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
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What about BOB?

How Bad Will the Recession Be?

What Will it Take to Get the Economy Going Again?

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

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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 moderately
  • 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
Understanding Risk and Uncertainty

• Frank Knight (1921) “Risk, Uncertainty and Profit”
In Conclusion...

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March Sadness and the US Recession Begin

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

- China reports first known death
- First known case outside China
- WHO says situation an "emergency in China" and China implements travel restrictions
- First case in US
- WHO declares a global health emergency
- Diamond Princess ship quarantined
- Italy has major surge in cases and restricts travel and events
- WHO reports high COVID-19 death rate
- Death toll in China at 908, more than SARS killed in 2002-03
- Cases outside China exceed those inside China
- WHO declares pandemic; US cancels events and restricts travel to EU
- Italy lockdown; 308 deaths worldwide; US cases rise sharply
- First death in US
- Trump declares a national health emergency; bans travel with China
- Fed cuts Fed Funds rate 50bps
- Northern Italy has first cases and South Korean cases surge, prompting restrictions to slow spread of virus
- Economic stimulus legislation begins to work through Congress
- Trump signs $2 trillion CARES Act
- >200K confirmed cases; 8,732 deaths worldwide
- >400K confirmed cases; 19,675 deaths worldwide
- >100K confirmed cases; 3,383 deaths worldwide; US cases rise sharply
- Fed cuts rates to near zero
- 2-Mar 19-Mar 26-Mar

10-year Constant Maturity Treasury Bond Yield (percent)

Dow Jones Industrial Average Index

26,000
30,000

22,000
24,000
28,000
30,000

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When will the Economy Rebound?
Real U.S. Gross Domestic Product (GDP)

Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Economic Analysis

fred.stlouisfed.org
Real U.S. Gross Domestic Product (GDP)

PEAK -4.0% TROUGH

Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Economic Analysis
fred.stlouisfed.org
Real U.S. Gross Domestic Product (GDP)

2 years (8 quarters) Trough to Former Peak
Depths of Most Recent U.S. Recessions

Percent, Peak to Trough


-4.5
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

- 25+%
- 20-25%
- 15-20%
- 10-15%
- 5-10%
- 0-5%
SOUTH DAKOTA

Practicing social distancing since 1889
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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

March Sadness Begins
Survey of Business Confidence

Source: Moody's Analytics

March Sadness Begins
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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

GDP Growth (%Y/Y)

-10.0%
-5.0%
0.0%
5.0%
10.0%

2018Q1
2018Q2
2018Q3
2018Q4
2019Q1
2019Q2
2019Q3
2019Q4
2020Q1
2020Q2
2020Q3
2020Q4
2021Q1
2021Q2
2021Q3
2021Q4
2022Q1
2022Q2
2022Q3
2022Q4
2023Q1
2023Q2
2023Q3
2023Q4
2024Q1
2024Q2

May Reopen
June Reopen
July Reopen
August Reopen

Potential Economic Fallout/Recovery following the Great Lockdown

-15.0%

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Potential U.S. Unemployment Rates following the Great Lockdown

Unemployment Rate (%QA)

- August Reopen
- July Reopen
- June Reopen
- May Reopen
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?