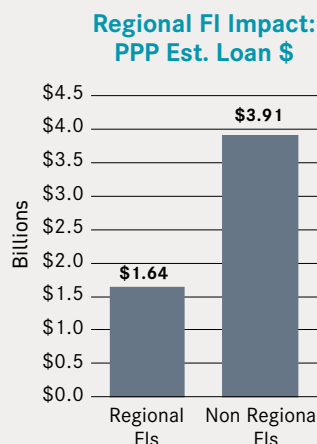


Sources: NCUA & FDIC

**Figure 4**  
**SBR Index (with 2-year moving average)**



**Figure 5**  
**Regional Financial Institutions (FI) – Payment Protection Program (PPP) Impact**

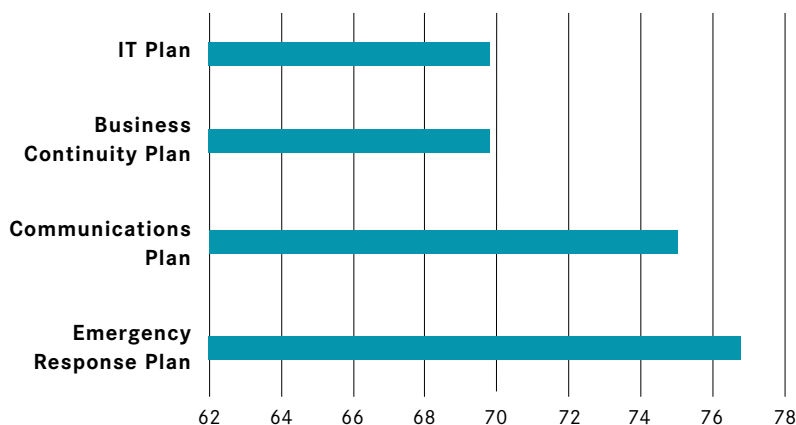


Source: U.S. Treasury Dept.; Region includes seven county Sacramento MSA as well as Butte, Solano, and San Joaquin counties

# Human Capital

## Trends

**Figure 1**  
**Percentage of Organizations Reporting Crisis Preparedness Plans**



*Around 10% of organizations reported zero preparedness for any sort of crisis, while roughly 18% reported high level of preparedness. The rest of our local companies reported preparedness levels between these two extremes.*

We are now a few months into the COVID-19 pandemic, and it is a good time for us to take stock of how well our local organizations were prepared to face such a large-scale crisis. A majority of our respondents reported that their organizations were somewhat able to handle a crisis as large as this one. Respondents were more confident in their organizations' ability to tackle a smaller crisis (moderately prepared), and to contain a crisis (moderately prepared).

Various types of crisis preparedness plans existed to a large extent (see Figure 1), with 76.9% reported having an emergency response plan (e.g., covering – as needed – evacuation, sheltering, lockdown) in place. Other types of crisis preparedness plans were also well formulated prior to COVID-19. These plans include aspects such as communications (how to efficiently communicate with employees, customers, vendors, media and/or other stakeholders during a crisis), business continuity (methods to overcome business disruption), and IT (recovery of computer hardware, connectivity, access to data). A majority of respondents indicated that their organizations did not have a dedicated crisis management team in place (only approximately a third indicated the existence of some type of crisis management teams), and several indicated they were looking to establish one. Taken together, it appears that crisis planning existed to some extent, and the current crisis is highlighting an opportunity for better forecasting and preparedness.

Respondents indicated a dearth of plans for recovery. Given the specialized nature and large scale of the current crisis, many organizations were not set up with the internal capabilities and resources to manage a recovery effort. These organizations were either starting recovery initiatives internally or were engaging external consultants to formulate recovery plans and/or implement needed recovery efforts.

Reported layoffs due to the COVID-19 pandemic ranged from none to everyone with an average percentage of employee layoffs to be 22.47% locally. Anticipation of further rounds of layoffs during Q3 and Q4 was lower, with an average of 12.82% being reported – again with a range from zero to possibly every employee in the organization. This highlights the varied nature of impactation – from industries being severely impacted (e.g., service industries) to those being able to adapt (e.g., tech).

Reported lessons learned include the need for better preparedness as well as the need for more solid communication methods. Respondents acknowledged the fast-moving global environment, with unexpected opportunities and threats – suggested

the need for agility and a change in leadership competencies. As we expect global changes to increase rather than decrease, those organizations that are prepared to change and can do so well, are better poised to survive large and/or unavoidable changes.

Additional developmental opportunities include providing better training for managers on subjects such as how to support employees, how to stay proactive, and how to handle unexpected changes. In addition to training managers to be better leaders – organizations need to focus resources on reskilling or upskilling their workforce. The skills gap is something we have reported over the past few years, and it is even more urgent to address the gap in the current climate. We are now seeing some occupations being lost to AI and technology, and others with increased demand. Companies need to more strategically plan for competencies and skills needed, and look for potential in available job candidates rather than past performance. Given this, companies will have to provide job-specific training to ensure work-ready talent.

With this in mind, many companies are providing employees with a broad range of training and development opportunities – with everything from LinkedIn learning

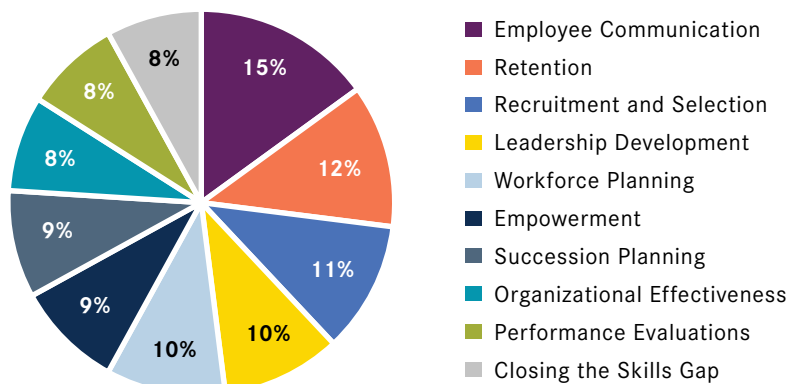
to customized in-house trainings, as well as cross-training, peer mentoring, job shadowing. Training plans were restructured and aligned strategically so that each entering employee would be exposed to – and learn – all areas of the business. This “will help employees become better leaders down the road and build empathy for front-line workers.” Trainings address everything from technical job duties to soft competencies such as self-motivation and giving constructive feedback. As the world continues to be uncertain, strategic – as opposed to ad hoc and arbitrary – approaches to talent management become even more crucial.

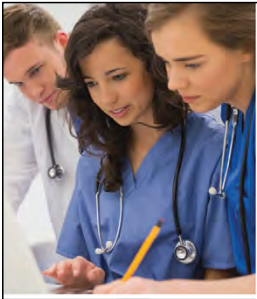
Finally, we surveyed respondents regarding planned measures to assess success of the workforce, and human capital initiatives predicted to impact business performance during Q3 and Q4. Given current societal challenges, organizations reported their highest priority measures to be diversity and inclusion efforts, with training and development as a close second. Regarding human capital initiatives with the greatest expected business impact, not surprisingly in these social distancing and working-from-home times, employee communication was listed as the most important (see Figure 2).

**GIVEN CURRENT SOCIETAL CHALLENGES, ORGANIZATIONS REPORTED THEIR HIGHEST PRIORITY MEASURES TO BE DIVERSITY AND INCLUSION EFFORTS.**



**Figure 2**  
Impact on Business Performance Q3 and Q4





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