

Return of the Economist



By: Anirban Basu
Sage Policy Group, Inc.

On Behalf of
Direct Marketing Association of
Washington

May 6th, 2020

COVID-19 Economic Update

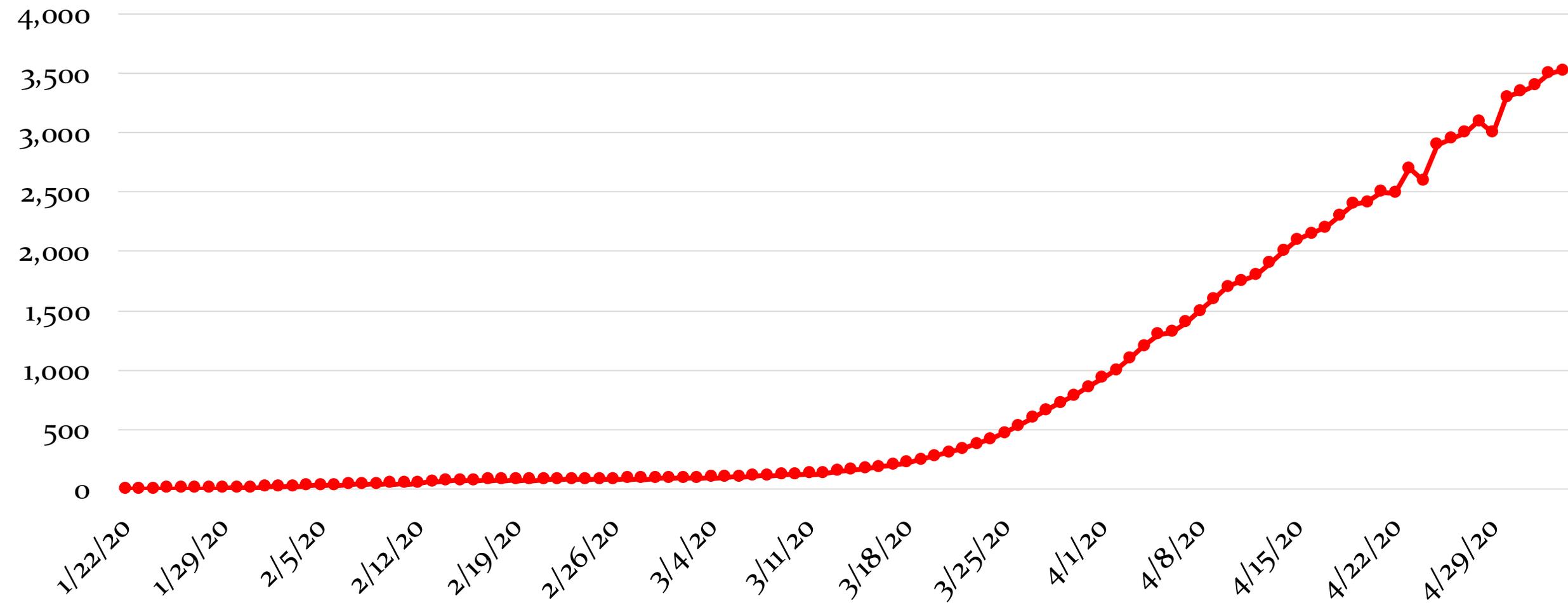
Ring Verse

*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 – May 4th

Cumulative Confirmed COVID 19 Cases (Thousands)



Coronavirus COVID-19 Global Cumulative Confirmed Cases

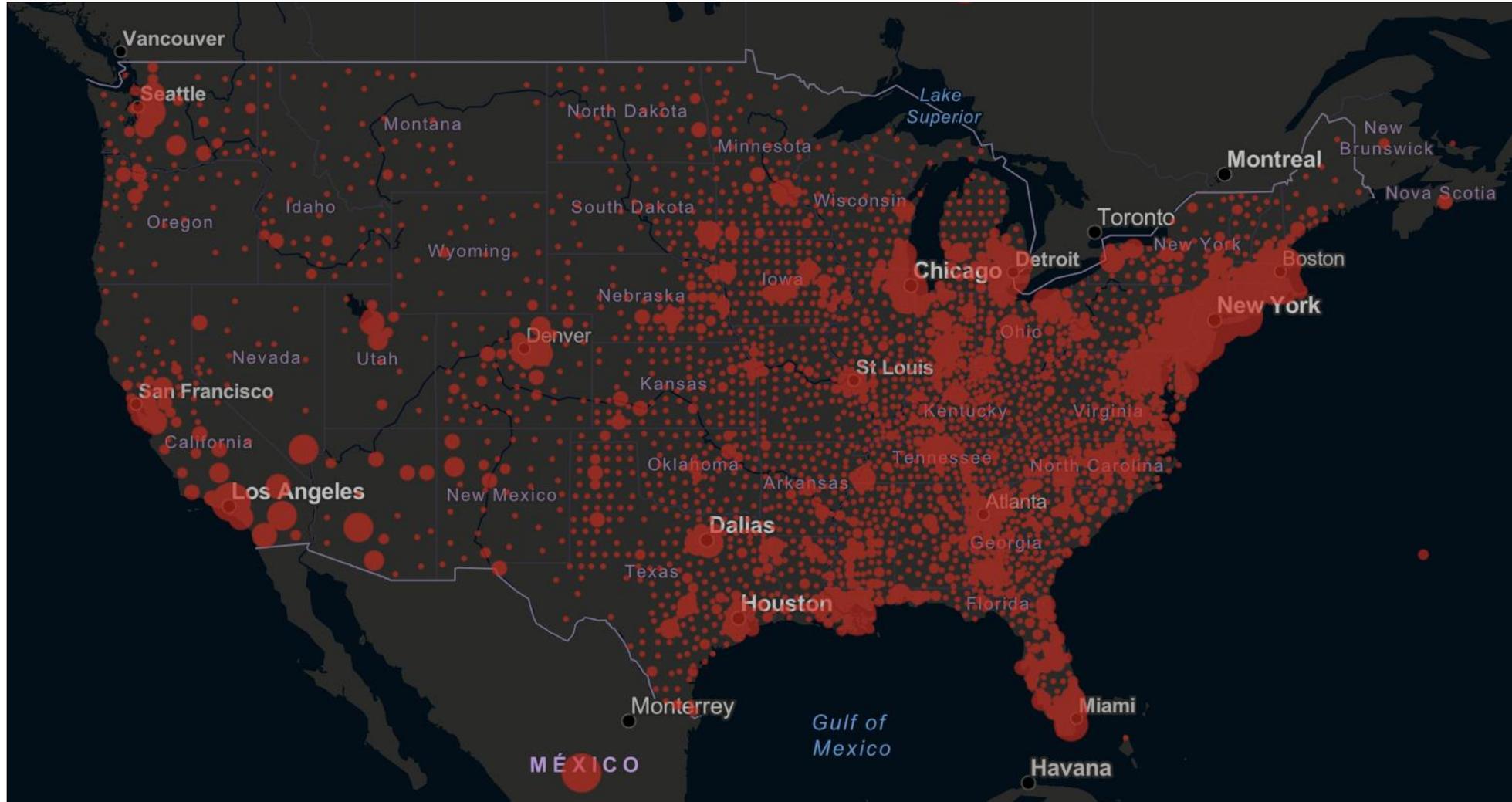
As of 5/4/2020



Total Confirmed: 3,524,429 | Total Deaths: 247,838

Coronavirus COVID-19 U.S. Cumulative Confirmed Cases

As of 5/4/2020



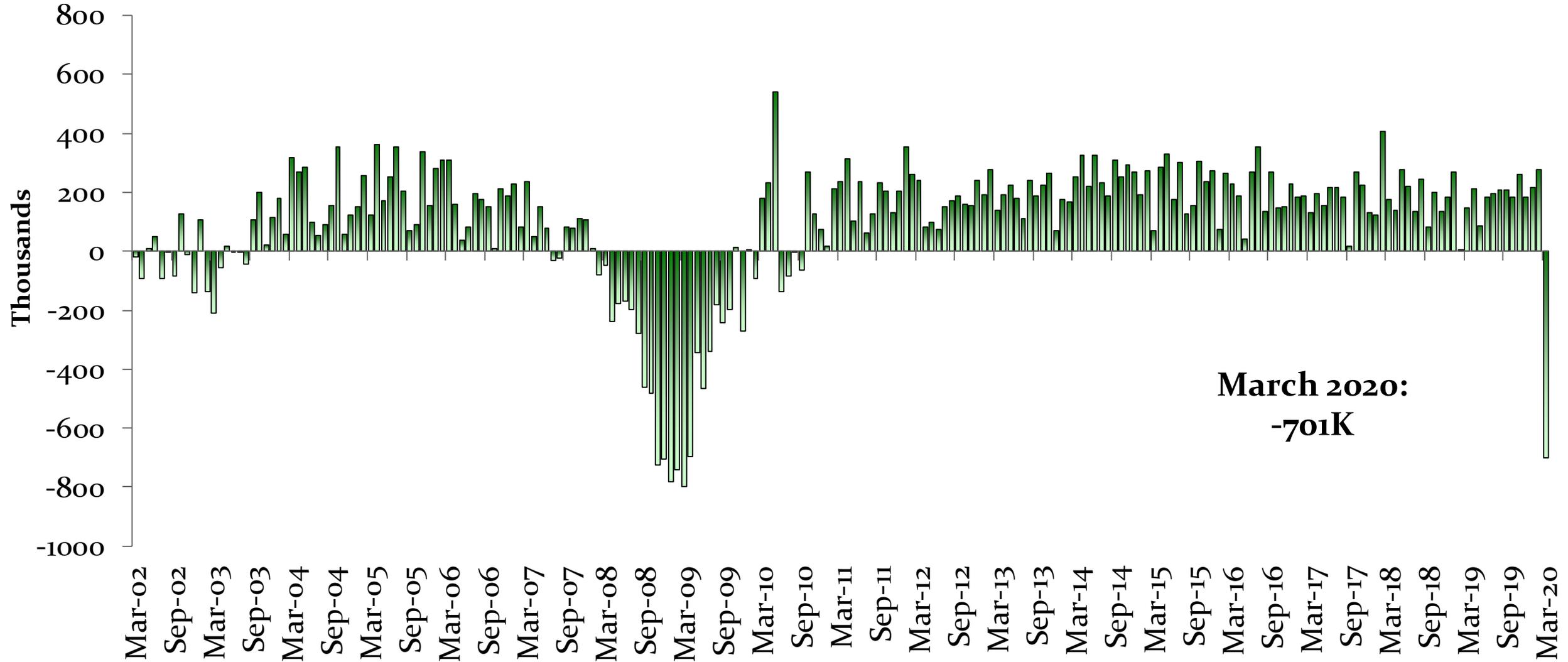
Total Confirmed: 1,158,341 | Total Deaths: 67,686

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

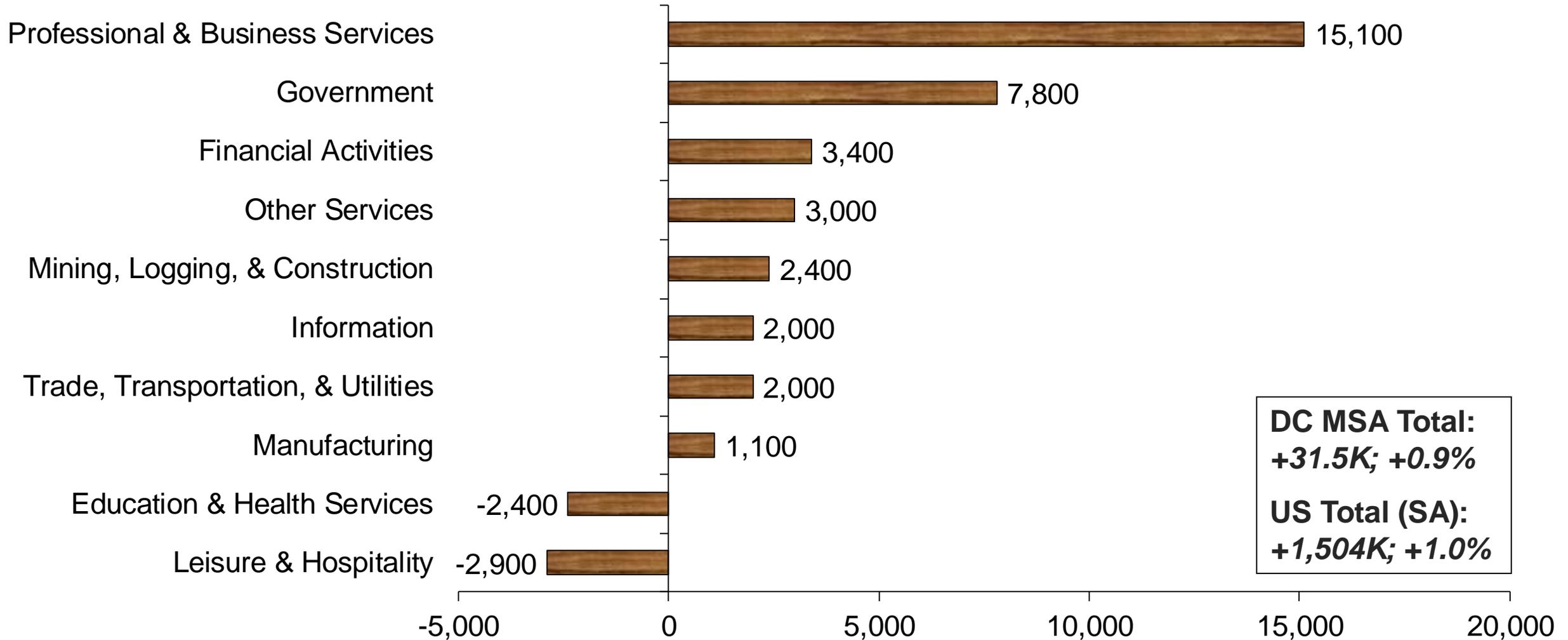


**March 2020:
-701K**

Washington, DC–Arlington–Alexandria MSA Nonfarm Employment

by Industry Sector Groups (NSA)

