COVID-19 Infects the U.S. Economy

By Thomas F. Siems, Ph.D.
CSBS Sr Economist & Director of Research

CSBS Economic Insights Webcast
April 7, 2020
COVID-19 Infects the U.S. Economy

How/When did COVID-19 Infect the U.S. Economy?

Are We in a Recession?

What’s Being Done to Help the Economy?

When will this End?
COVID-19 Infects the U.S. Economy

- How/When did COVID-19 Infect the U.S. Economy?
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- When will this End?
A Quick Look Back to late 2019

Dealing with Uncertainty: Where's the Economy Headed?
By Thomas F. Siems, Ph.D.
CSBS Sr Economist & Director of Research

CSBS Board of Directors Meeting
Scottsdale, AZ
December 2-5, 2019

Dealing with Uncertainty: Where's the Economy Headed?

- The Economy Today
- Upside Risks
- Downside Risks
- Risk Management (Banks and Monetary Policy)
In Conclusion...

FROM THE CSBS SCOTTSDALE MEETING, DECEMBER 2019

• US Economy growing moderately
  • GDP ~2.0%; Unemployment ~3.6%; Inflation ~1.9%; wages rising ~3.0%
• Recession Ahead?
  • Manufacturing weaker; Labor quality/trade/global concerns; Yield curve flat; Depends on consumers, confidence, and BOBs
• Banking
  • Consolidation continues; Banks appear to be in good shape
• The Fed
  • Dual mandate success; Interest rate changes are following market expectations
In Conclusion…

FROM THE CSBS SCOTTSDALE MEETING, DECEMBER 2019

• US Economy growth: Stable
  • GDP ~2.0%; Unemployment ~3.6%; Inflation ~1.9%; wages rising ~3.0%

• Recession Ahead?
  • Manufacturing weaker; quality/trade/global concerns; Yield curve flat; Depends on consumers, confidence, and BOBs

• Banking
  • Consolidation continues; Banks appear to be in good shape

• The Fed
  • Dual mandate success; Interest rate changes are following market expectations
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When will this End?
March Madness Cancelled: US Recession Begins

Shanghai Disney Closed
NBER Recession Definition

--- "a significant decline in economic activity spread across the market, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales"
Payroll employment growth goes negative

Monthly change in U.S. nonfarm employment (1000s, SA)

@lenkiefer Source: U.S. Bureau of Labor Statistics, blue (red) ticks indicate months when job growth was positive (negative)
60 PERCENT OF JOB LOSSES FROM ONE INDUSTRY: FOOD AND DRINK

- Food services and drinking places: -417.4
- Child care services: -18.6
- Offices of dentists: -17.2
- Temporary help services: -49.5
- Accommodation: -28.9
- Mining and logging: -7.0
- Performing arts, etc.: -4.4
- Museums, etc.: -1.2
- Offices of physicians: -12.0
- Amusements, etc.: -7.6
- Construction: -29.0
- Retail trade (excl. food & supercenters): -55.2
- Manufacturing: -18.0
- Food and beverage stores: -11.6
- Air transportation: -4.6
- Supercenters and warehouse clubs: +1.6
- Warehousing and storage: +7.9
- Total nonfarm: -417.4

CHANGE IN THE NUMBER OF JOBS
(In thousands)
Mar. over Feb. 2020

Percent change -4 -3 -2 -1 0 1
(Mar. over Feb. 2020)

Unemployment Insurance Weekly Claims

- Record high before 2020: 695,000 in October 1982
- Financial Crisis high: 665,000 in March 2009
- 3,307,000 for week ending March 21, 2020
- 6,648,000 for week ending March 28, 2020

Data Source: U.S. Department of Labor
State-Level Unemployment Rates in January 2020
(Before COVID-19 Concern)
State-Level Unemployment Rates Projected
Using March 28, 2020 Initial Claims Data
(After COVID-19 Market Impact)
Projected Increase in State-Level Unemployment Rates
(Between January 2020 and March 2020)
Daily Index of Consumer Sentiment
(7-day moving average)

