



The Economy in Quicksand: How/When Will We Get Out of this Quagmire?

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



www.csbs.org / [@csbsnews](https://twitter.com/csbsnews)

CSBS Economic Insights Webcast
May 6, 2020

The Economy in Quicksand: How/When Will We Get Out of this Quagmire?



What about BOB?



How Bad Will the Recession Be?



What Will it Take to Get the Economy Going Again?



When will the Economy Rebound?

The Economy in Quicksand: How/When Will We Get Out of this Quagmire?



What about BOB?



How Bad Will the Recession Be?



What Will it Take to Get the Economy Going Again?



When will the Economy Rebound?

A Quick Look Back to Economic Insights Webinar #1




COVID-19 Infects the U.S. Economy
By Thomas F. Siems, Ph.D.
CSBS Sr Economist & Director of Research

 www.csbs.org / @csbsnews

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?

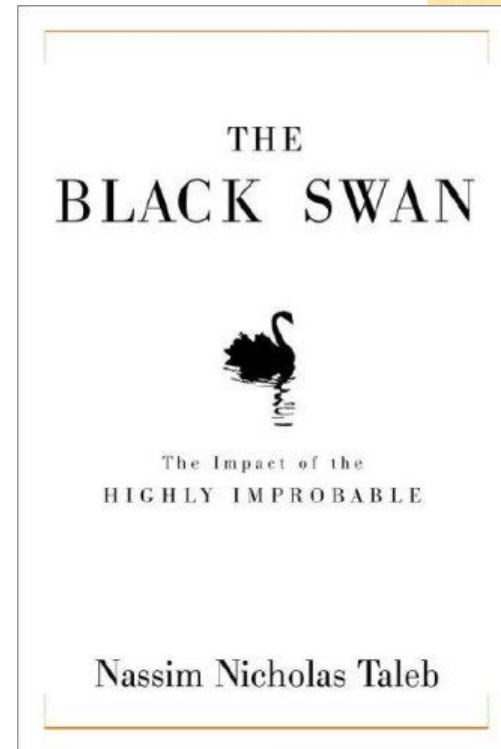
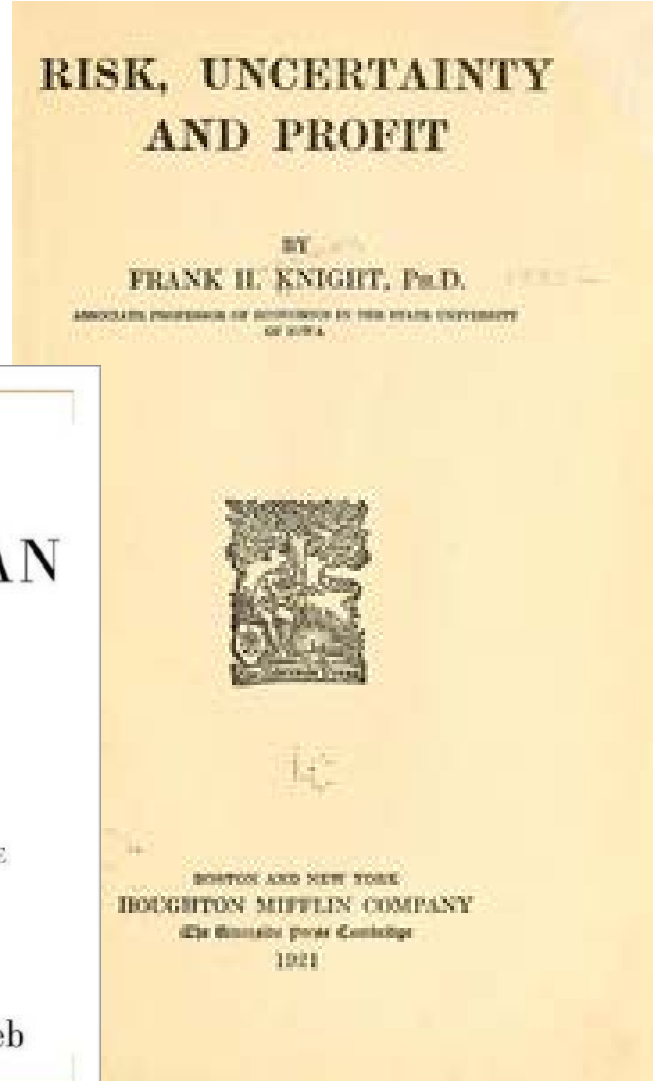
In Conclusion, FROM THE CSBS SCOTTSDALE MEETING, DECEMBER 2019

- US Economy growing slowly
 - GDP ~2.0%; Unemployment ~3.6%; Inflation ~1.9%; wages rising ~3.0%
- **Recession Ahead?**
 - Manufacturing weak; Inequality/trade/global concerns; Yield curve flat; Depends on 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



Understanding Risk and Uncertainty

- **Frank Knight (1921) “Risk, Uncertainty and Profit”**
- **Nassim Taleb (2007) “The Black Swan”**



In Conclusion,

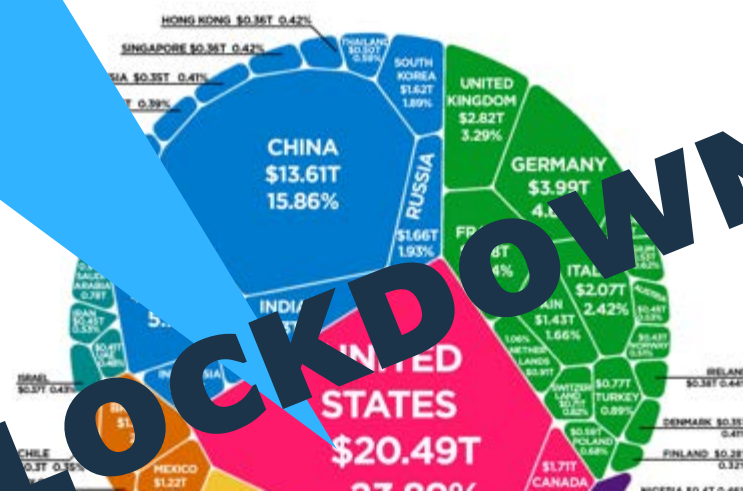
FROM THE CSBS SCOTTSDALE MEETING,
DECEMBER 2019

- US Economy growing slowly
 - GDP ~2.0%; Unemployment ~3.6%; Inflation ~1.9%; wages rising ~3.0%
- **Recession Ahead?** Out of the **BLUE**
 - Manufacturing weak due to quality/trade/global concerns; Yield curve flat; Depends on confidence, and **BOBs**
- Banking
 - Consolidation continues; Banks appear to be in good shape
- The Fed
 - Dual mandate success; Interest rate market expectations