March 2019 v. March 2020 Absolute Change



Employment Growth, 25 Largest Metros (NSA)

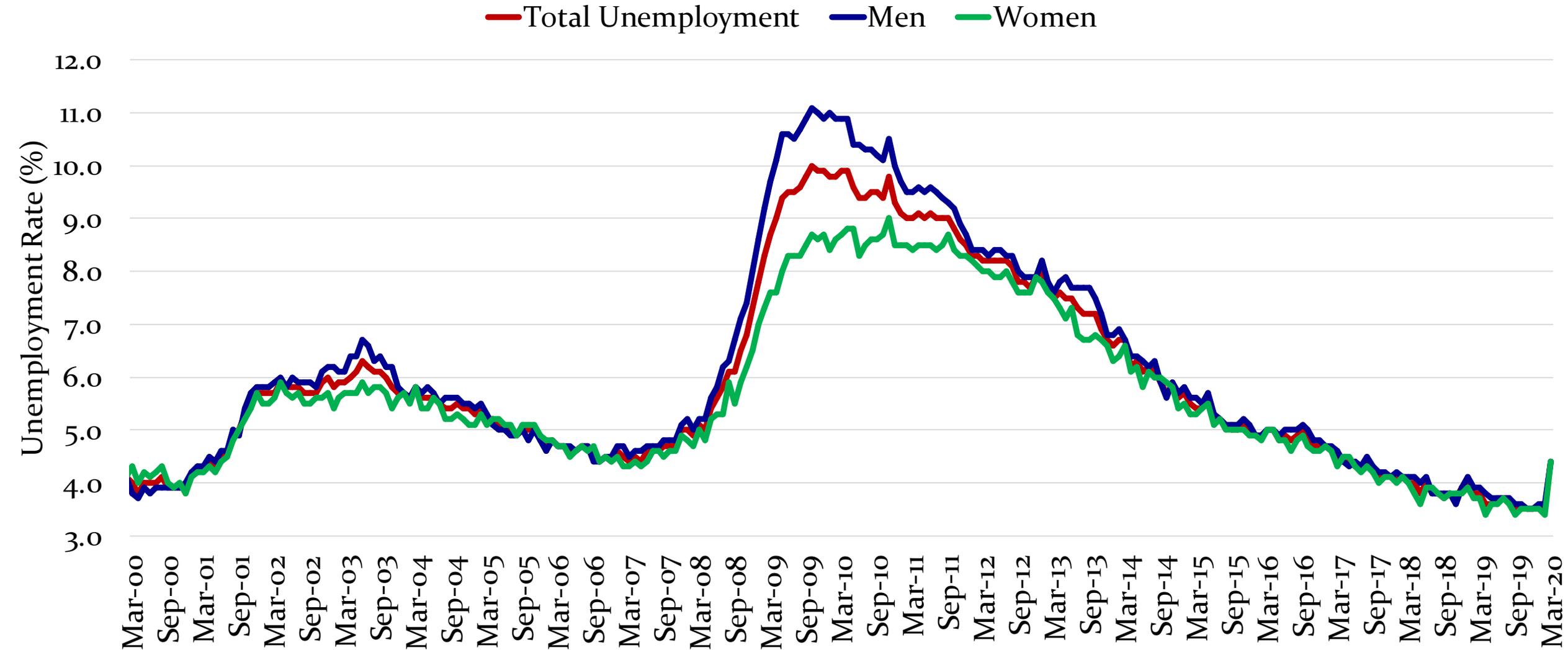
March 2019 v. March 2020 Percent Change

Rank	MSA	%	Rank	MSA	%
1	Phoenix-Mesa-Scottsdale, AZ	2.7	13	Portland-Vancouver-Hillsboro, OR-WA	0.8
2	Denver-Aurora-Lakewood, CO	2.6	13	Riverside-San Bernardino-Ontario, CA	0.8
3	Dallas-Fort Worth-Arlington, TX	2.3	15	Los Angeles-Long Beach-Anaheim, CA	0.7
4	Tampa-St. Petersburg-Clearwater, FL	2.0	16	Miami-Fort Lauderdale-West Palm Beach, FL	0.6
5	Houston-The Woodlands-Sugar Land, TX	1.9	16	San Francisco-Oakland-Hayward, CA	0.6
6	San Antonio-New Braunfels, TX	1.7	18	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	0.4
7	Atlanta-Sandy Springs-Roswell, GA	1.5	19	New York-Newark-Jersey City, NY-NJ-PA	0.1
7	Orlando-Kissimmee-Sanford, FL	1.5	20	Baltimore-Columbia-Towson, MD	0.0
7	Seattle-Tacoma-Bellevue, WA	1.5	20	Boston-Cambridge-Nashua, MA-NH	0.0
10	Charlotte-Concord-Gastonia, NC-SC	1.3	22	Detroit-Warren-Dearborn, MI	-0.1
11	San Diego-Carlsbad, CA	0.9	22	St. Louis, MO-IL	-0.1
11	Washington-Arlington-Alexandria, DC-VA-MD-WV	0.9	24	Chicago-Naperville-Elgin, IL-IN-WI	-0.4
			24	Minneapolis-St. Paul-Bloomington, MN-WI	-0.4

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 Rates, 25 Largest Metros (NSA)

March 2020

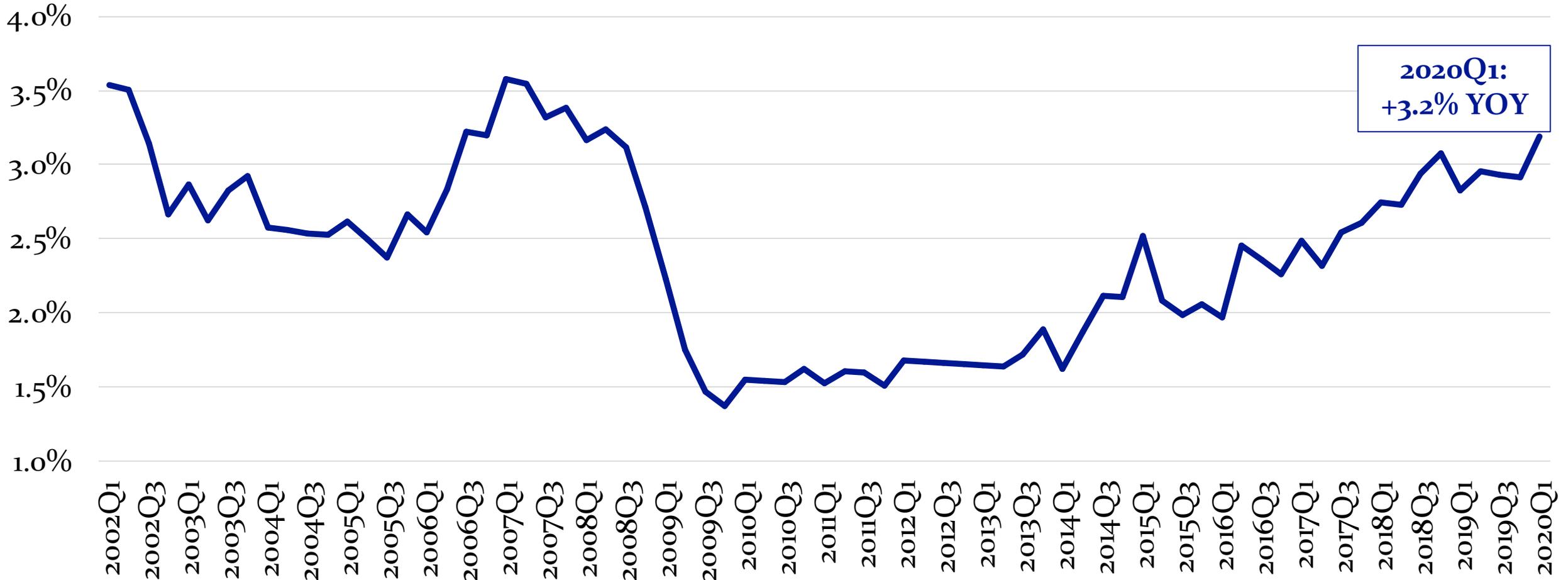
Rank	MSA	%	Rank	MSA	%
1	Boston-Cambridge-Nashua, MA-NH	3.0	12	Orlando-Kissimmee-Sanford, FL	4.2
2	Washington-Arlington-Alexandria, DC-VA-MD-WV	3.3	12	San Antonio-New Braunfels, TX	4.2
3	Minneapolis-St. Paul-Bloomington, MN-WI	3.4	15	Dallas-Fort Worth-Arlington, TX	4.3
4	Baltimore-Columbia-Towson, MD	3.5	15	Tampa-St. Petersburg-Clearwater, FL	4.3
4	Portland-Vancouver-Hillsboro, OR-WA	3.5	17	Denver-Aurora-Lakewood, CO	4.6
4	San Francisco-Oakland-Hayward, CA	3.5	18	Phoenix-Mesa-Scottsdale, AZ	4.7
7	Charlotte-Concord-Gastonia, NC-SC	3.9	19	Chicago-Naperville-Elgin, IL-IN-WI	4.8
8	Miami-Fort Lauderdale-West Palm Beach, FL	4.0	20	Detroit-Warren-Dearborn, MI	4.9
8	New York-Newark-Jersey City, NY-NJ-PA	4.0	21	Houston-The Woodlands-Sugar Land, TX	5.1
8	St. Louis, MO-IL	4.0	21	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	5.1
11	San Diego-Carlsbad, CA	4.1	21	Riverside-San Bernardino-Ontario, CA	5.1
12	Atlanta-Sandy Springs-Roswell, GA	4.2	24	Seattle-Tacoma-Bellevue, WA	5.4
			25	Los Angeles-Long Beach-Anaheim, CA	5.7