Source: Morning Consult

March Sadness Begins
Consumer Confidence Survey®
Fallos in Consumer Expectations: COVID-19 vs Past Shocks

Index, 1985 = 100

*Shaded areas represent periods of recession

US Govt. Shutdown Dec. 2018
COVID-19 Pandemic Mar. 2020
US Debt Ceiling Crisis & credit rating downgrade Aug. 2011
Lehman Brothers bankruptcy Sept. 2008
Iraq War Mar. 2003
Hurricane Katrina Aug. 2005
Terrorist Attacks Sept. 2001

www.conferenceboard.org

Source: The Conference Board; Nielsen; TNS; NBER
### Data Series Employed in the WEI

<table>
<thead>
<tr>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redbook Research: Same-store retail sales average</td>
<td>Measures year-over-year same-store sales growth for around 9,000 general merchandise stores in the United States.</td>
</tr>
<tr>
<td>Unemployment insurance: Initial claims, state programs</td>
<td>Reports the number of people making new unemployment insurance claims from state unemployment offices.</td>
</tr>
<tr>
<td>American Staffing Association Staffing Index</td>
<td>Tracks temporary and contract employment with data coming from a large panel of staffing companies.</td>
</tr>
<tr>
<td>Rasmussen Consumer Index</td>
<td>Constructed with a daily survey of 1,500 American adults using questions about personal finances and the economy more broadly.</td>
</tr>
<tr>
<td>Raw steel production</td>
<td>Estimates the weekly production of raw steel from domestic producers.</td>
</tr>
<tr>
<td>U.S. fuel sales to end users</td>
<td>Estimates gasoline, diesel, and jet fuel sales to retailers and end users.</td>
</tr>
</tbody>
</table>

### The WEI Provides a Timely Signal of Macroeconomic Aggregates

#### Industrial production (%YoY)

- **WEI**
- **Aggregate**

#### Capacity utilization (percent)

- **WEI**
- **Aggregate**

#### ISM manufacturing (index)

- **WEI**
- **Aggregate**

#### Real GDP (%YoY)

- **WEI**
- **Aggregate**

## Community Bank Sentiment Index
### 2019 Q4 and 2020 Q1

<table>
<thead>
<tr>
<th></th>
<th>Positive</th>
<th>Neutral</th>
<th>Negative</th>
<th>Uncertain</th>
<th>Index</th>
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<tbody>
<tr>
<td>BC Q4</td>
<td>11</td>
<td>74</td>
<td>14</td>
<td></td>
<td>97</td>
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<tr>
<td>BC Q1</td>
<td>7</td>
<td>39</td>
<td>47</td>
<td></td>
<td>60</td>
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<tr>
<td>MP Q4</td>
<td>18</td>
<td>66</td>
<td>10</td>
<td></td>
<td>108</td>
</tr>
<tr>
<td>MP Q1</td>
<td>11</td>
<td>27</td>
<td>42</td>
<td></td>
<td>69</td>
</tr>
<tr>
<td>RB Q4</td>
<td>3</td>
<td>63</td>
<td>32</td>
<td></td>
<td>71</td>
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<tr>
<td>RB Q1</td>
<td>9</td>
<td>56</td>
<td>31</td>
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<tr>
<td>CS Q4</td>
<td>36</td>
<td>51</td>
<td>13</td>
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<td>CS Q1</td>
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<tr>
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<td>FV Q4</td>
<td>41</td>
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<tr>
<td>FV Q1</td>
<td>41</td>
<td>34</td>
<td>20</td>
<td></td>
<td>121</td>
</tr>
</tbody>
</table>