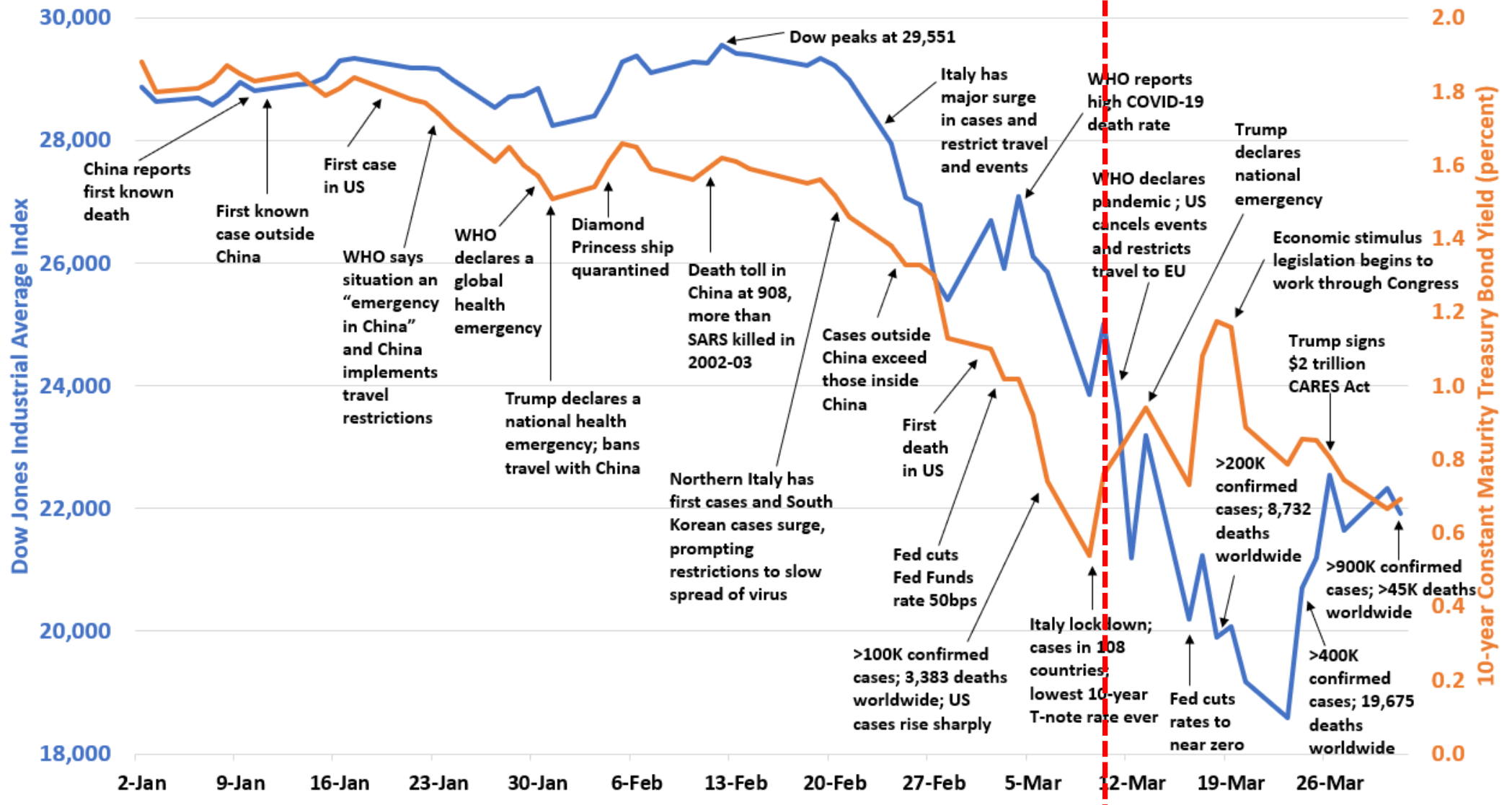
BOLT

BLUE

LOCKDOWN



Stock and Bond Market Indicators as COVID-19 Hits the USA



The Economy in Quicksand: How/When Will We Get Out of this Quagmire?



What about BOB?



How Bad Will the Recession Be?

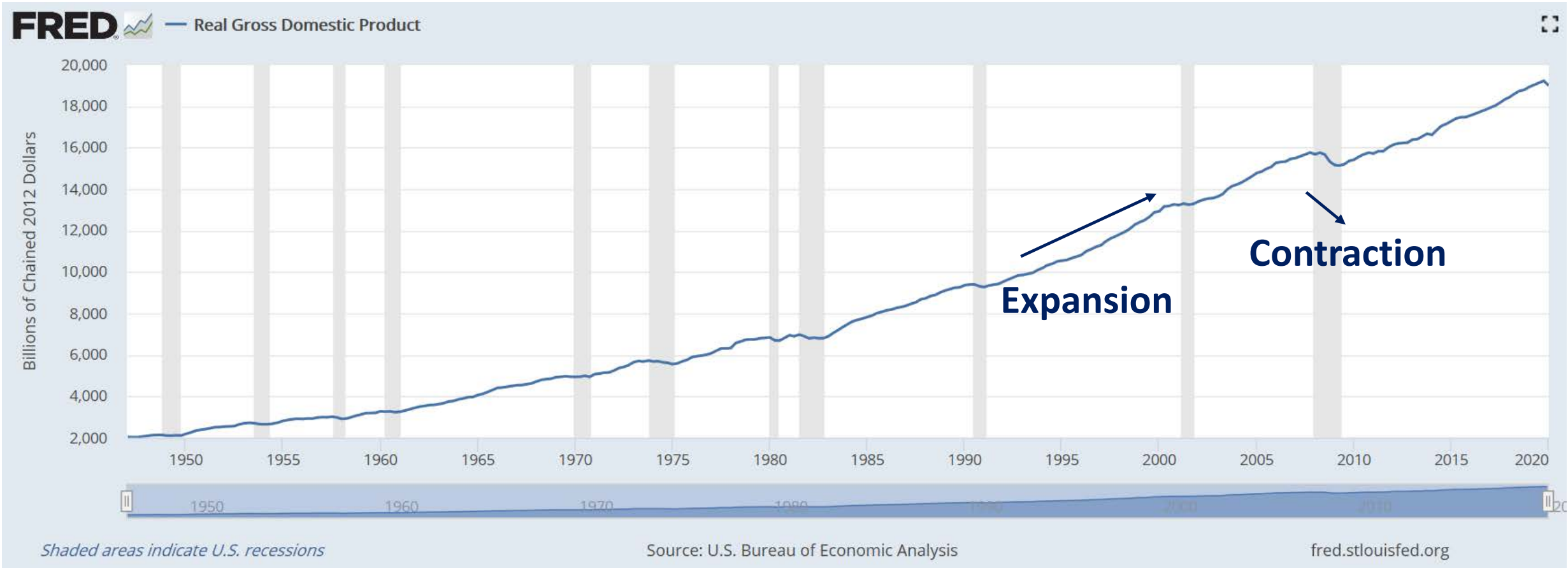


What Will it Take to Get the Economy Going Again?