U.S. Unemployment Rate: 4.4%

III. Gold Aplenty

Growth in Wages & Salaries, U.S. Employment Cost Index (ECI), 2002Q1 – 2020Q1

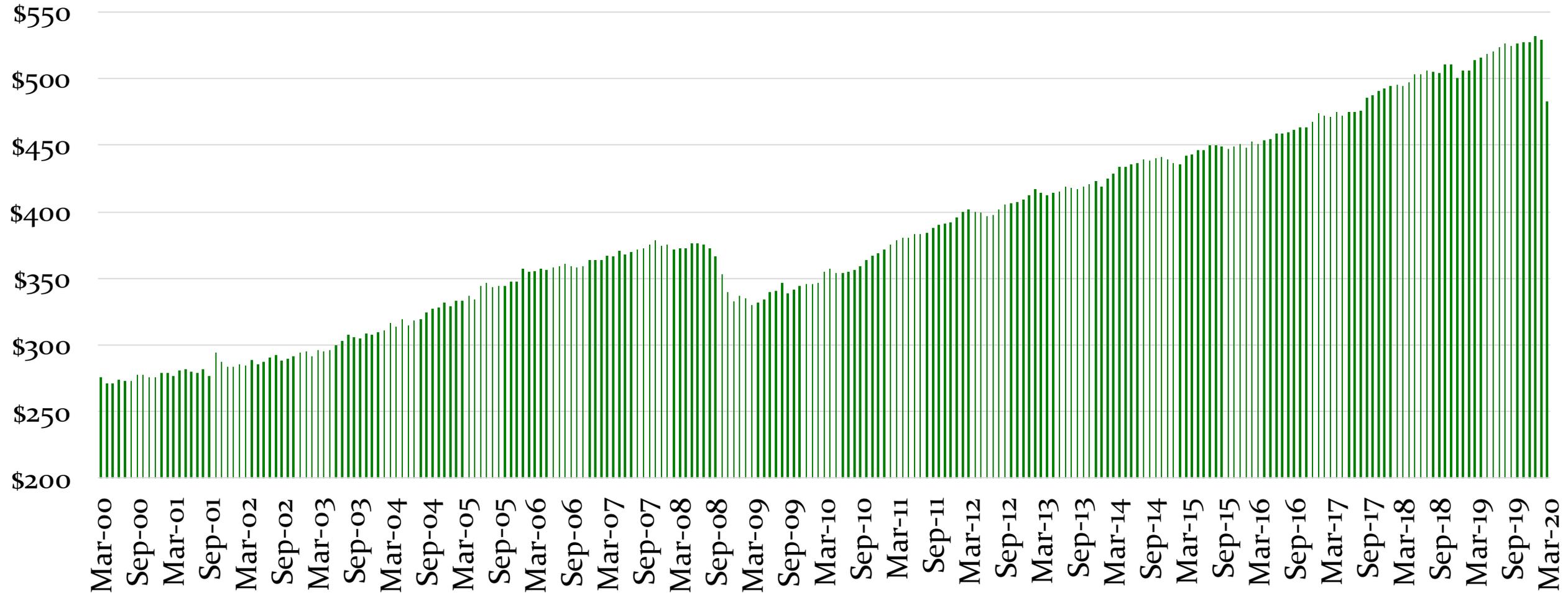
ECI for Wages & Salaries
12-Month % Change



IV. In the Baggins!

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

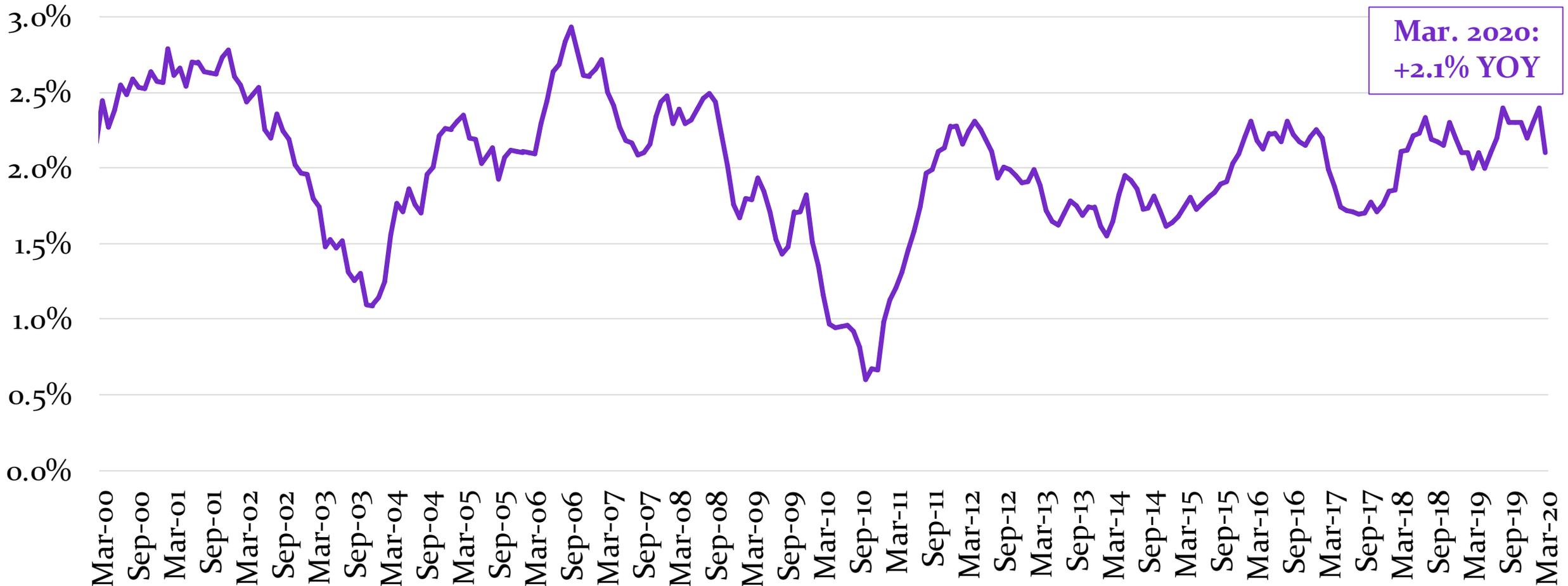
Retail Sales (\$Billions)



V. Your Gold Coins Go Further

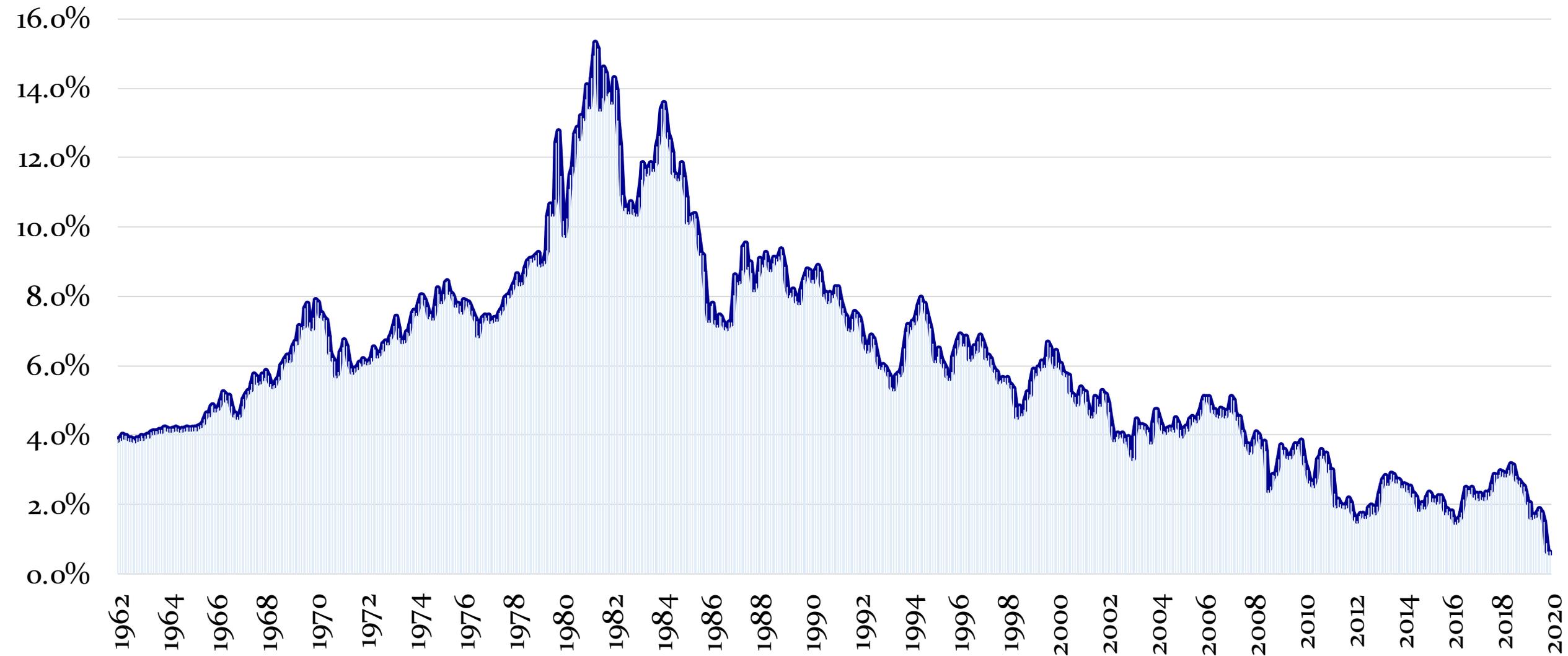
Consumer Price Index: All Items Less Food & Energy, March 2000 – March 2020

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



VI. Interest Rates are Hobbit-Sized

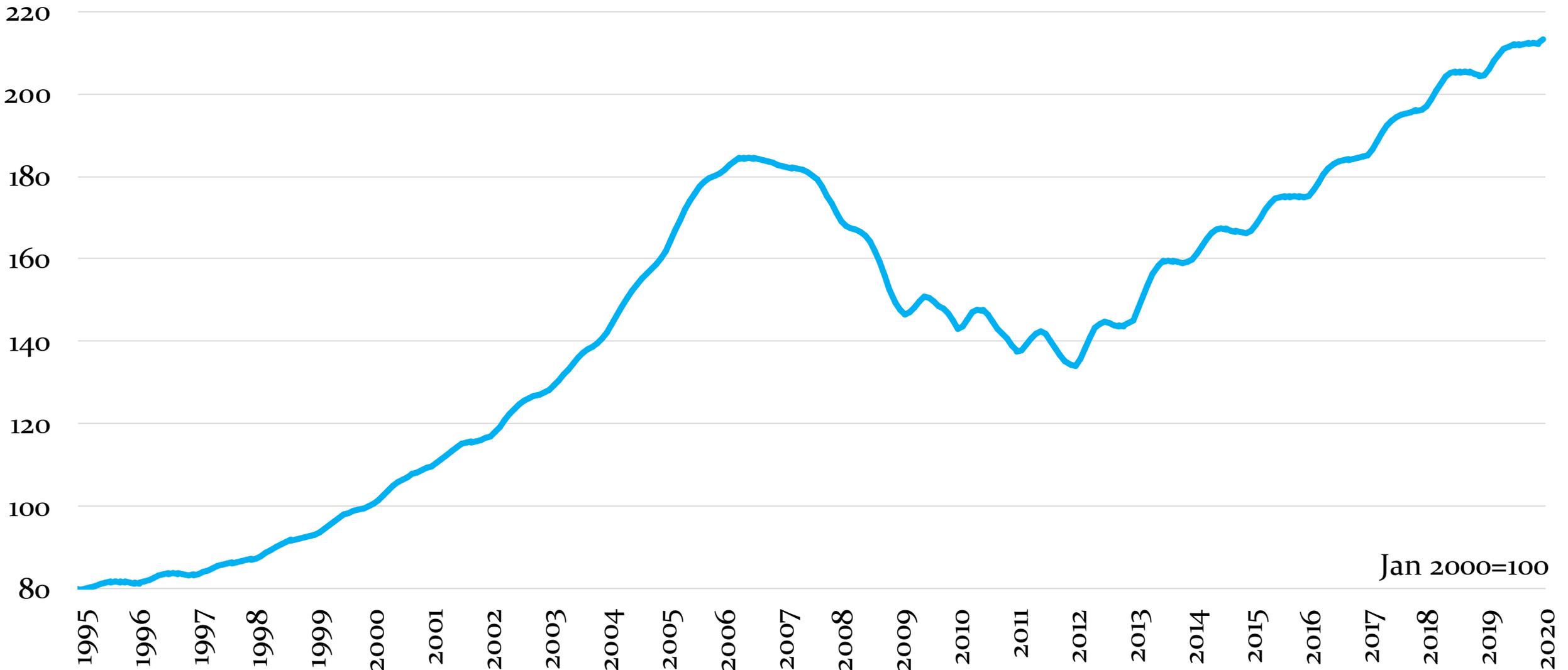
*U.S. 10-Year Treasury Constant Maturity Rate, 1962 – 2020**



