Return of the Economist

COVID-19 Economic Update

By: Anirban Basu
Sage Policy Group, Inc.

On Behalf of FCIA

April 21st, 2020
Ring Verse

*Three Rings for the Elven-kings under the sky,*

*Seven for the Dwarf-lords in their halls of stone,*

*Nine for Mortal Men doomed to die,*

*One for the Dark Lord on his dark throne,*

*In the Land of Mordor where the Shadows lie,*

*One ring to rule them all, one ring to find them,*

*One ring to bring them all and in the darkness bind them*
Coronavirus COVID-19 Global Cumulative Confirmed Cases
January 22nd – April 20th

Cumulative Confirmed COVID 19 Cases (Thousands)

Source: Johns Hopkins University, Center for Systems Science and Engineering (CSSE)
Coronavirus COVID-19 U.S. Cumulative Confirmed Cases
As of 4/20/2020

Total Confirmed: 759,786 | Total Deaths: 40,683

Source: Johns Hopkins University, Center for Systems Science and Engineering (CSSE)
Nine Reasons for Hope in the Kingdom of Men (& Women)
I. There was Plenty of Job Growth on Middle Earth (OK, America)

Net Change in U.S. Jobs, March 2002 – March 2020

Source: U.S. Bureau of Labor Statistics

March 2020: -701K

**Source:** U.S. Bureau of Labor Statistics, Current Employment Statistics (CES) Survey

<table>
<thead>
<tr>
<th>Rank</th>
<th>MSA</th>
<th>%</th>
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<td>Portland-Vancouver-Hillsboro, OR-WA</td>
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<td></td>
<td>24</td>
<td>Minneapolis-St. Paul-Bloomington, MN-WI</td>
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**U.S. Year-over-year Percent Change:** +1.0%
II. Fewer Idle in the Shire (pre-COVID-19)

U.S. Unemployment Rate, March 2000 – March 2020

Unemployment Rate (%)

Source: U.S. Bureau of Labor Statistics
## Unemployment Rates, 25 Largest Metros (NSA)

*February 2020*

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III. Gold Aplenty

Growth in Wages & Salaries, U.S. Employment Cost Index (ECI), 2002Q4 – 2019Q4

Source: U.S. Bureau of Labor Statistics  *All Civilian Workers
IV. In the Baggins!

U.S. Retail Sales, March 2000 – March 2020

Retail Sales ($Billions)

Source: U.S. Census Bureau
V. Your Gold Coins Go Further


Core CPI (All Items Less Food & Energy)
12-Month % Change

Mar. 2020: +2.1% YOY

Source: U.S. Bureau of Labor Statistics
VI. Interest Rates are Hobbit-Sized

U.S. 10-Year Treasury Constant Maturity Rate, 1962 – 2020*

*Week ending 4/17/2020

Source: Board of Governors of the Federal Reserve System
VII. Property Values Rise in Middle Earth


Source: Standard & Poor's
VIII. The Kingdom is Under Construction


Source: U.S. Census Bureau
Nonresidential Construction Put-in-Place
February 2006 – February 2020

Source: U.S. Census Bureau
National Nonresidential Construction Spending by Subsector
February 2015 v. February 2020

Source: U.S. Census Bureau
IX. But It Goes to Elven

U.S. Stock Markets, April 2006 – April 2020*

Source: Yahoo! Finance

*Week ending 4/17/2020

Source: Yahoo! Finance
Seven Factors Dwarfing Hope
I. Manufacturing Doth Decline

Institute of Supply Management: Purchasing Managers Index (PMI), 2000 – 2020

*A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

Source: Institute of Supply Management; Quandl.com
II. A Tower of National Debt

U.S. Federal Debt Held by the Public, % of GDP

Source: Congressional Budget Office (CBO), Baseline Budget Projections as of March 6, 2020

These budget projections reflect legislation, administrative actions, and regulatory changes through March 6, 2020. They are based on the economic forecast that CBO completed on January 7, 2020, and do not account for changes to the nation’s economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus.