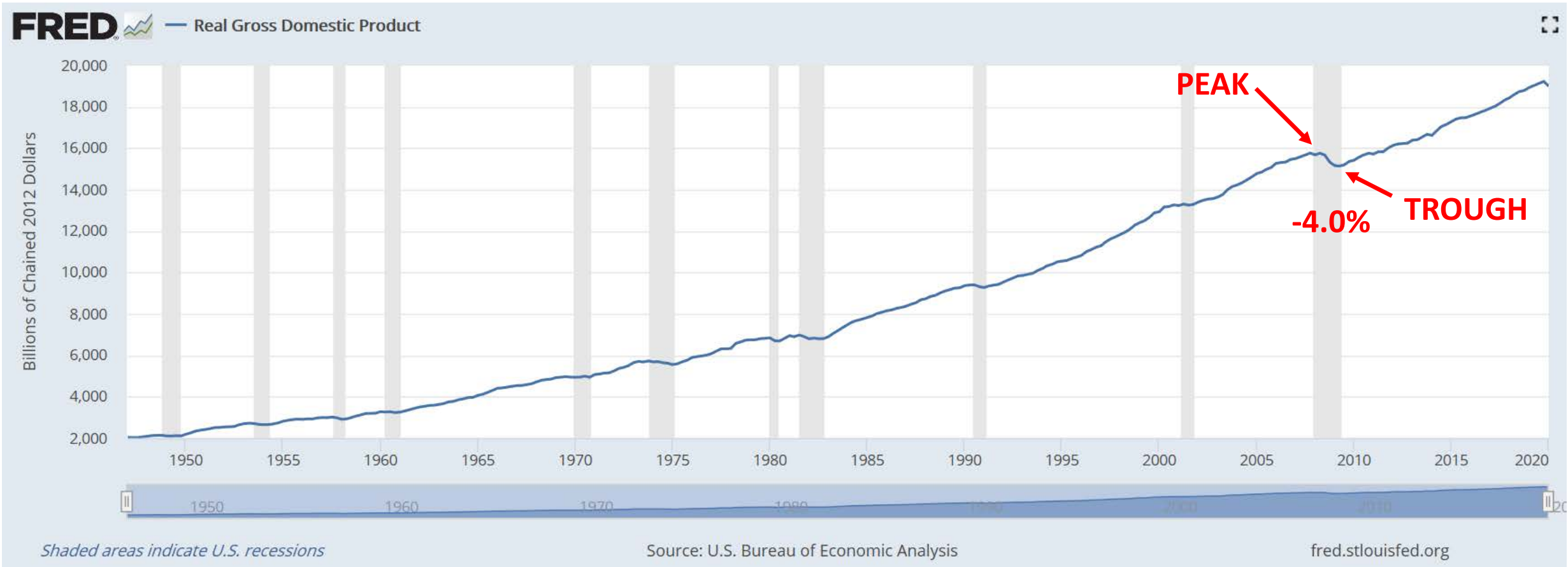


When will the Economy Rebound?

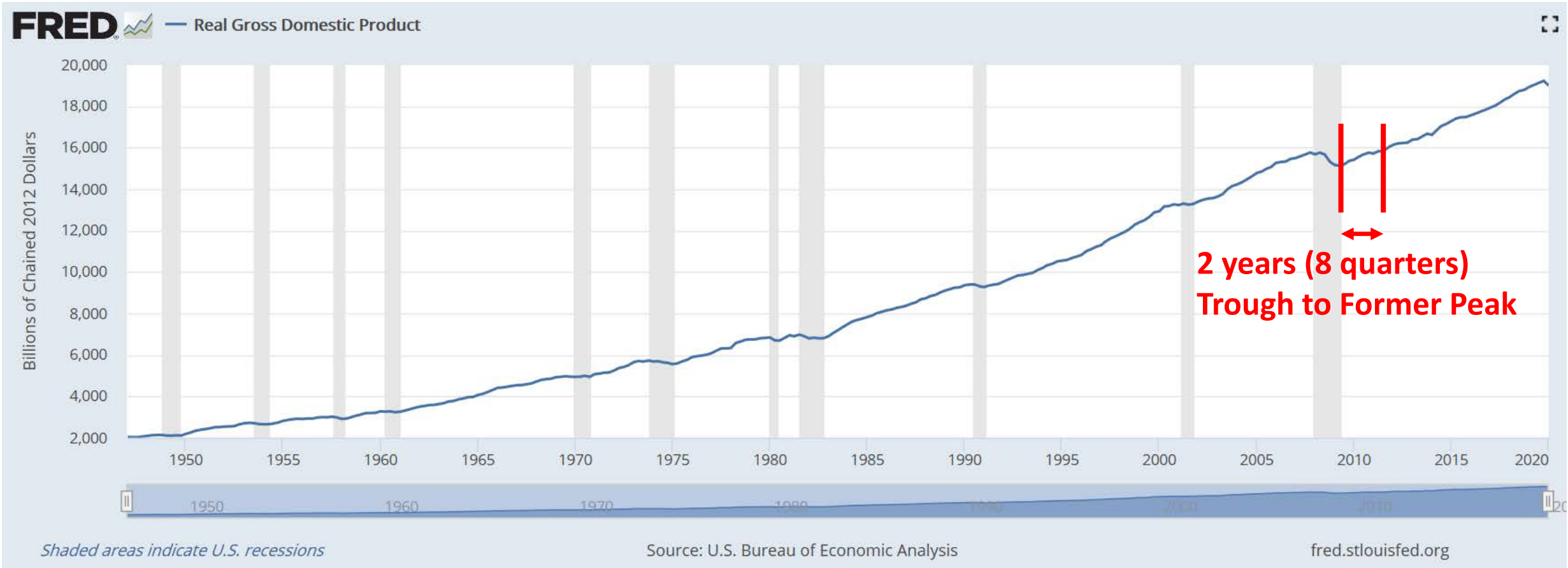
Real U.S. Gross Domestic Product (GDP)