**Week ending 5/1/2020*

VII. Property Values Rise in Middle East

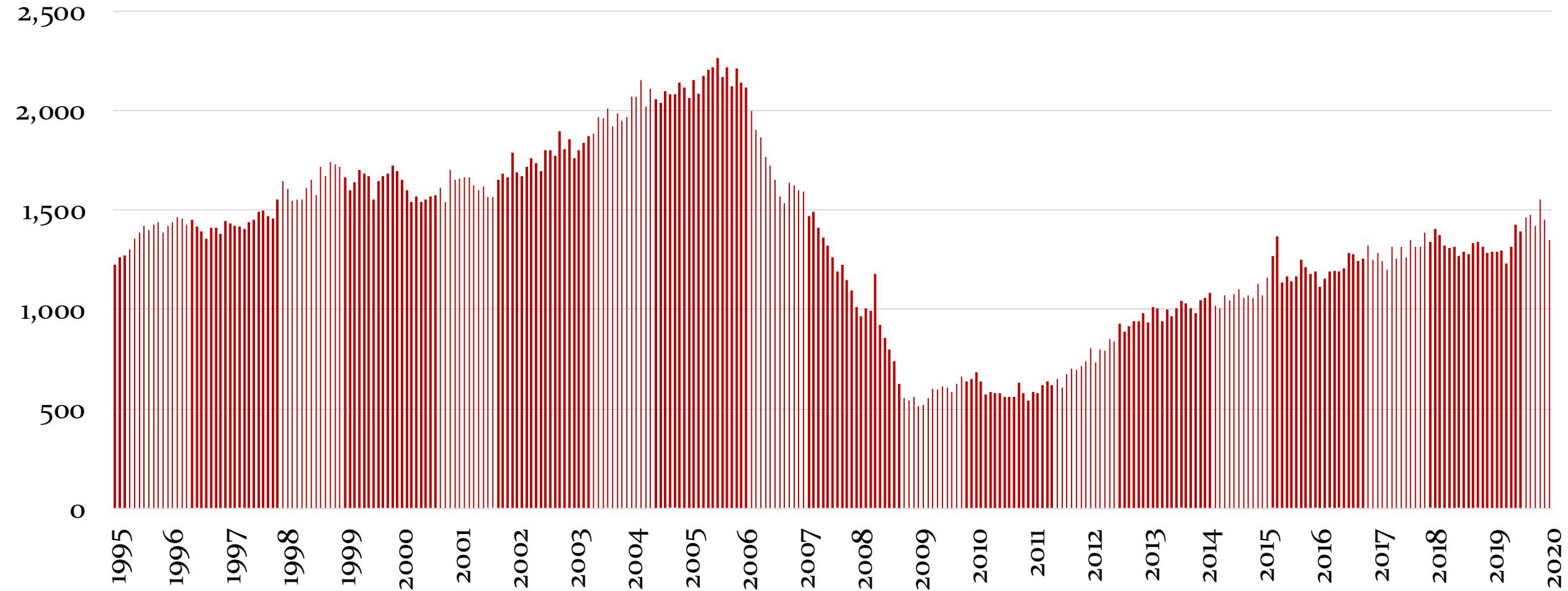
S&P Case-Shiller U.S. National Home Price Index, February 1995 – February 2020



VIII. The Kingdom is Under Construction

U.S. Residential Building Permits, March 1995 – March 2020

Building Permits (oos of Units)

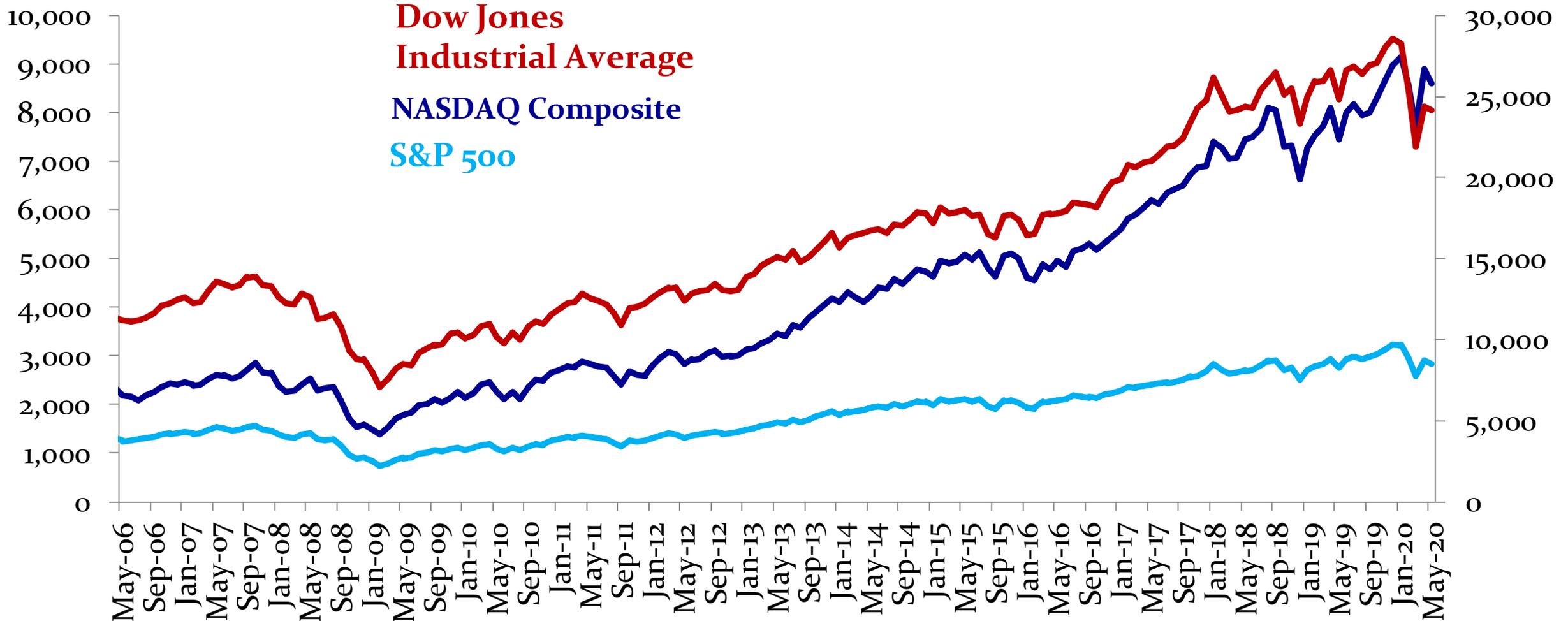


IX. But It Goes to Elven

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

NASDAQ/S&P

Dow Jones



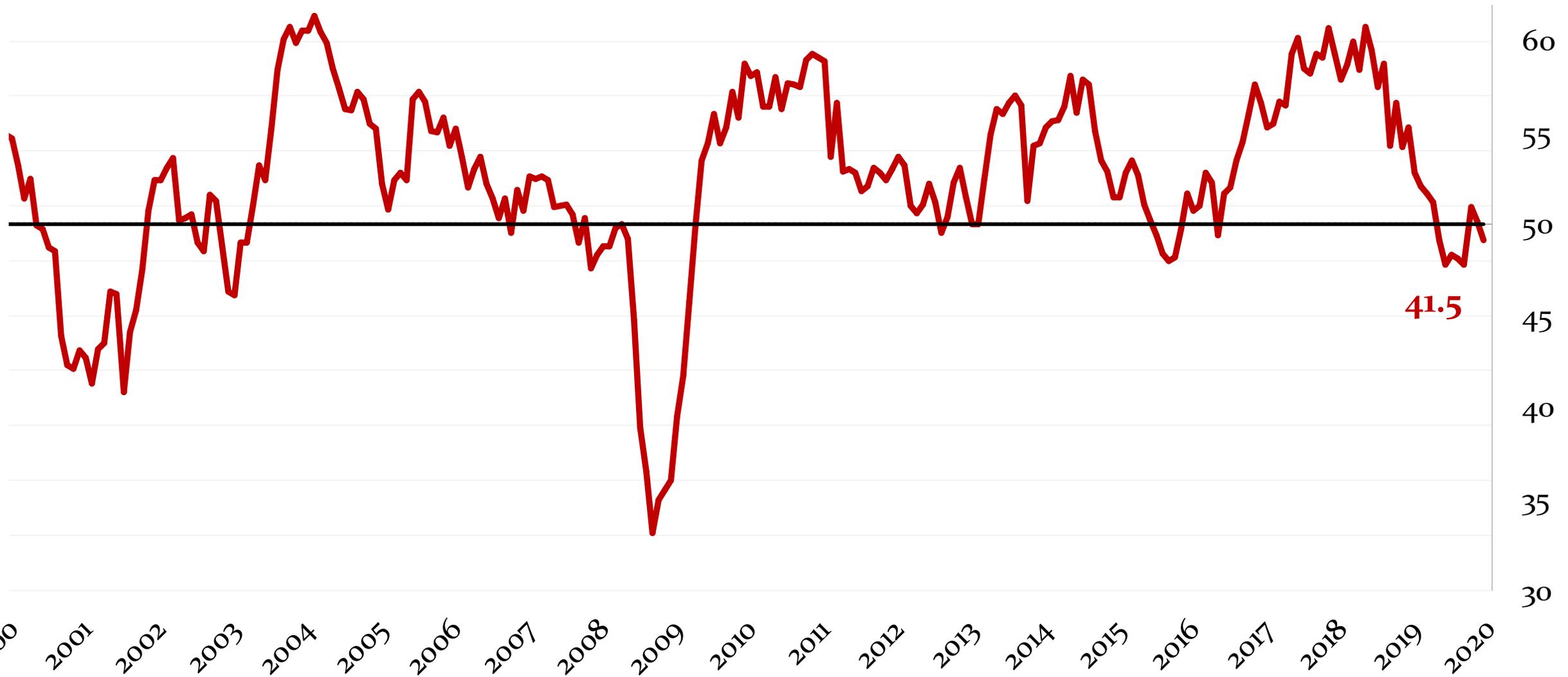
*Week ending 5/1/2020

Seven Factors Dwarfing Hope



I. Manufacturing Doth Decline

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



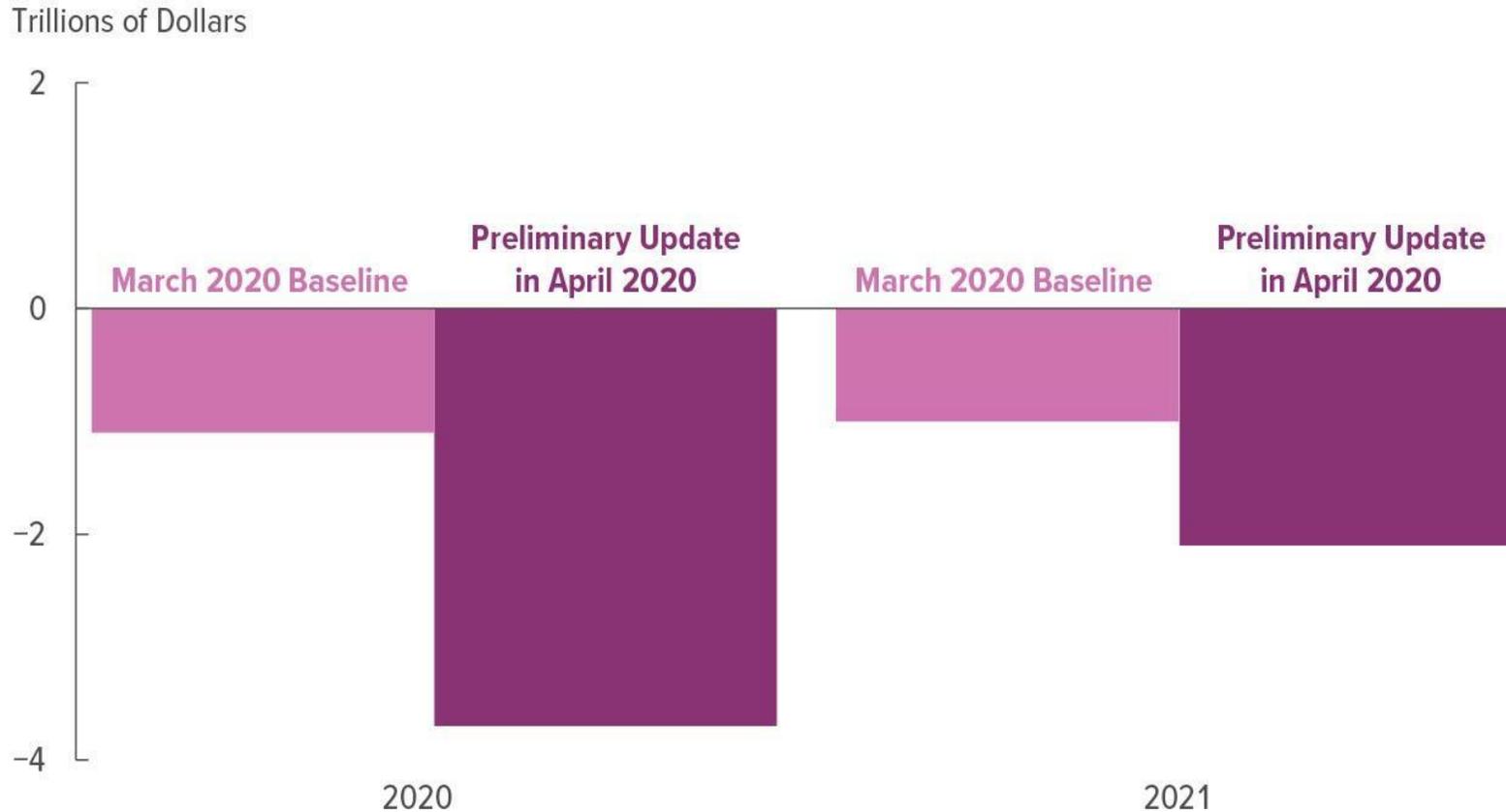
**A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.*