- Relative to the size of the economy, federal debt in 2020 is projected to be nearly twice its average over the past 50 years.
- Sometime in the early 2030’s, debt is projected to reach a higher level than it has at any point since just after World War II.
• Over the 2021–2030 period, deficits are projected to average 4.8% of GDP, totaling $13.1 trillion.
• Over the past 50 years, deficits averaged just 3.0% of GDP.

Source: Congressional Budget Office (CBO), Baseline Budget Projections as of March 6, 2020
These budget projections reflect legislation, administrative actions, and regulatory changes through March 6, 2020. They are based on the economic forecast that CBO completed on January 7, 2020, and do not account for changes to the nation’s economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus.
III. A Mountain of Consumer Debt, Too

Total U.S. Household Debt, 2003 – 2019

Debt balances have been rising steadily for 5 years and are now $1.5 trillion higher than the previous peak in 2008Q3 of $12.7 trillion. Overall household debt is 26.8% above the 2013Q2 trough.

Source: New York Fed Consumer Credit Panel/Equifax
IV. How Did It Come to This?

U.S. Corporate Bond Debt Outstanding, 1980 – 2019

Source: Securities Industry and Financial Markets Association (SIFMA); Federal Reserve

2019: $9.6 Trillion
In 2019Q3 nonfarm business sector labor productivity fell by 0.3%—the first decline since 2015.

U.S. productivity has risen at an average rate of 1.3% since 2007, compared with a 2.1% average since the end of WWII.
VI. Uncertainty Across the Realm:
Global Economic Policy Uncertainty Index, 1998 – 2020

Global Economic Policy Uncertainty Index

VII. The Eye is on Asset Prices: 


Feb 2020: 30.8
April 2020: 23.0
U.S. Share of Global GDP, 2010 v. 2019

U.S. Share of Global GDP (current USD)

Source: CNN, "America’s Decade of Dominance"; IMF

% Total Return, USD

- United States: 256%
- Japan: 94%
- Europe: 76%
- China: 72%
- Emerging Markets: 49%
- India: 46%

Source: CNN, “America’s Decade of Dominance”
Three Things that Make COVID–19 Different, Economically
I. A Supply Shock of a Caliber Unknown in Modern Times

<table>
<thead>
<tr>
<th>Containment measures</th>
<th>Supply</th>
<th>Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarantines</td>
<td>Factory closures</td>
<td>Loss of confidence</td>
</tr>
<tr>
<td>Travel bans and restrictions</td>
<td>Cutbacks in service provisions</td>
<td>Business and tourism travels</td>
</tr>
<tr>
<td>Closure of public places</td>
<td>Supply chain disruption</td>
<td>Education and entertainment services</td>
</tr>
</tbody>
</table>

Source: OECD Interim Economic Outlook, “Coronavirus: the world economy at risk”, 3/2/2020
Global Economy was Already Fragile

- At the beginning of March International Monetary Fund (IMF) Managing Director Kristalina Georgieva indicated in a news briefing that global spread of the novel coronavirus had crushed hopes for stronger growth in 2020.

- Already, trade wars had pushed global growth in 2019 to its lowest rate since a 0.7% contraction in 2009.

- The IMF now projects that as a result of the pandemic, the global economy will contract sharply by −3% in 2020, much worse than during the 2008–09 financial crisis.

- The downgraded forecast represents a 6.3 percentage-point drop from the 3.3% growth the IMF had estimated for 2020 in January.

Source: IMF, April 2020 World Economic Outlook; Aljazeera, “IMF: Virus outbreak will slow global economic growth this year”, 3/4/2020
• Many economists now forecast that Covid-19 will inflict greater economic pain than they had previously expected.

• Forecasts for the U.S. in 2020Q2:
  • Morgan Stanley: 37.9% decline in GDP
  • Goldman Sachs: 34% decline in GDP
  • Conference Board: 33.3% decline in GDP
  • Bank of America Corp: 30% decline in GDP
  • JPMorgan Chase & Co.: 25% decline in GDP

• By comparison, during the worst quarter of the Great Recession in late 2008, the economy shrank by 8.4%.