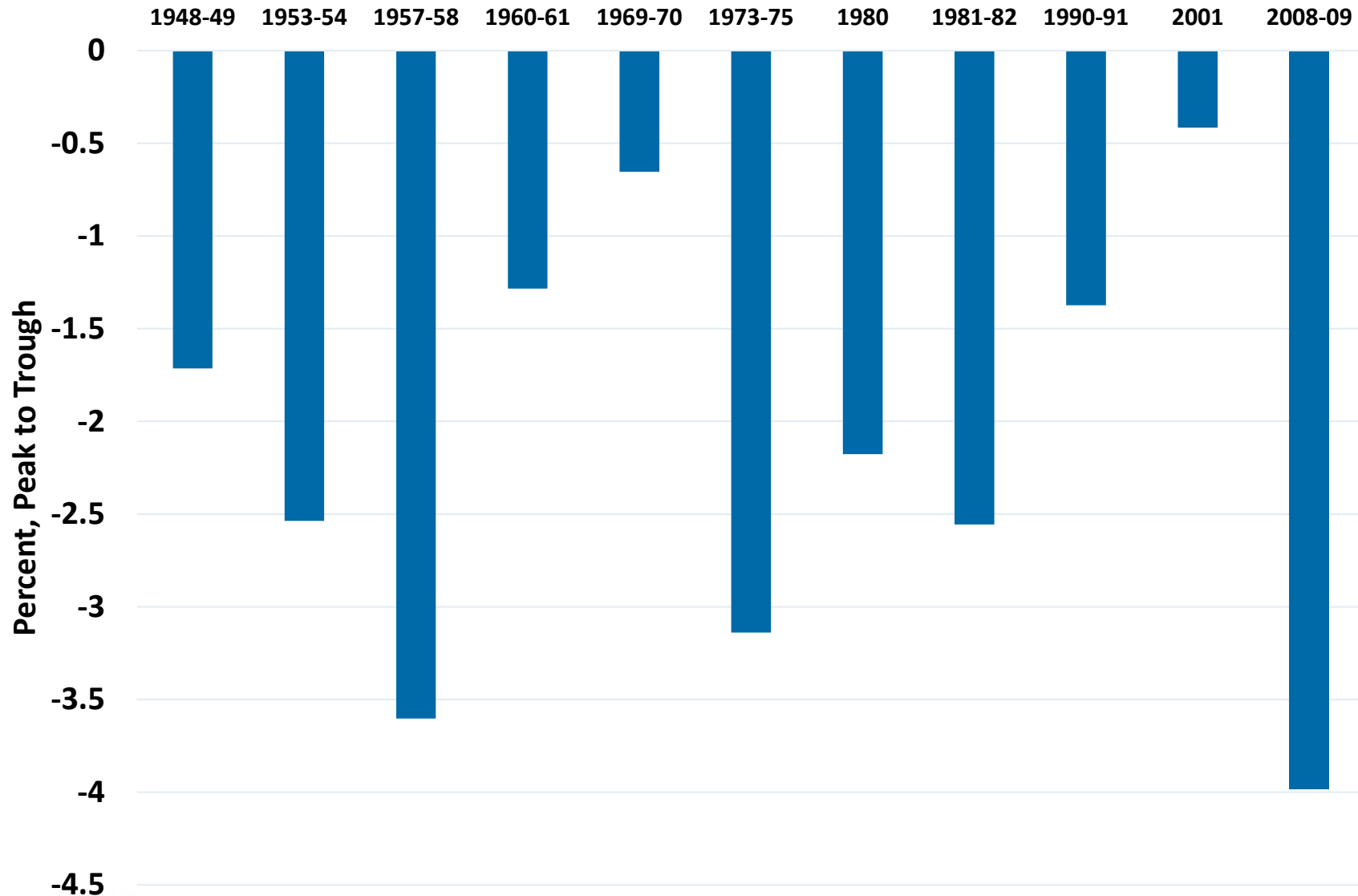
Real U.S. Gross Domestic Product (GDP)



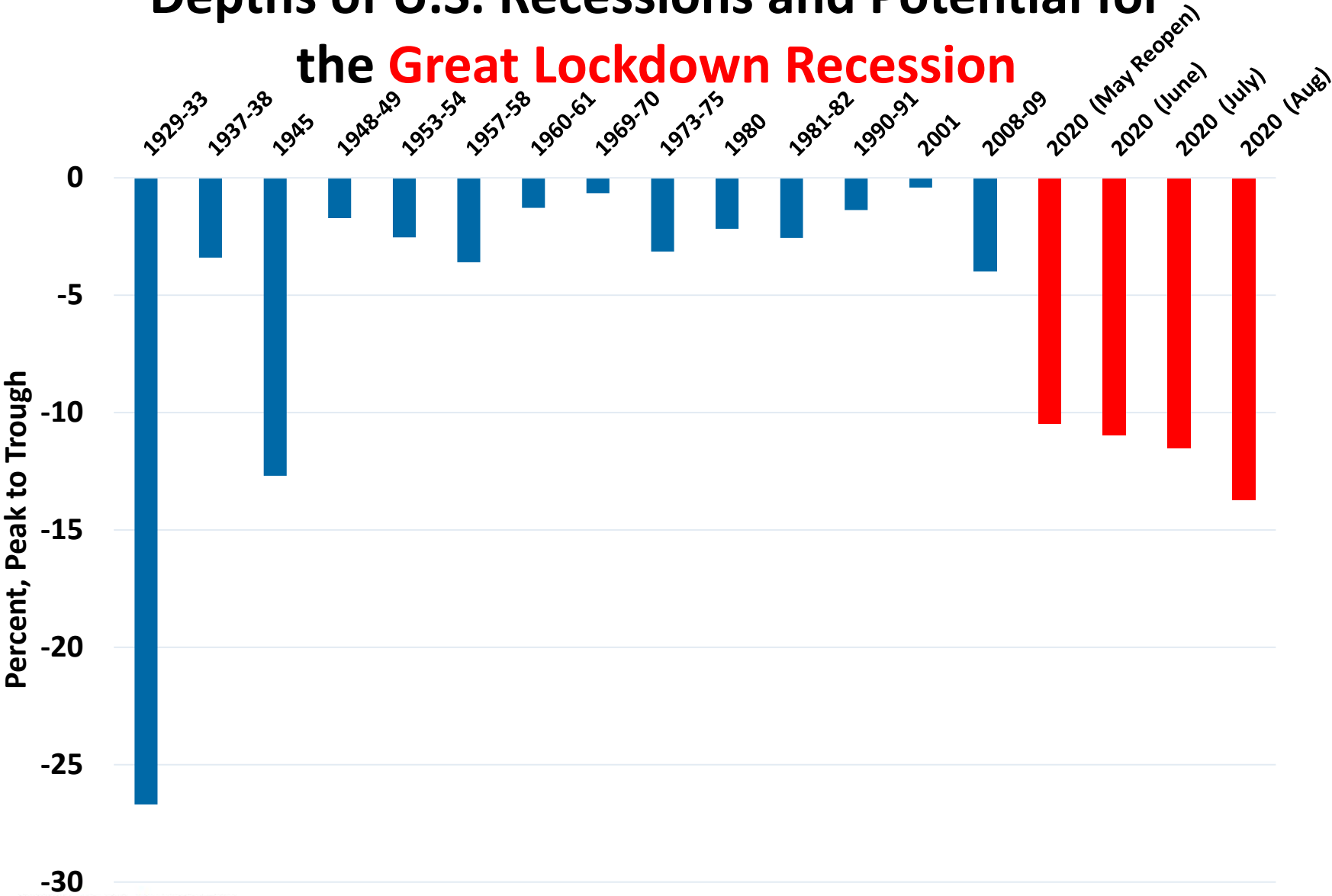
Real U.S. Gross Domestic Product (GDP)