Source: Institute of Supply Management; Quandl.com

II. A Tower of National Debt

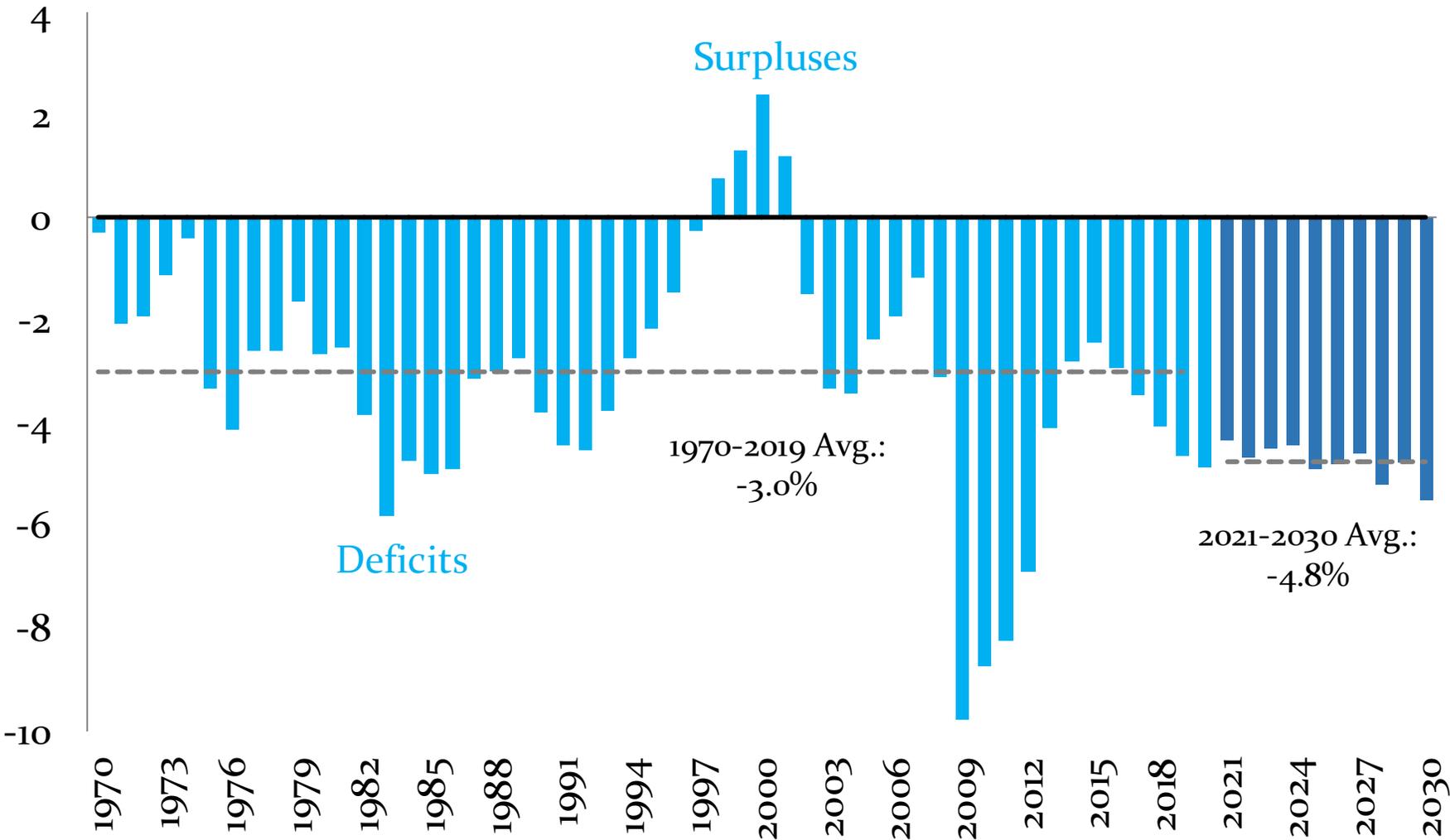
U.S. Federal Deficit

CBO's Preliminary April 2020 Projections: Budget Deficits (\$Trillions)



- As a result of recent events and legislation, deficits are projected to be significantly larger in 2020 and 2021 than in 2019, with sharply lower revenues and substantially higher spending;
- CBO now projects that the federal deficit will be \$3.7 trillion in fiscal year 2020 and \$2.1 trillion in fiscal year 2021;
- At 17.9% of GDP, the 2020 deficit would be the largest since 1945.

U.S. Federal Deficit, % of GDP



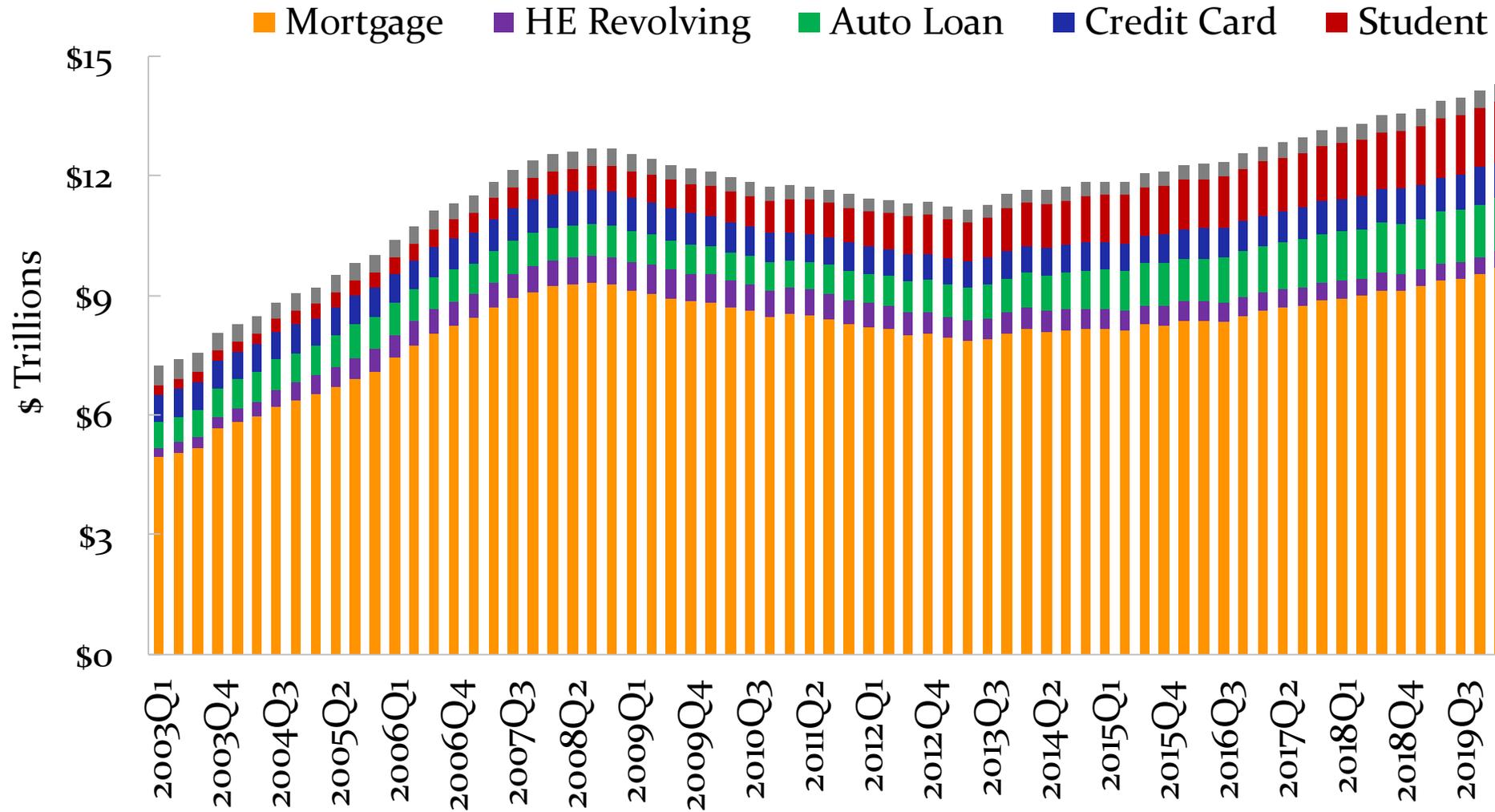
- Over the 2021–2030 period, deficits are projected to average 4.8% of GDP, totaling \$13.1 trillion.
- Over the past 50 years, deficits averaged just 3.0% of GDP.

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

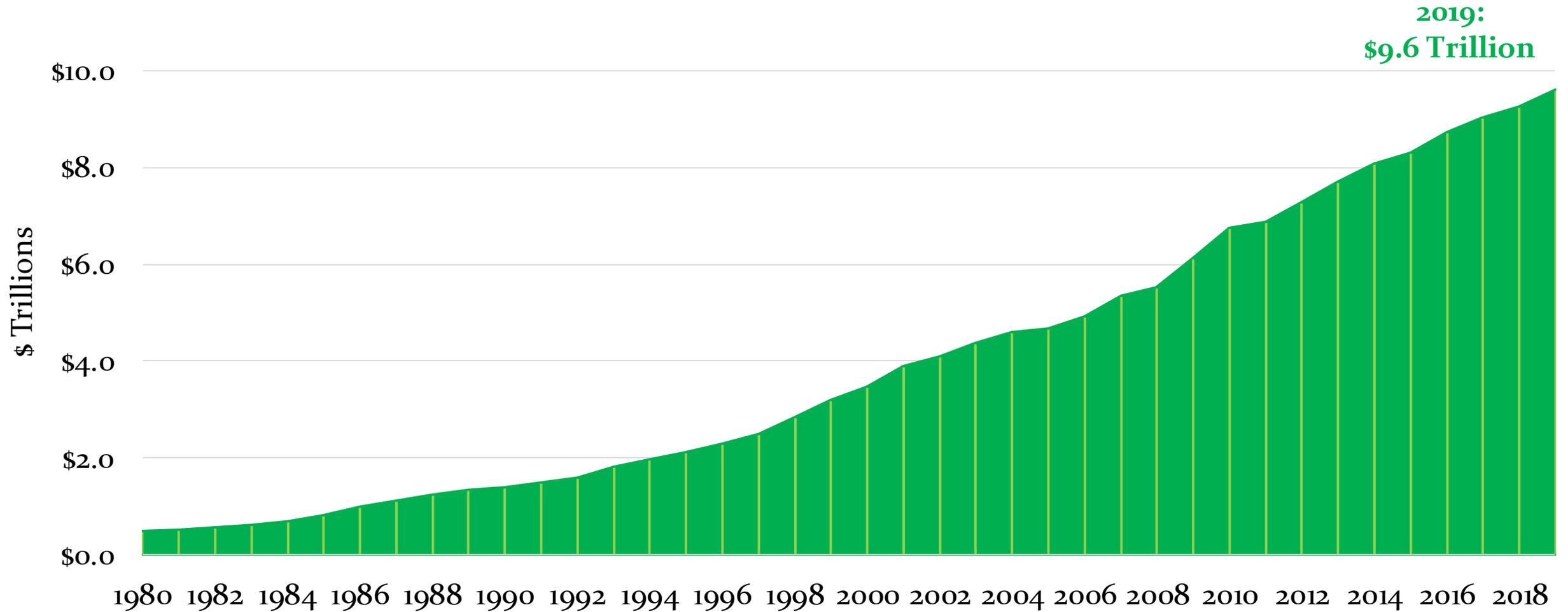
Total U.S. Household Debt, 2003 – 2020



Debt balances have been rising steadily for several years and are now \$1.6 trillion higher than the previous peak in 2008Q3 of \$12.7 trillion. Overall household debt is 28.2% above the 2013Q2 trough.