• Oxford Economics now expect the world economy to contract about 2.8% this year, a bigger decline than even that witnessed in amid the financial crisis in 2009.
### Which Workers Face the Highest Unemployment Risk?

<table>
<thead>
<tr>
<th>Employed in Occupations</th>
<th>Total Employment</th>
<th>Share of Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Occupations</td>
<td>144,731,220</td>
<td>-</td>
</tr>
<tr>
<td>Employed in Occupations at “Low Risk” of Layoff</td>
<td>77,944,910</td>
<td>54%</td>
</tr>
<tr>
<td>Employed in “Essential” Occupations</td>
<td>24,840,280</td>
<td>17%</td>
</tr>
<tr>
<td>Employed in Occupations Possible to Work from Home</td>
<td>48,204,920</td>
<td>33%</td>
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<tr>
<td>Employed in Other Salaried Occupations</td>
<td>4,899,710</td>
<td>3%</td>
</tr>
<tr>
<td>Employed in Occupations at “High Risk” of Layoff</td>
<td>66,786,310</td>
<td>46%</td>
</tr>
<tr>
<td>Food Preparation and Serving-Related Occupations</td>
<td>13,374,170</td>
<td>9%</td>
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<tr>
<td>Sales and Related Occupations</td>
<td>10,443,460</td>
<td>7%</td>
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<tr>
<td>Production Occupations</td>
<td>8,313,750</td>
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<tr>
<td>Installation, Maintenance and Repair Occupations</td>
<td>5,628,890</td>
<td>4%</td>
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<tr>
<td>All Other “High-Risk” Occupations</td>
<td>29,026,040</td>
<td>20%</td>
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</tbody>
</table>

During the week ending April 11\textsuperscript{th}, the advance figure for seasonally adjusted initial claims was 5,245,000, a decrease of 1,370,000 from the previous week.

Over a recent 4-week period, more than 22 million claims for UE insurance were filed.
Oxford Economics forecasts global GDP to contract by 7% in the first half of 2020.

They now project a contraction of 2.8% for 2020 as a whole, down from the pre-outbreak forecast of 2.5% growth.
II. Economic Impact of Past Pandemics – This One Will be Worse

- Goldman Sachs analyzed GDP changes during other pandemics, including the 2003 SARS episodes in China, Hong Kong, and Canada, the 1957 Avian Flu in the U.S., and the 2015 MERS episode in South Korea.

- The average episode saw a GDP hit of 4-5% in the 1-2 quarters after the outbreak, though the variation was substantial.

Source: Goldman Sachs
III. The Cure is Just Oh, So Different U.S. Government Response

- On March 27 President Trump signed a $2 trillion economic recovery package into law.
- The bipartisan legislation, known as the CARES Act offers relief to state and local governments, individuals, small and large businesses, and hospitals.
- Among the deal's key provisions:
  - **Direct payments of $1,200** to most American adults, among other payments.
  - **Extended/expanded unemployment insurance benefits**: 4 months of full pay; raises the maximum benefit by $600 a week (on top of usual $200-$550 depending on the state).
  - More than **$150 billion for the health care system**, including for hospitals, research, treatment and the Strategic National Stockpile to raise supplies of equipment.
  - **$150 billion to state and local governments** to address spending shortages related to the coronavirus pandemic.
  - **$510 billion in loans and loan guarantees for large businesses**; this money comes with strings attached.
  - **$377 billion in the form of loans and grants for small businesses.**

Source: NPR News; Committee for a Responsible Federal Budget
Recession has already begun globally and in United States – I still expect short and vicious;

Best positioned people work in the public sector – greater job stability – private sector workforce will be hammered – unemployment will soon be greater than 20 percent;

Our collective expectations as economists are still adjusting to the downside;

When it commences, recovery from this crisis will be sharp, profound, and most welcome – interest rates low, pent-up demand high, need to rebuild inventories, and people anxious to meet again, go to restaurants, see a movie, watch the Orioles, and engage in other most wonderful of human activities.
Thank You

Please follow me on Twitter — @sageanirban


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