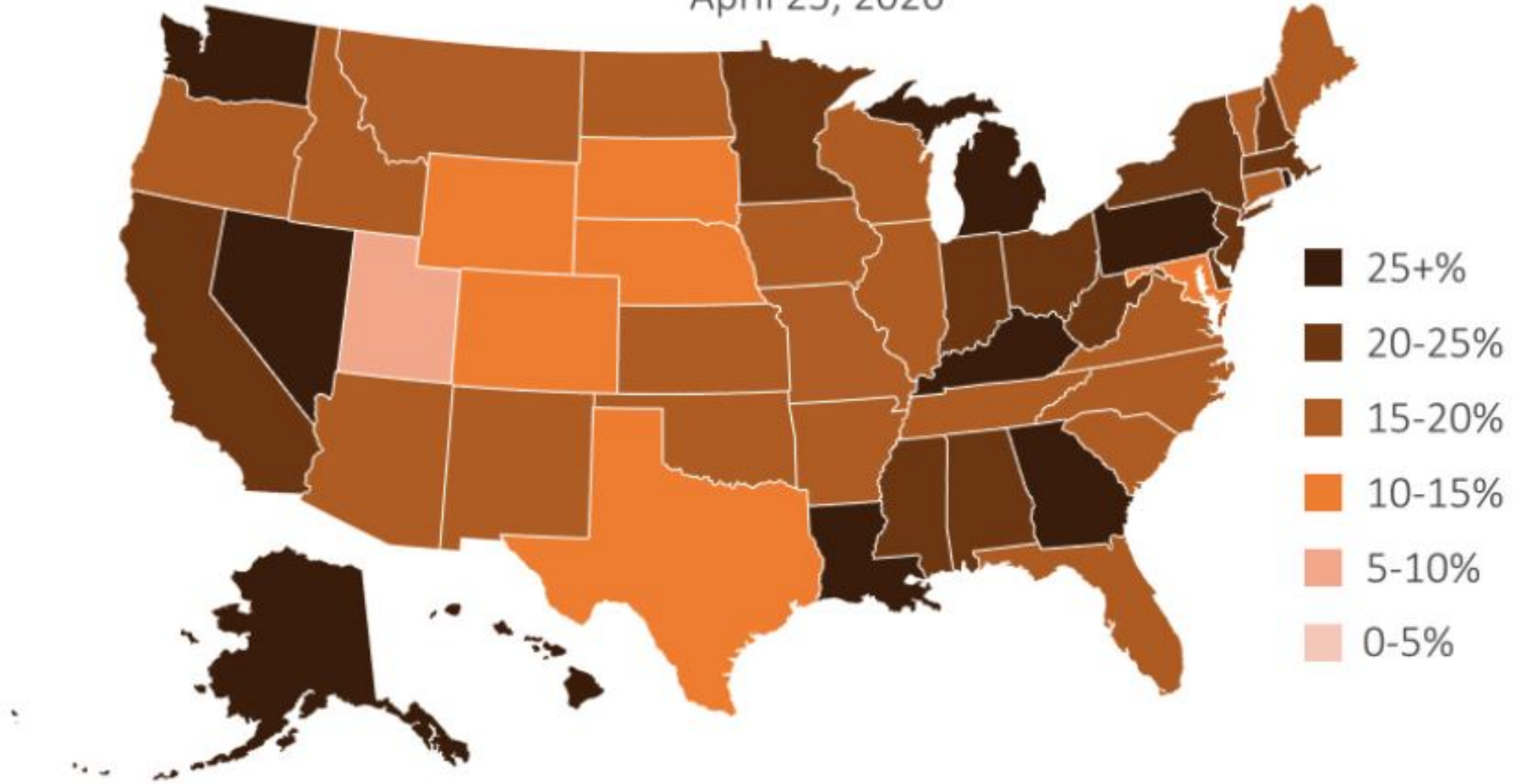
Depths of Most Recent U.S. Recessions



Depths of U.S. Recessions and Potential for the **Great Lockdown Recession**



State-Level Unemployment Rates Projected Using Weekly Initial Jobless Claims April 25, 2020



SOUTH DAKOTA



Practicing social distancing since 1889

The Economy in Quicksand: How/When Will We Get Out of this Quagmire?



What about BOB?



How Bad Will the Recession Be?



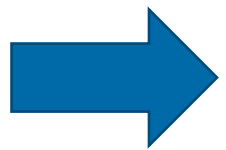
What Will it Take to Get the Economy Going Again?



When will the Economy Rebound?

Some Things Starting to Happen

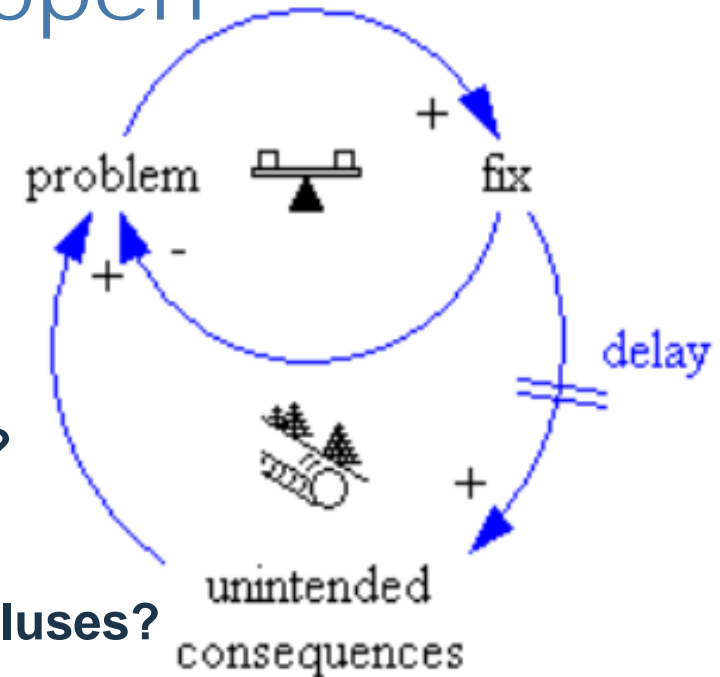
- **Flattening the Curve on COVID-19**
- **States and Businesses Beginning to Reopen**
- **Policymakers Full-Throttle**
 - **Fiscal policy: nearly \$3 trillion increased spending**
 - **Monetary policy: \$2.5 trillion and rising**