IV. How Did It Come to This?

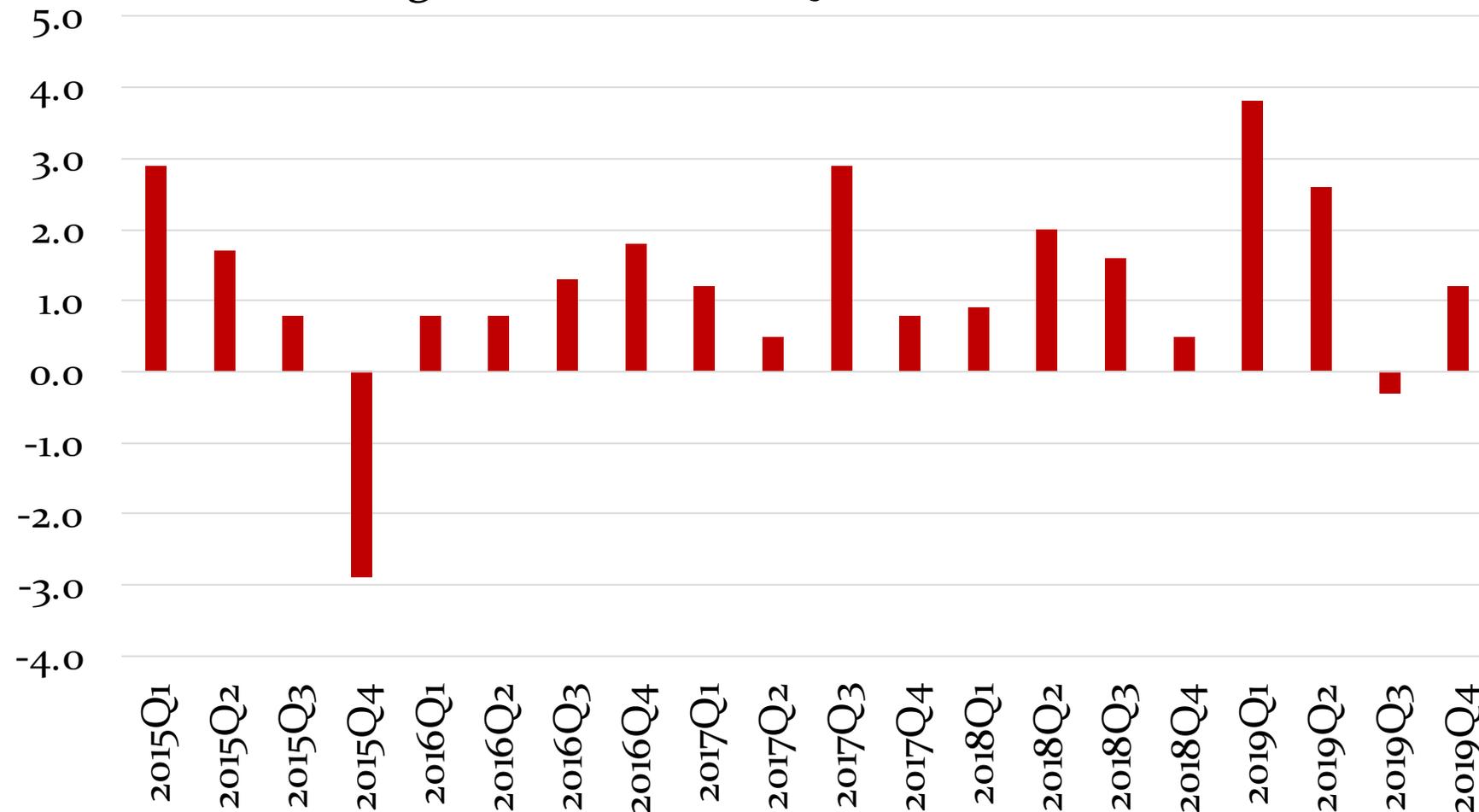
U.S. Corporate Bond Debt Outstanding, 1980 – 2019



2019:
\$9.6 Trillion

V. Entish: U.S. Nonfarm Business Sector: *Labor Productivity Growth, 2000–2019*

Nonfarm Business Sector Labor productivity
% Change From Previous Quarter at Annual Rate

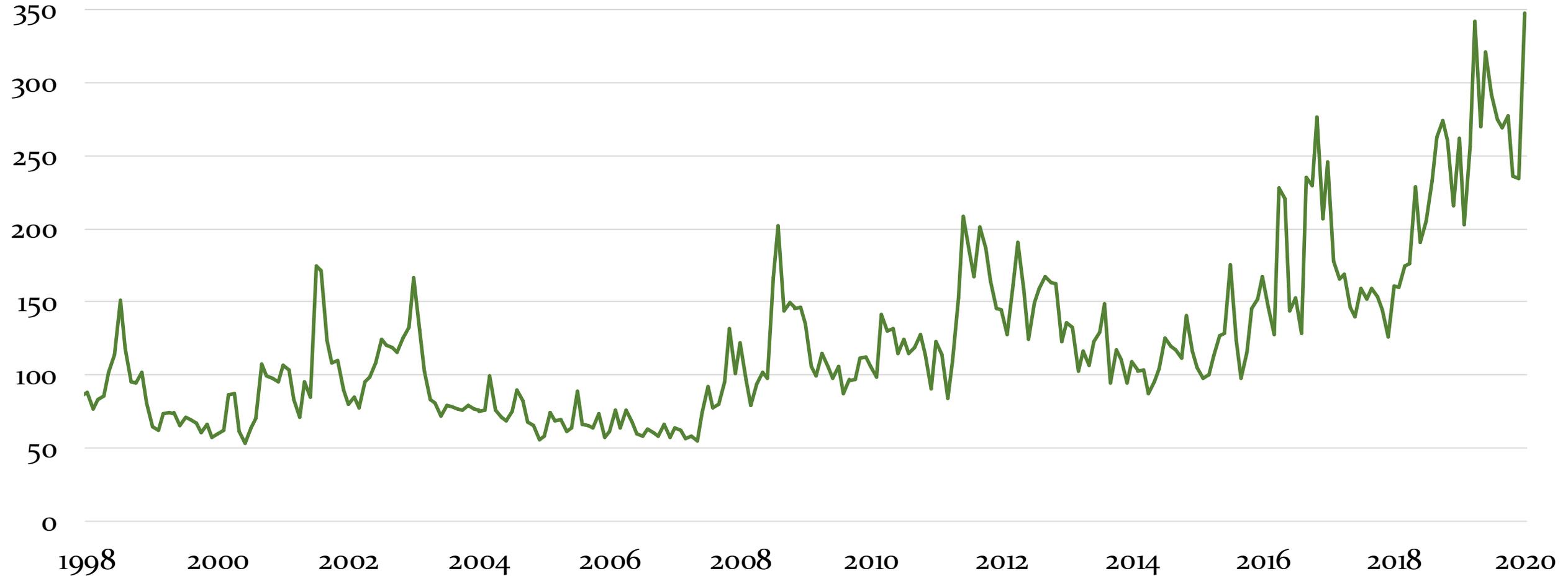


- In 2019Q3 nonfarm business sector labor productivity fell by 0.3%—the first decline since 2015.
- U.S. productivity has risen at an average rate of 1.3% since 2007, compared with a 2.1% average since the end of WWII.

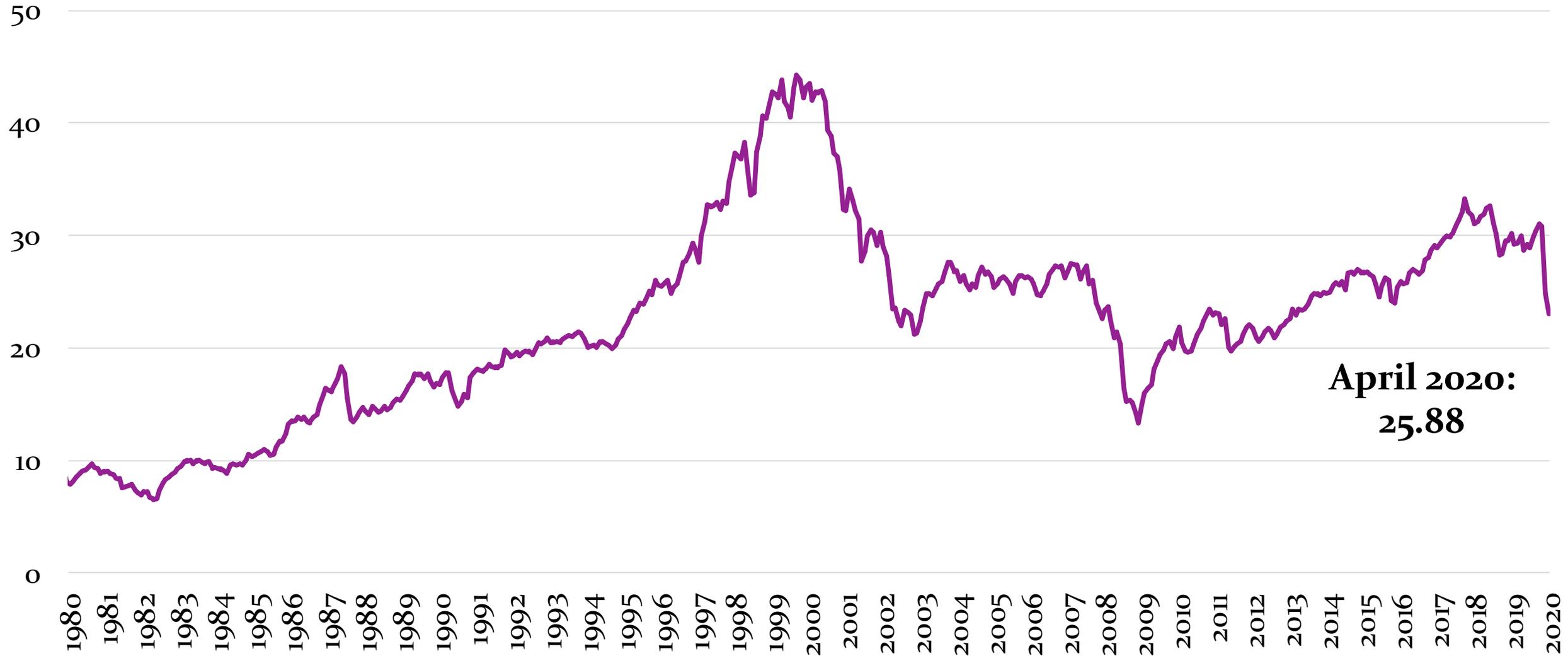
VI. Uncertainty Across the Realm:

Global Economic Policy Uncertainty Index, 1998 – 2020

Global Economic Policy Uncertainty Index



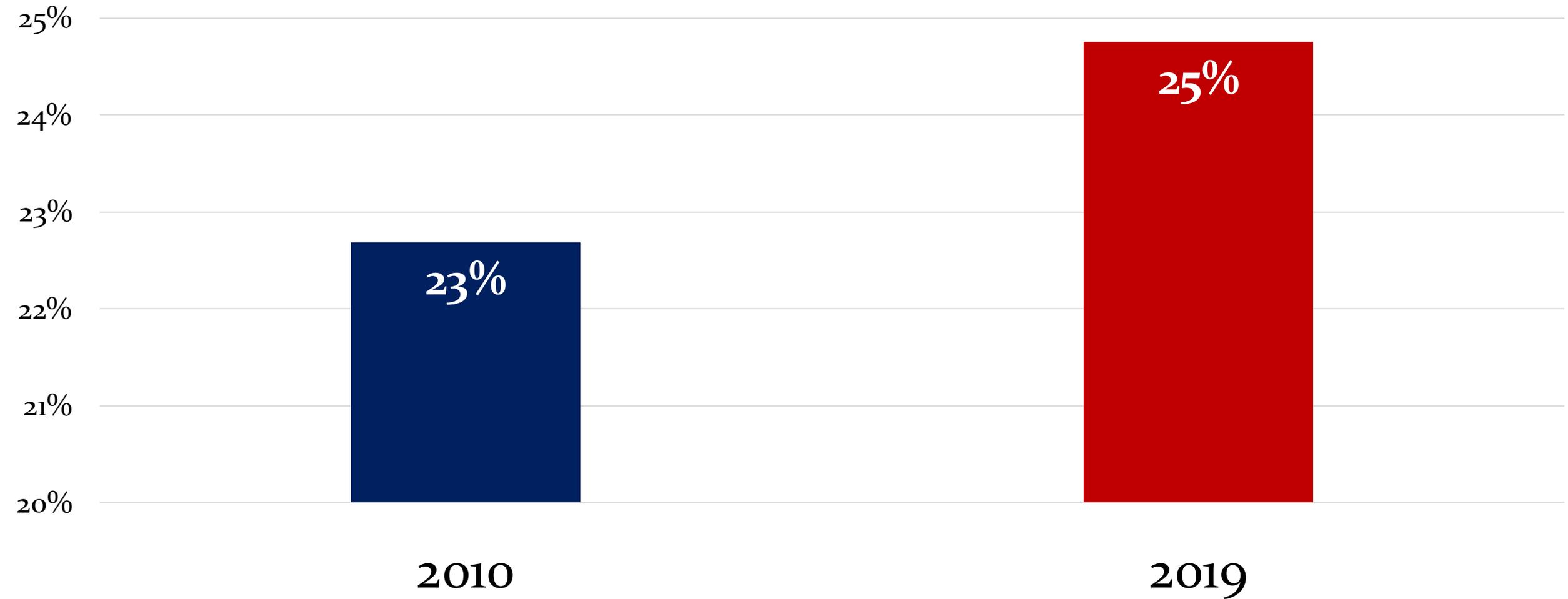
VII. The Eye is on Asset Prices: *Shiller Price-Earnings Ratio, 1980 – 2020*