CBSI Q4: 123  CBSI Q1: 91
CBSI: Outlook for Economic Segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
<td>3.61</td>
</tr>
<tr>
<td>Prof. Services</td>
<td>3.19</td>
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<tr>
<td>Construction</td>
<td>3.14</td>
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<tr>
<td>Consumer</td>
<td>2.86</td>
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<tr>
<td>Manufacturing</td>
<td>2.76</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.70</td>
</tr>
<tr>
<td>Retail</td>
<td>2.49</td>
</tr>
<tr>
<td>Restaurants</td>
<td>2.41</td>
</tr>
<tr>
<td>Tourism</td>
<td>2.31</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>1.97</td>
</tr>
</tbody>
</table>

**Data Source:** CSBS
Bankers' Outlook on Sector Performance Declined During March
Source: CSBS Community Bank Sentiment Index (CBSI) for Q1 2020

Change from first week in March to last week in March:
- Health Care: ↓ 0.62
- Agriculture: ↓ 0.16
- Prof Services: ↓ 1.00
- Construction: ↓ 1.17
- Manufacturing: ↓ 1.07
- Consumer: ↓ 1.65
- Retail: ↓ 1.01
- Oil and Gas: ↓ 1.00
- Tourism: ↓ 1.45
- Restaurants: ↓ 1.58
GLOBALLY

Discretionary consumer spending has dropped in many areas as a result of social distancing or lockdown measures.

Seated Diners at Restaurants
% change from same day of the week a year before

Source: OpenTable
In the top two areas in which your firm is active: What WTI oil price does your firm need to cover operating expenses for existing wells?

Dollars per barrel

- Eagle Ford: $23
- Permian (Delaware): $26
- Permian (Midland): $26
- Bakken: $28
- Other U.S. (Shale): $30
- Permian (Other): $32
- Other U.S. (Non-shale): $36

Number of responses

8 18 22 5 9 13 23 44

NOTES: Lines show the mean, and bars show the range of responses. Executives from 95 exploration and production firms answered this question during the survey collection period, March 11-19, 2020.
SOURCE: Federal Reserve Bank of Dallas.
CBSI: Expected Impact from Coronavirus Outbreak on...

- Local Economy: 3.20
- State Economy: 2.93
- National Economy: 2.51
- Global Economy: 2.05

Data Source: CSBS
Bankers' Outlook on COVID19's Impact on Economic Activity Declined During March

Source: CSBS Community Bank Sentiment Index (CBSI) for Q1 2020

Change from first week in March to last week in March:
- Local Economy: ↓ 1.26
- State Economy: ↓ 1.30
- US Economy: ↓ 1.09
- Global Economy: ↓ 0.85

Data Source: CSBS
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When will this End?
Federal Reserve Interventions

- Lowered administered rates
- Quantitative easing
- Repo market injection
- Swap lines with other Central Banks
- Facilities to provide liquidity, credit and funding
  - Commercial Paper, Primary Dealer, MMMF, State/Municipals, FIMA Repo
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How/When Does the Pandemic End?

• Herd Immunity
• Flatten the Curve
• Establish Protections
• Loosen Restrictions
• Rebuild/Remake

Adapted from CDC / The Economist
Three Economic Scenarios (Conference Board)

• v-Shaped Recovery (mild)…May reboot
• V-Shaped Recovery (modest)…Summertime comeback
• U-Shaped Recovery (severe)…Fall recovery (or beyond)
GDP Growth Scenarios, Annualized QoQ rates

- May reboot
- Summertime V-shape
- Fall recovery

Peak Cases:
- mid-April
- May
- June/July

2020 GDP:
- v-May reboot: -1.6%
- V-Summer: -5.5%
- U-Fall: -6.0%

Peak Unemployment:
- v-May reboot: 8%
- V-Summer: 15%
- U-Fall: 15%
Guide to the Great Unknown

• Increased Personal Awareness
• The New Patriots
• Tech Disruption Alters Work and Play (again)
• Bigger Government
• Looking Inward
Questions?