Economic Growth Should Resume in Q3 2020

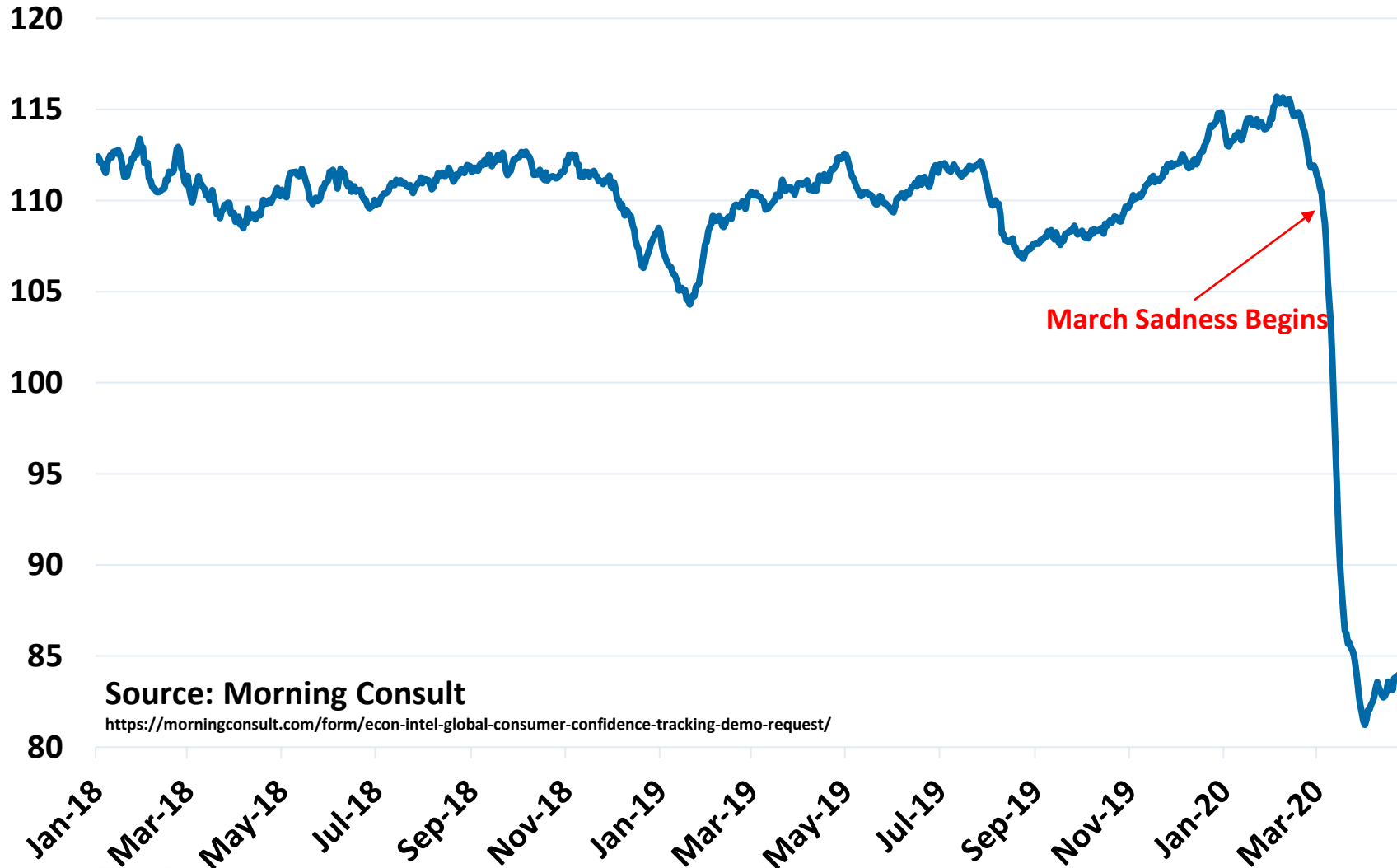
Some Things That Still Need to Happen

- **Businesses Implement New Safety Procedures**
- **Consumers Comfortable Going Places**
 - Vaccine/Treatment
- **Potential Unintended Consequences**
 - Generous Unemployment Benefits Keep Workers Out Longer?
 - Fed has enough ammo?
 - Bullwhip Effect on Supply Chains Result in Shortages or Surpluses?
 - Payroll Protection Program Targeted as Intended?



Economic Recovery May Suffer: CONFIDENCE is Key!

Daily Index of Consumer Sentiment (7-day moving average)

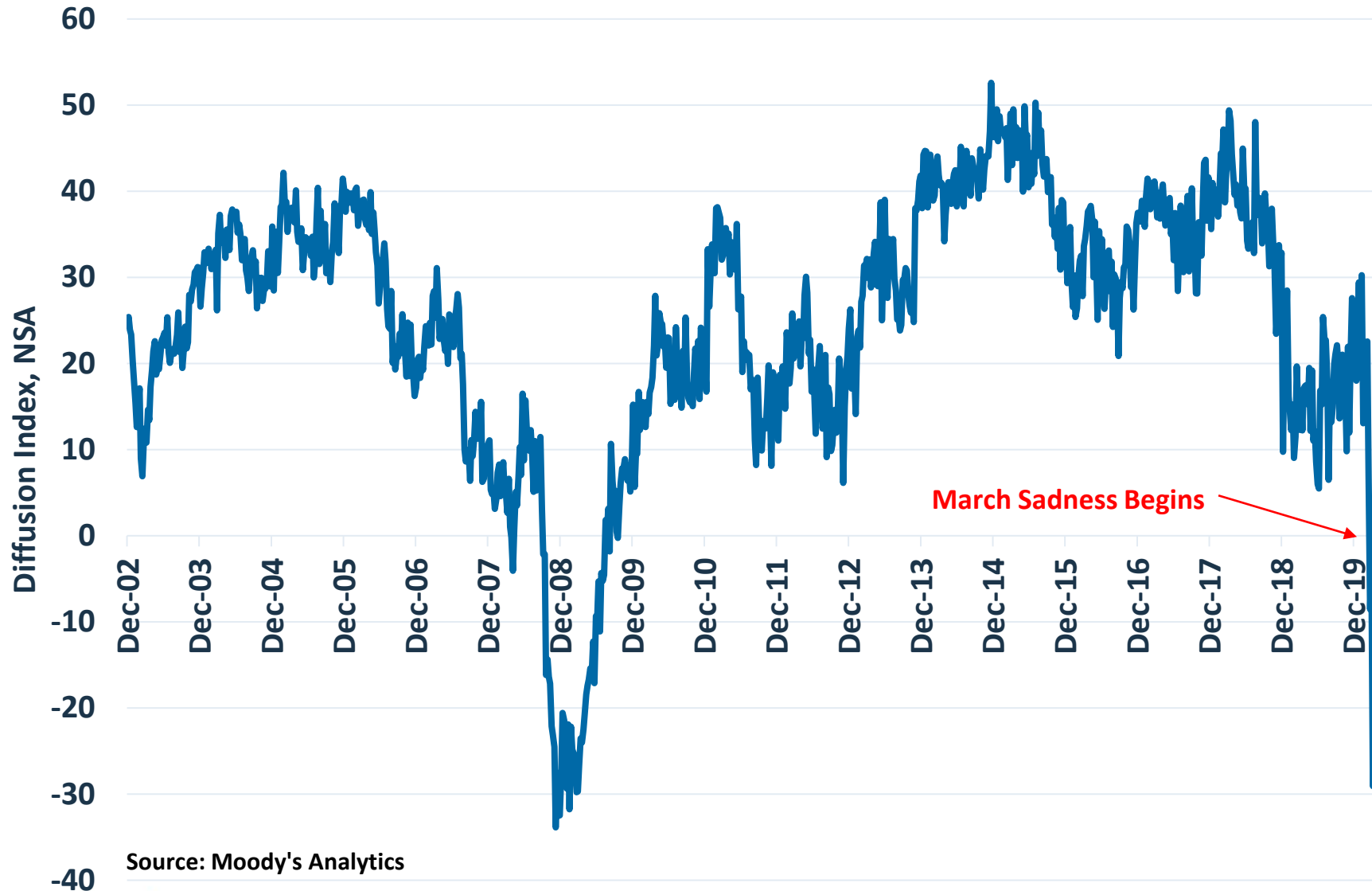


Source: Morning Consult

<https://morningconsult.com/form/econ-intel-global-consumer-confidence-tracking-demo-request/>



Survey of Business Confidence



Source: Moody's Analytics



The Economy in Quicksand: How/When Will We Get Out of this Quagmire?