**April 2020:
25.88**

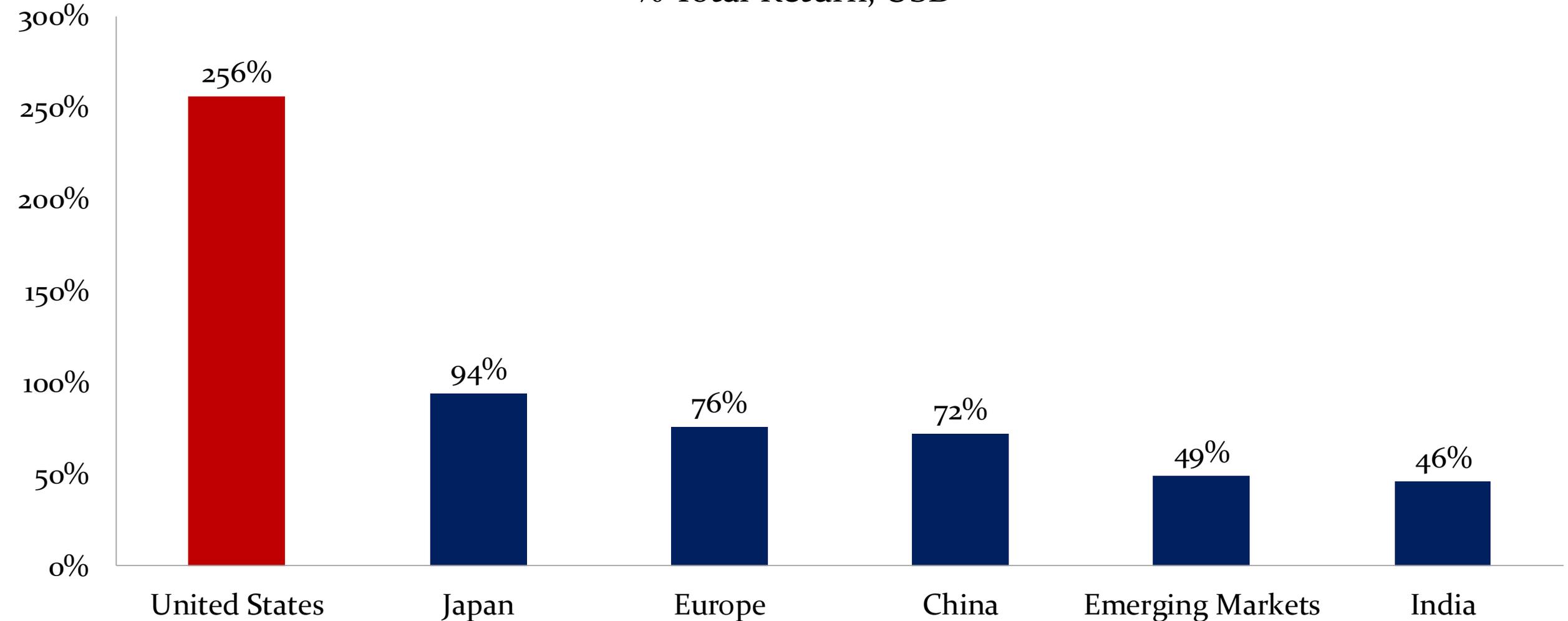
U.S. Share of Global GDP, 2010 v. 2019

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



Stock Market Returns by Country, 2010 – 2019

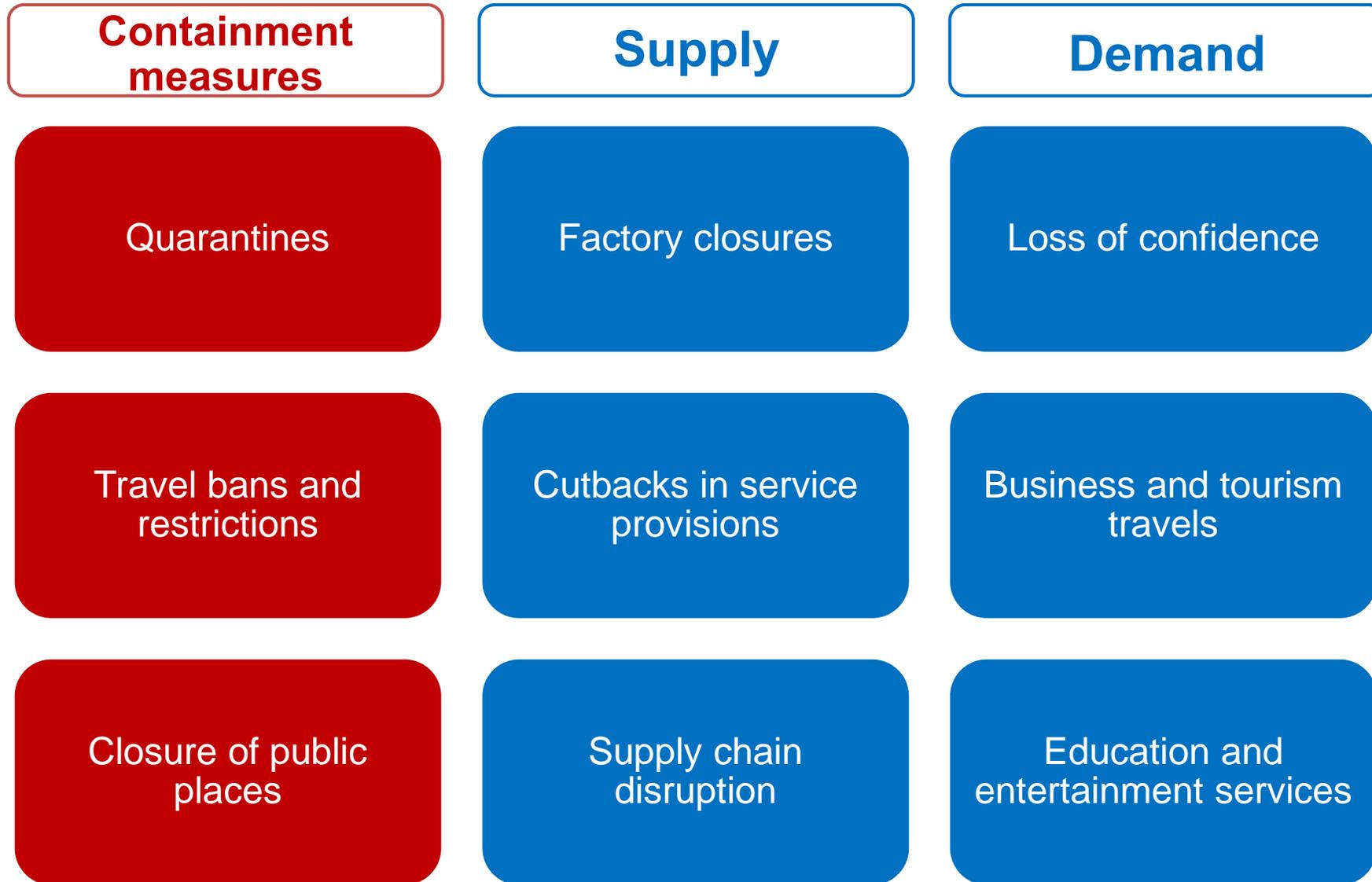
% Total Return, USD



Three Things that Make COVID-19 Different, Economically



I. A Supply Shock of a Caliber Unknown in Modern Times



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.

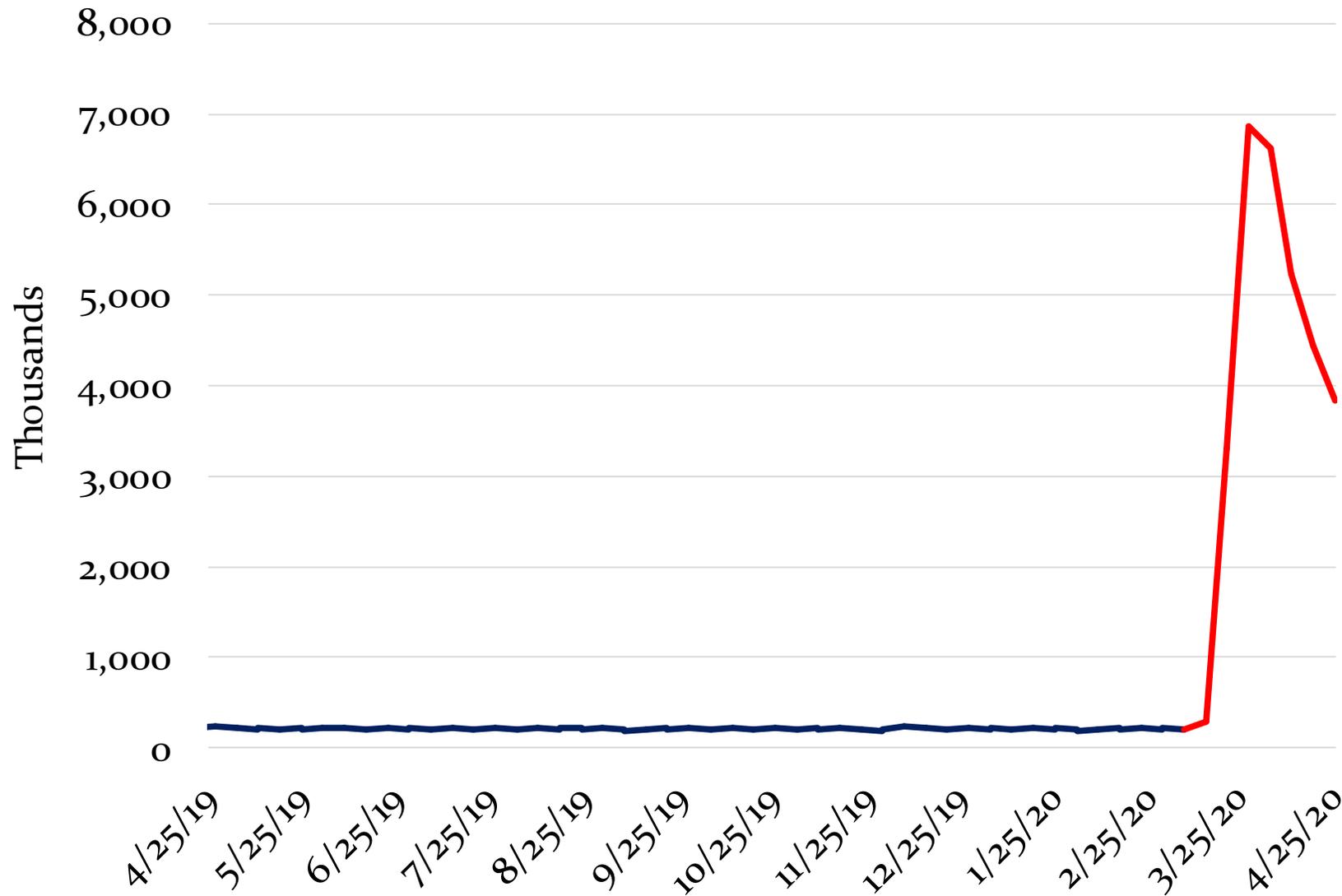
Growing Downside Risks

- 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.: 40% 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 expects the world economy to contract about 2.8% this year, a bigger decline than even that witnessed amid the financial crisis in 2009.

Which Workers Face the Highest Unemployment Risk?

