

General Market Conditions in Oregon and Washington (March 2020 – May 2020) Evidencing Economic Uncertainty

In its continuously updated [FAQ Guidance](#), the Small Business Administration (“SBA”) has advised that it will review the individual loan files for businesses that have received a Paycheck Protection Program (“PPP”) loan of more than \$2 million (see FAQ 39). In particular, the SBA will review whether borrowers had an adequate basis to certify that current economic uncertainties made the loan request necessary to support ongoing business operations. This document provides an overview of the general market conditions in Oregon and Washington from March 2020 to May 2020, and the economic uncertainties resulting therefrom.

Governmental Orders

From March to April, Governors Kate Brown and Jay Inslee announced numerous Executive Orders and Proclamations that shut down or significantly decreased business operations, creating significant uncertainty with respect to businesses’ (i) revenue generation, (ii) ability to retain employees, (iii) supply-chain operations, and (iv) overall economic performance and financial position.

Below is a timeline of the governmental orders issued in Oregon and Washington that have impacted business operations:

- On February 29, 2020, Governor Inslee declared a state of emergency in response to new cases of COVID-19 and directed state agencies to use all resources necessary to prepare for and respond to the outbreak (see [Proclamation 20-05](#)). On March 8, 2020, Governor Brown declared a state of emergency in Oregon (see [Executive Order No. 20-03](#)).
- On March 12, 2020, Governor Brown directed the closure of all public schools in Oregon through March 31, 2020 (see [Executive Order 20-08](#)). On March 13, 2020, Governor Inslee followed suit and announced that all K-12 private and public schools across the state of Washington would be closed until April 24, 2020 (see [Press Release](#)).
- On March 16, 2020, Governor Inslee announced a statewide shutdown of restaurants, bars, and entertainment and recreational facilities (see [Press Release](#)). On March 17, Oregon banned all gatherings of more than 25 people and restricted restaurants to take-out only (see [Executive Order No. 20-07](#)).

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- On March 23, Governor Inslee and Governor Brown each announced stay at home orders directing residents to cease leaving their residence for non-essential activities (see [Proclamation 20-25](#) and [Executive Order No. 20-12](#)).
- On April 6 and April 8, respectively, Washington and Oregon announced that school closures would be extended through the end of the academic year (see [Proclamation 20-09.1](#) and [Executive Order No. 20-20](#)).

As of mid-May 2020, Oregon and Washington have begun initial phases of reopening certain categories of businesses in some places under very limited circumstances. However, many businesses that reopen will operate at diminished capacity to comply with social distancing restrictions and other preventative measures. It remains unclear when all businesses in each state will be allowed to reopen and when businesses will be able to operate at full capacity. It remains unclear when the public will be willing to patronize businesses that have reopened and/or return to prior levels of consumption. It also remains unclear whether additional shutdowns will be necessary to protect against future waves of coronavirus outbreaks.

PPP Funding

In response to government mandated shutdowns across the country, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law, allocating \$349 billion in funding to the PPP loan program. The rate at which PPP funding has been claimed by businesses further illustrates the scale at which businesses are struggling and the urgent need for capital.

The timeline below provides the key dates of the PPP loan program and evidences the significant demand for loan funding:

- On April 3, 2020, borrowers were allowed to begin submitting PPP loan applications.
- On April 16, 2020, the SBA announced that the initial allocation of \$349 billion was entirely accounted for. At that point, 1.66 million PPP loan applications had been processed (see report [here](#)).
- On April 23, 2020, Congress allocated an additional \$310 billion to the PPP loan program, and lenders began accepting loan applications again on April 27, 2020.



- As of May 16, 2020, the SBA had approved \$195 billion in PPP funding to an additional 2.76 million borrowers with the second round of funding (see SBA report [here](#)).

Congress is currently working on a third stimulus package to revive the economy, as federal legislators recognize that the COVID-19 crisis will have a lasting impact requiring continuous effort to address in the coming months and potentially years.

Economic Impact

The impact to the regional and national economy from the COVID-19 crisis and the resulting shut down orders has been devastating. Numerous local businesses have permanently closed with more to follow, many businesses have filed for bankruptcy, and the unemployment rate is at a level not seen since the Great Depression. The bulleted list below provides a summary of data points showing key economic measurements throughout the crisis.

- The Dow Jones Industrial Average (“DJIA”) plummeted dramatically to 18,591.93 on March 23, 2020, a decrease of almost 40% from the market highs in February 2020. On April 3, 2020, the day that lenders began accepting PPP loan applications, the DJIA closed at 21,051.53, an approximately 30% decrease from February market levels. The DJIA has gradually increased slightly through April and May, but is still far from the market high in February.
- From mid-March to mid-April, numerous businesses in Oregon and Washington announced furloughs and layoffs, including, but not limited to, The Nines Hotel, Grand Central Bakery, Daimler, Deschutes Brewing, Salt & Straw, Earl’s Restaurants USA Inc., Schwartz Bros. Restaurants, as well as numerous other hospitality groups (see reports of such announcements [here](#) and [here](#)).
- Supply chains in the region have been primarily disrupted in three ways: (i) manufacturers have been impacted by the closure of upstream suppliers due to social-distancing protocols, (ii) companies have been unable to obtain raw materials because they are being diverted to make critical medical supplies, and (iii) businesses are cutting production to counteract uncertain future demand, which impacts manufacturers further down the supply chain (see further discussion [here](#)).



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- The U.S. unemployment rate skyrocketed from 4.4% in March 2020 to 14.7% in April 2020, as millions of American workers are unemployed as a result of the pandemic.
- On April 30, 2020, it was reported that there were 30.3 million first-time claims for unemployment benefits from the prior six weeks, representing roughly 18.6% of the U.S. labor force (see report [here](#)).
- In the six-week period from when the coronavirus outbreak in Oregon began, the total number of new unemployment claims in Oregon reached 362,200, nearly twice as many claims as there were during the peak of the 2008 recession (see report [here](#)).
- The number of new unemployment claims in Washington was also twice the amount at the peak of the 2008 recession (see report [here](#)).

These data points evidence the severity of the economic impact and the continued uncertainty of the lasting effects of the pandemic. The International Monetary Fund (“IMF”) described the current crisis as the “worst economic downturn since the Great Depression” in a [recent post](#). The IMF noted in the post that the crisis is “like no other, and there is substantial uncertainty about its impact on people’s lives and livelihoods.”

There is speculation over the recovery time for the local and national economy, but numerous commentators argue that it will recover in years, not months. In a recent interview, Jerome H. Powell, the Federal Reserve chair, called the crisis the “biggest shock that the economy’s had in living memory,” and noted that the economy may not recover until the end of 2021 (see article [here](#)). Ultimately, the extent of the damage to the economy and the recovery time remain highly uncertain.

If you have any questions regarding your PPP loan, [contact](#) your primary Tonkon attorney.

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