What about BOB?



How Bad Will the Recession Be?



What Will it Take to Get the Economy Going Again?

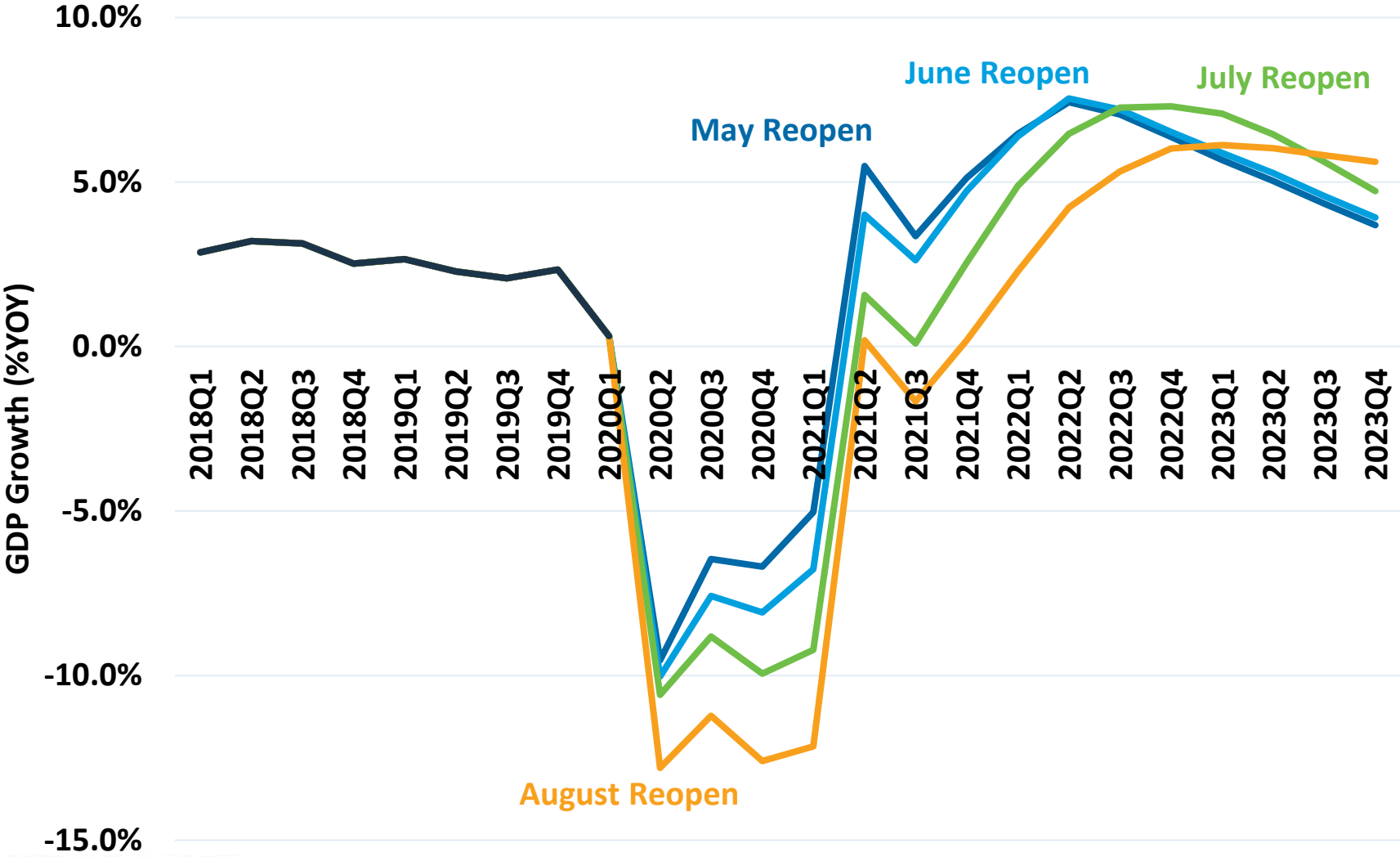


When will the Economy Rebound?

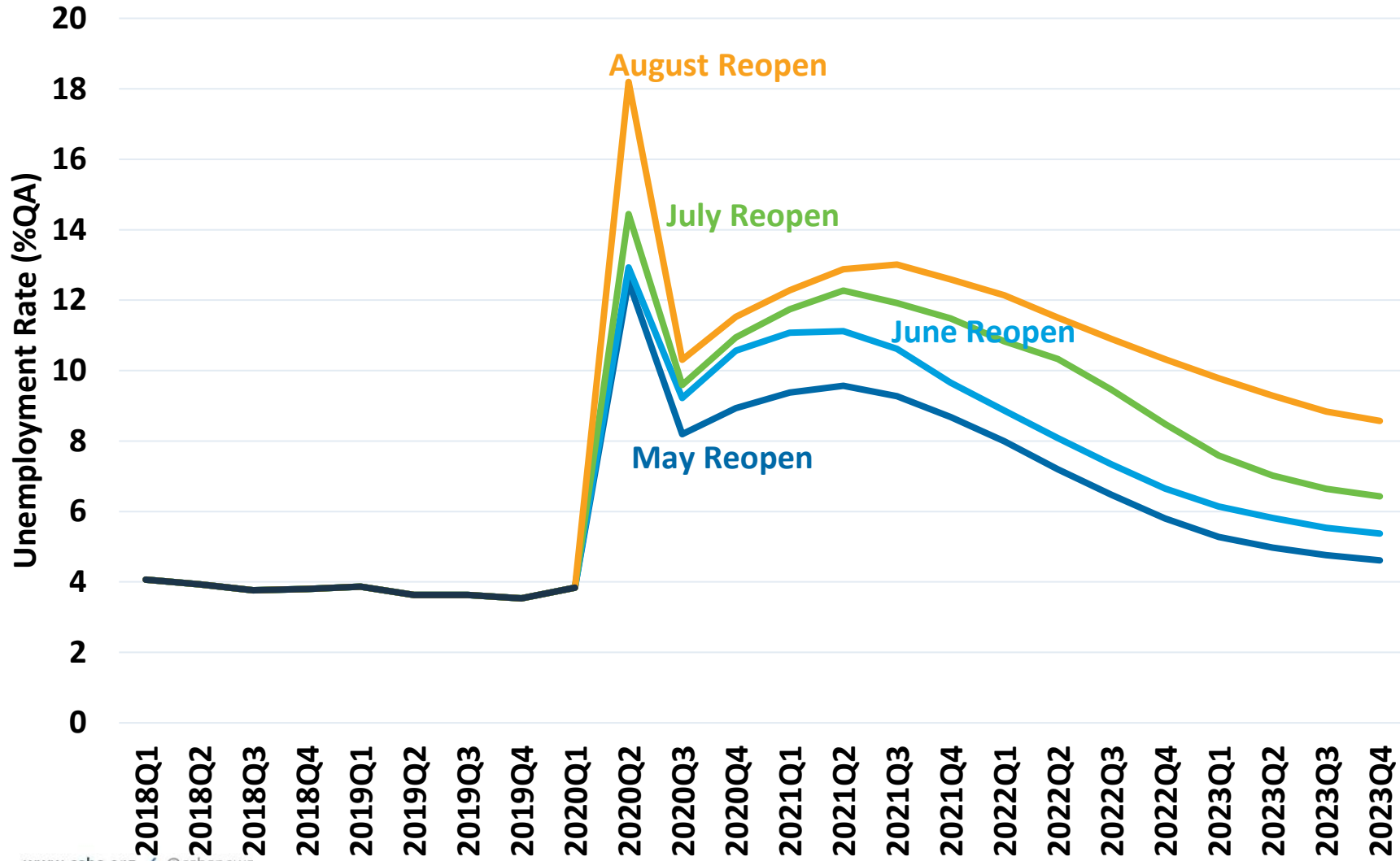
Four Economic Scenarios (Moody's Analytics)