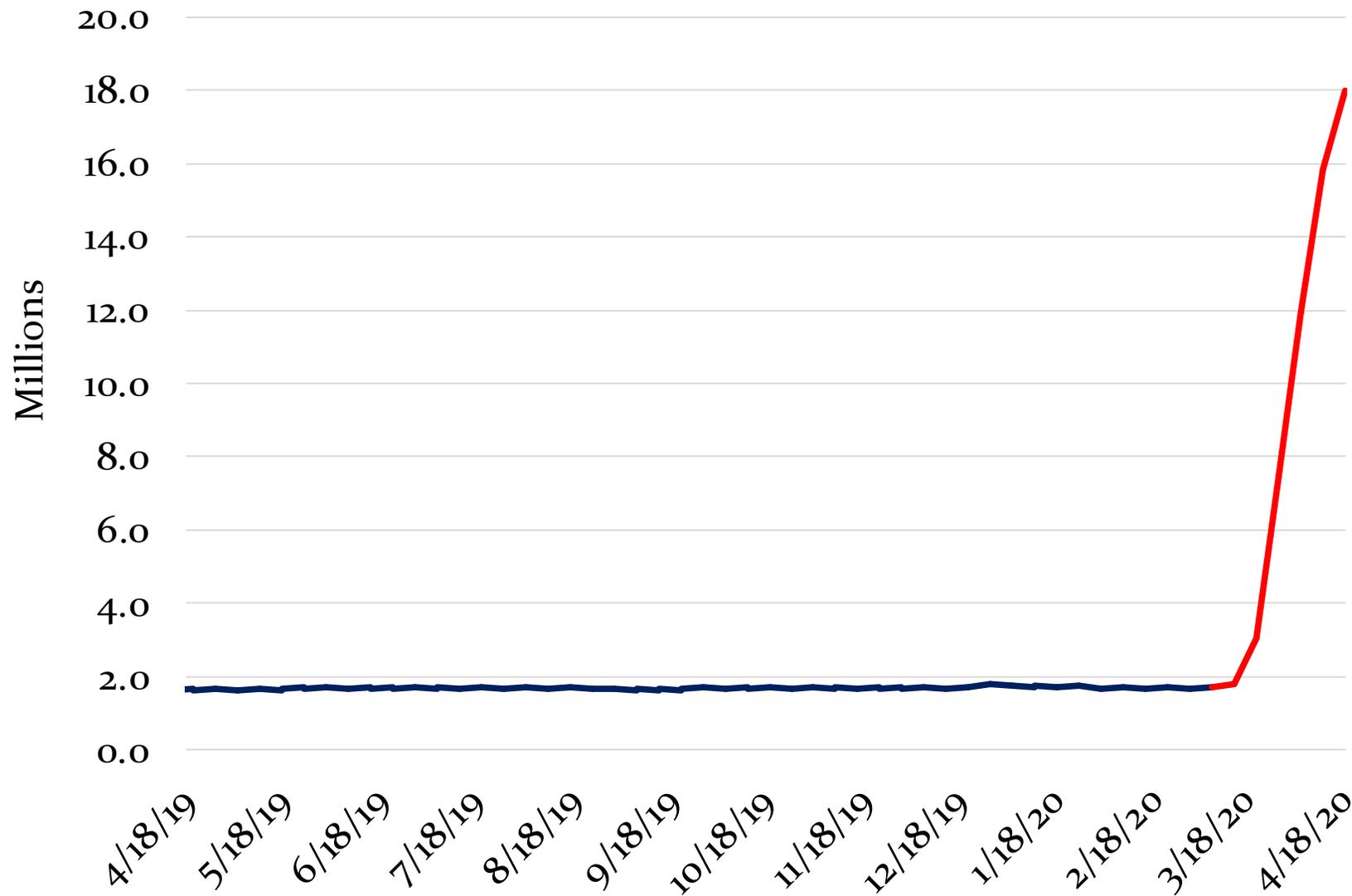
	Total Employment	Share of Total Employment
All Occupations	144,731,220	-
Employed in Occupations at “Low Risk” of Layoff	77,944,910	54%
Employed in “Essential” Occupations	24,840,280	17%
Employed in Occupations Possible to Work from Home	48,204,920	33%
Employed in Other Salaried Occupations	4,899,710	3%
Employed in Occupations at “High Risk” of Layoff	66,786,310	46%
Food Preparation and Serving-Related Occupations	13,374,170	9%
Sales and Related Occupations	10,443,460	7%
Production Occupations	8,313,750	6%
Installation, Maintenance and Repair Occupations	5,628,890	4%
All Other “High-Risk” Occupations	29,026,040	20%

U.S. Unemployment Insurance Initial Weekly Claims, 2019–2020



- In the week ending April 25th, the advance figure for seasonally adjusted initial claims was **3,839,000**, a decrease of 603,000 from the previous week.
- Initial claims remain at the highest levels in the history of the seasonally adjusted series.

U.S. Unemployment Insurance Continuing Claims, 2019–2020

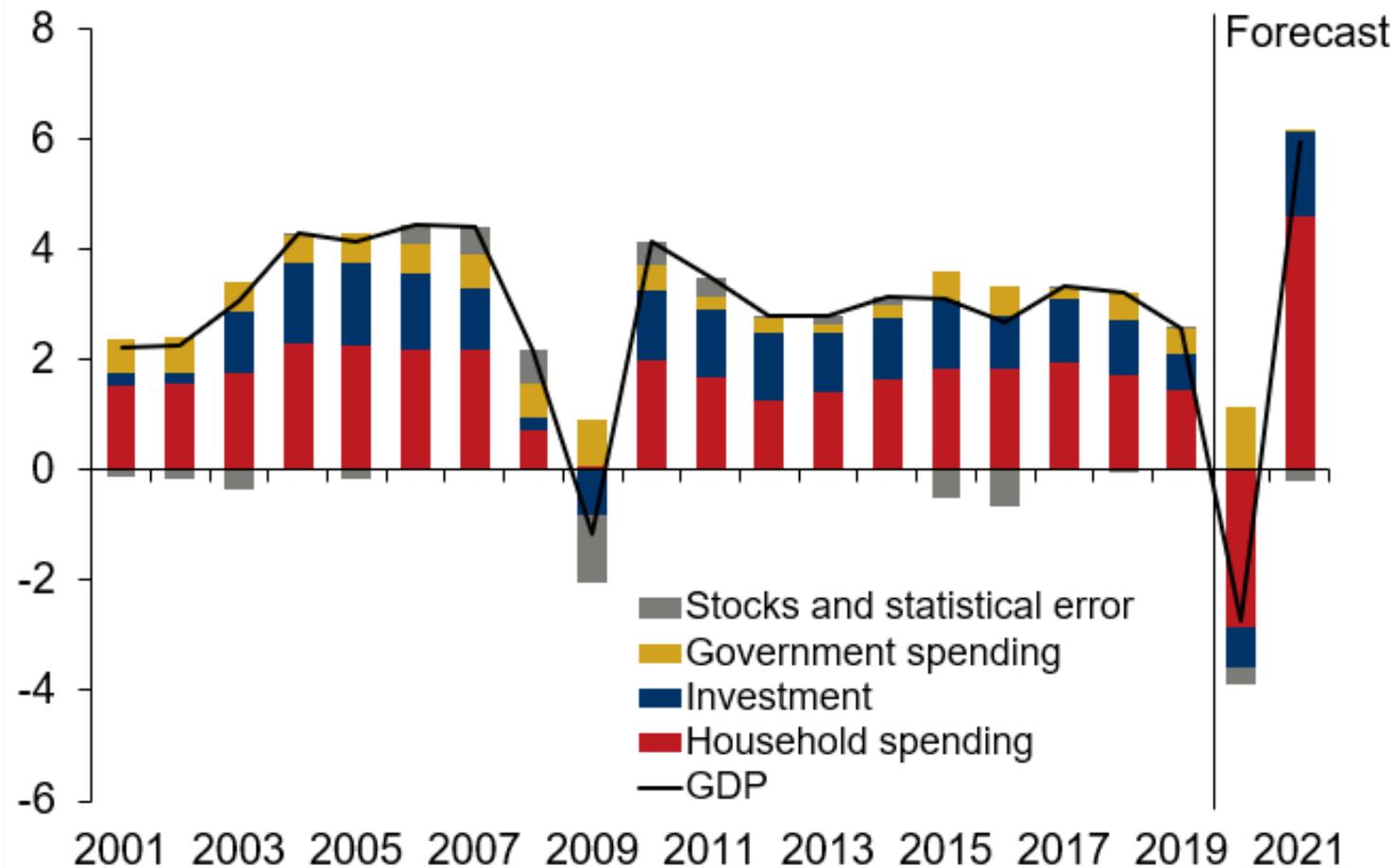


- In the week ending April 18th, the advance figure for seasonally adjusted insured unemployment was **17,992,000**, an increase of 2,174,000 from the previous week.
- This marks the highest level of insured unemployment in the history of the series.

Oxford Economics Global Outlook: Coronavirus Outbreak to Cut Global Growth to New Lows

World: GDP - components

Contribution to annual GDP growth - percentage points

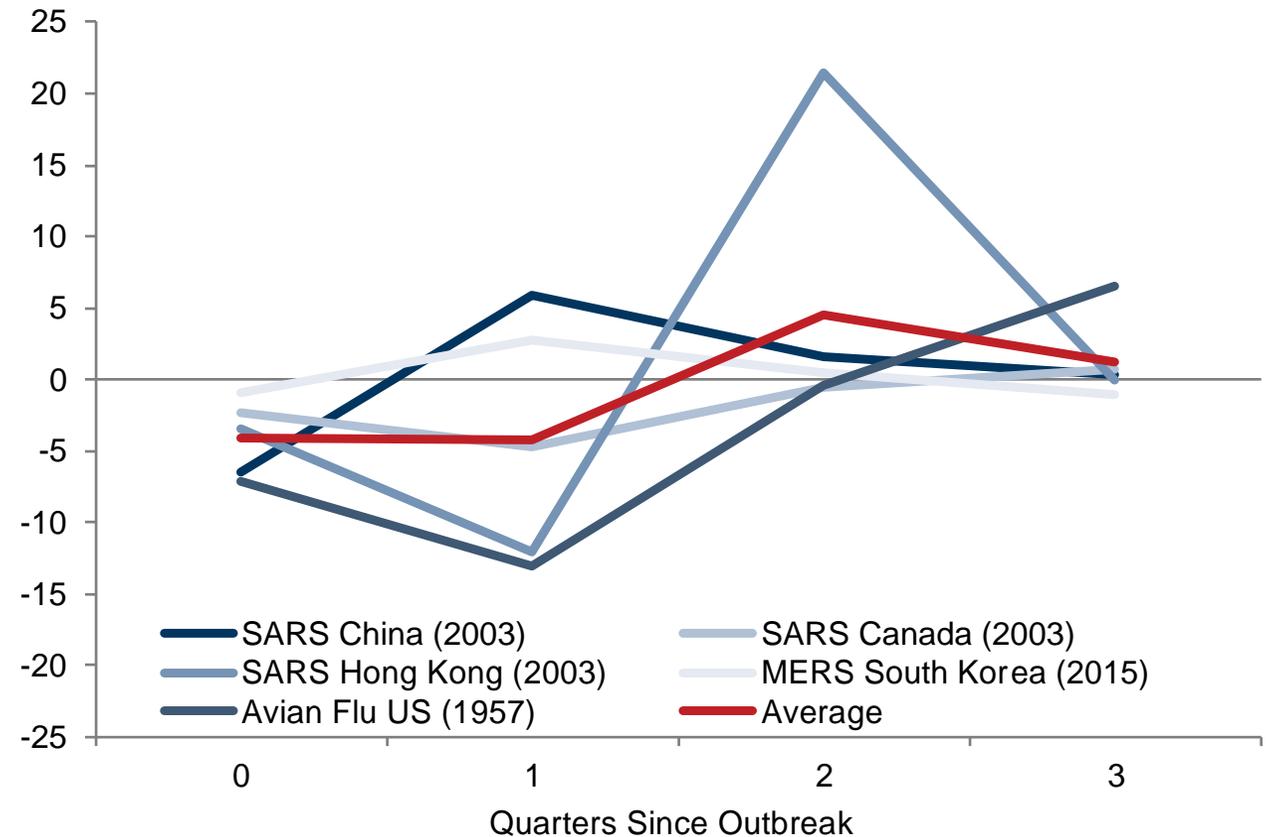


- Oxford Economics forecasts global GDP to contract by 7% in the first half of 2020.
- They now project a contraction of 2.8% for 2020 as a whole, down from the pre-outbreak forecast of 2.5% growth.

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.

Real GDP growth minus average growth over year before outbreak, pp



III. The Cure is Just Oh, So Different: U.S. Government Legislative Actions

- **Phase 1 (3/6/2020)**—*Coronavirus Preparedness and Response Supplemental Appropriations Act*: **\$8.3 billion** in emergency funding.
- **Phase 2 (3/18/2020)**—*Families First Coronavirus Response Act*: **\$192 billion**
 - Provided paid sick leave, tax credits, and free COVID-19 testing; expanded food assistance and unemployment benefits; and increased Medicaid funding.
- **Phase 3 (3/27/2020)**—*Coronavirus Aid, Relief, and Economic Security (CARES) Act*: **More than \$2 trillion** (expected to increase the deficit by \$1.7 trillion)
 - Direct payments to Americans; scaled up unemployment insurance program; loans and grants for small and large businesses and governments; aid to state and local governments, business tax cuts; other health and safety related spending provisions.
- **Phase 4 (4/24/2020)**—*Paycheck Protection Program and Health Care Enhancement Act*: **\$483 billion**
 - Additional funding for Paycheck Protection Program, hospitals, testing efforts, and emergency disaster loans and grants.

The One



Forecast

- 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

Please look for updates of information at
www.sagepolicy.com.

Please contact us when you require economic
research & policy analysis.