American Cities See Economic Hit in Grim Mayors' Report.

- **Report projecting high unemployment assumes tapering outbreak**
- **Municipal market is picking winners and losers, favoring AAA**

The coronavirus pandemic may lead to an 8.1% decline in the U.S. gross domestic product in 2020 and persistently elevated unemployment in cities, according to an analysis commissioned by the U.S. Conference of Mayors, underscoring the challenge facing investors and borrowers in the municipal-bond market.

The report lays out daunting scenarios for America's communities that may prove not dire enough, given that it assumes the outbreak will taper this year. Metropolitan areas will suffer a $1.45 trillion drop in economic output in 2020, with the financial effects of the pandemic on par with the Great Recession a decade ago.

"The surge in Covid-19 infections and increases in hospitalizations and mortality threaten the nascent recovery in economic activity that began in May, underscoring the existence of extraordinary uncertainty about the course of the pandemic and the economic outlook," according to the report, which IHS Markit also prepared for the Council on Metro Economies and the New American City. "The forecast presented here assumes that the pandemic is gradually brought under control in the second half of the year, an outcome that remains in doubt."

The mayors' report adds to a series of pessimistic surveys from local governments grappling with the unprecedented health crisis. Counties face an estimated $202 billion budget hit from the pandemic through fiscal 2021 due to lost revenue, extra costs and state funding cuts, according to a report released Tuesday by the National Association of Counties, a lobbying group.

As a result, buyers in the $3.9 trillion municipal-bond market, which has rallied sharply from March, are favoring issuers more likely to prove resilient in the pandemic, said Parker Colvin, a managing director and underwriter at Raymond James Financial Inc., who said "demand is strongest for AA and AAA" general-obligation debt and essential service revenue bonds.

AAA bonds have gained 4.38% year to date while Baa securities are basically flat at 0.03%, according to Bloomberg Barclays indexes.

"Contrasting essential entities with those not considered so, municipals may soon experience 'a tale of two markets' moving forward," wrote Matthew Gastall and Daryl Helsing, investment strategists at Morgan Stanley Wealth Management, in a note Wednesday.

Some cities, for instance, will be more hard hit than others because of factors such as reliance on sales taxes or economically sensitive industries and lack of reserves coming into the pandemic. According to the mayors' report, the average unemployment rate this year will be above 10% in 161 metros, 42% of all. It will be above 8% in 75% of metros and above 6% for most areas.

Even if infections taper, metro job levels by the first quarter next year will remain 5.2% below that of the year earlier, about the same as was seen in the Great Recession, the report said. Chicago, Detroit and New York are among cities whose employment will remain more than 10% below the figure before the pandemic.

In a call to reporters Wednesday organized by the mayors’ group, city leaders stressed the need for additional federal aid.

“What all mayors are worried about is jobs, food, housing security,” said Greg Fischer, president of the group and mayor of Louisville, Kentucky. “We are talking about basics here in just maintaining a life, all of those are in danger without more direct federal assistance.”

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