- **May Reopen: Baseline (7 Quarters to Recover: Q1 2022)**
 - -6.7% GDP (2020); +5.1% GDP (2021); 12.5% peak UR; 8.4% Dec UR
- **June Reopen: 25% (8 Quarters to Recover: Q2 2022)**
 - -8.1% GDP (2020); +4.7% GDP (2021); 12.9% peak UR; 9.1% Dec UR
- **July Reopen: 10% (11 Quarters to Recover: Q1 2023)**
 - -9.9% GDP (2020); +2.5% GDP (2021); 14.4% peak UR; 9.7% Dec UR
- **August Reopen: 4% (16 Quarters to Recover: Q2 2024)**
 - -12.6% GDP (2020); +0.2% GDP (2021); 18.2% peak UR; 11.0% Dec UR

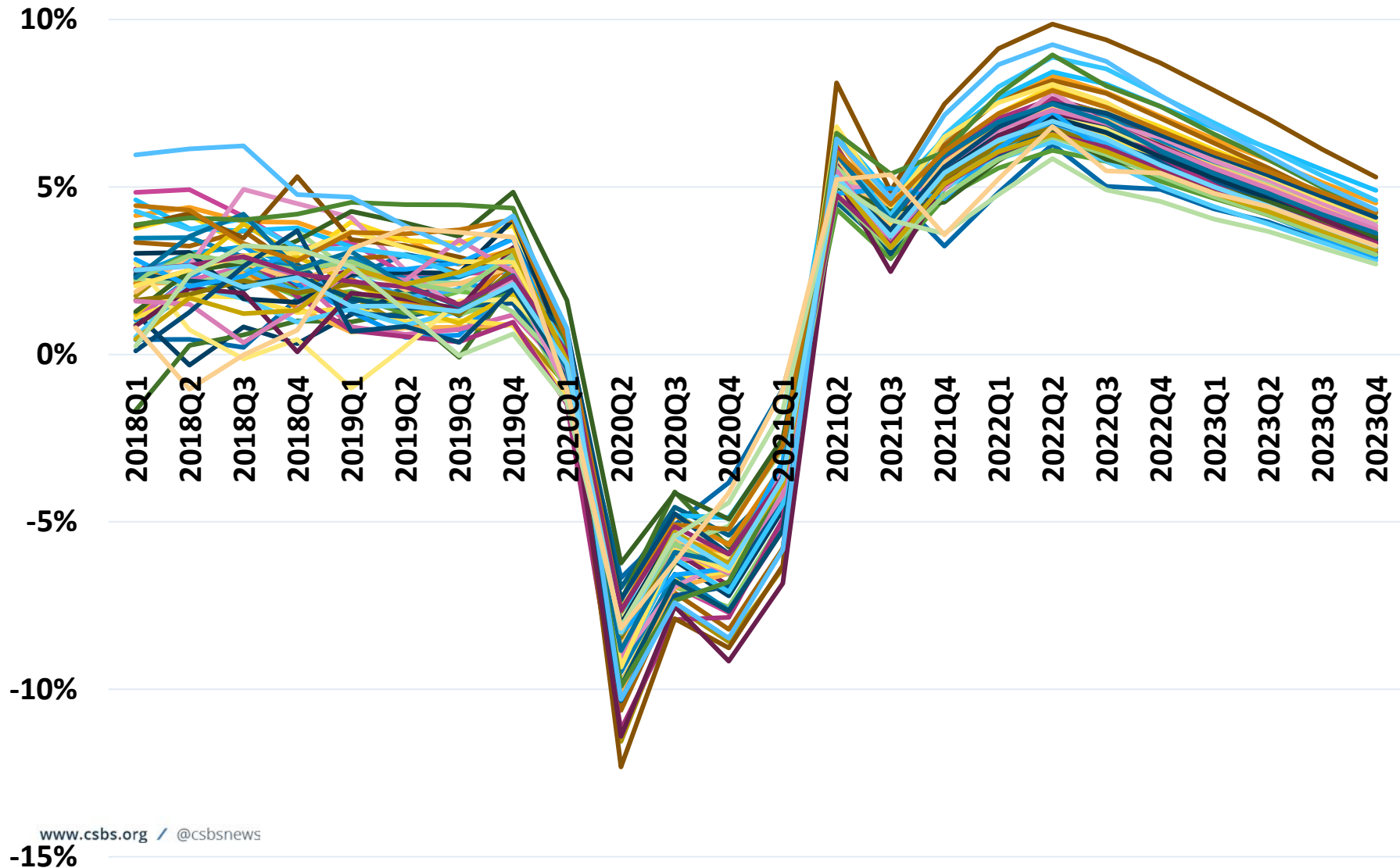
Potential Economic Fallout/Recovery following the Great Lockdown



Potential U.S. Unemployment Rates following the Great Lockdown



Potential Economic Fallout/Recovery for Each State following the Great Lockdown: May Reopening



Conclusion

- **COVID-19 and the Great Lockdown are Black Swan Events**
- **The Great Lockdown Recession will be the Deepest since the 1945 Recession, exceeding -10% Peak-to-Trough**
- **The U.S. Economy will Rebound in Q3 2020, But the Path of the Recovery Depends on When Businesses Reopen and How Comfortable Consumers are to Engage/Interact**
 - **A Vaccine/Treatment is Needed for a Faster Recovery**
 - **The Government and Fed are Full Throttle**
 - **Confidence is Key**

Questions?