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# Q1 2020 ECONOMIC REPORTS

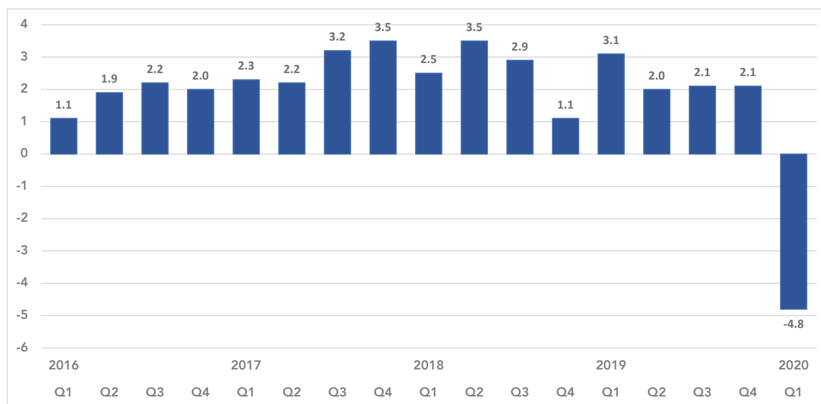
## GDP GROWTH: TRENDING IN Q1 2020

The nation's gross domestic product declined 4.8% in the first quarter. The initial estimate by the Commerce Department is the first negative reading since Q1 of 2014 and the most since an 8.4% drop in the last quarter of 2008. Economists surveyed by Dow Jones had expected a 3.5% contraction.

The GDP, a measurement of all goods and services sold, showed how pronounced the economic shock wrought by the coronavirus has been even though Q1 saw only two weeks of shutdown.

Because the severe economic fallout only began late in the quarter, it is widely predicted that the second quarter's GDP will be worse. "The weakness was only in the last three weeks of March, so there's a lot more to come. We're headed for the largest contraction in GDP since the Great Depression," said James Sweeney, chief economist at Credit Suisse. By definition a recession is marked by two straight quarters of negative growth. Most economists expect a rebound in the second half of the year.

### *Real GDP: Percent Change from Prior Quarter*




***U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates***

> ***'The weakness was only in the last three weeks of March, so there's a lot more to come'***
> ***- James Sweeney, Credit Suisse***

Expectations are that follow-up GDP estimates will show a deeper Q1 decline. The Department of Commerce's Bureau of Economic Analysis itself noted the likelihood of a downward revision in the coming weeks.

In its statement the BEA said, "The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the first quarter of 2020 because the impacts are generally imbedded in source data and cannot be separately identified."

Goldman Sachs said that when the Commerce Department completes subsequent estimates that the Q1 decline could see an additional drop of 3 to 4 percentage points. "Larger than usual revisions to growth data are common in recessions and other periods of high economic volatility," said Spencer Hill, an economist for the investment bank.

Falling consumer spending, nonresidential fixed investment, exports and inventories were the biggest drags on the economy. Residential fixed investment, which jumped 21%, along with federal and state government spending helped offset some of the damage.

Personal consumption, which has buoyed the economy, fell at a 7.6% rate, the biggest decline since the second quarter of 1980. Expenditures on services – from haircuts to accounting and legal advice – accounts for almost half of total GDP. Spending on goods fell by 1.3% as reduced car buying was offset by stockpiling food and household necessities. Business spending on equipment and facilities, already a weak spot in the past four quarters, fell at an 8.6% rate.

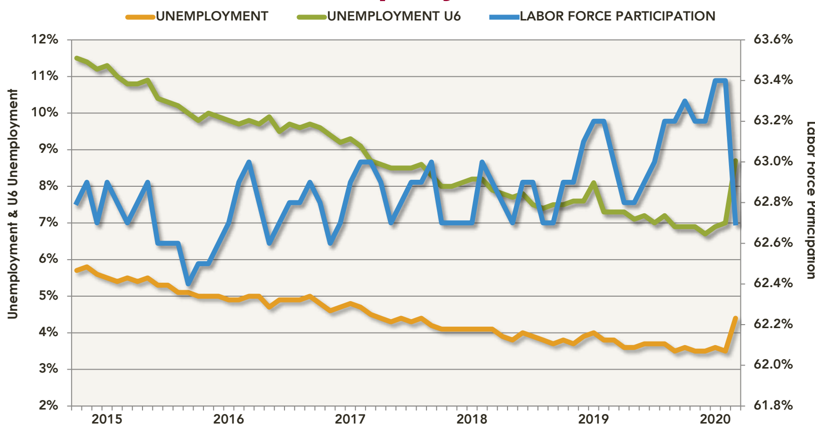
## EMPLOYMENT: TRENDING IN Q1 2020

More than 26 million U.S. workers have sought unemployment benefits in the five weeks since states instituted coronavirus lockdowns in mid-March, and the Federal Reserve of St. Louis said the crisis may cost 47 million jobs, a rough early estimate made prior to the March 27 initial $2.2 trillion rescue package. That number of furloughs, however, would push the unemployment rate to 32%, well above the 24.9% of the 2008-09 recession. Already, the tsunami of recent layoffs has wiped out all the employment gains created since the recession, when 9 million jobs were cut.

Forty-three states reported declines in claims from the previous week and California reported the most claims for the week with 530,000. Initial claims more than tripled in West Virginia and Connecticut. More than 500,000 workers filed claims in Florida, a 180% gain from a week earlier.

In its Beige Book report on April 15, central bankers said employment cuts so far were most severe in the retail and leisure and hospitality sectors, where most of the Federal Reserve's 12 districts reported widespread mandatory closures and steep falloffs in demand. Many districts said job cuts were widespread, including the manufacturing and energy sectors.

### *United States Unemployment*




*Recent employment data from the past few weeks is indicating that the coronavirus will take a much worse toll than originally expected.*

Employers were cutting jobs via temporary layoffs and furloughs that they hoped to reverse once business activity resumes. The outlook was for more job losses in the coming months. Most districts cited general wage softening and salary cuts except for high-demand sectors such as grocery stores that were awarding temporary "hardship" or "appreciation" pay hikes, the Fed report said.

Many of the nation's top investment banks also were forecasting a pessimistic outlook. JPMorgan economists said the unemployment rate could hit 20% in April.

In addition to surging jobless claims there also were large declines in consumer sentiment and small business sentiment, as well as a drop in mortgage purchase application volumes. Wall Street had been expecting the economy to take a hit from the ongoing public health crisis. Recent employment data from the past few weeks is indicating that the coronavirus will take a much worse toll than originally expected.

"The drop in economic activity reported to date has been severe, and we also see less chance of a meaningful pickup in activity in the coming months than we had previously believed," JPMorgan's economists said in their recent report. "As a result, we cut our growth forecasts yet again and now anticipate even higher unemployment rate readings than we had previously estimated."

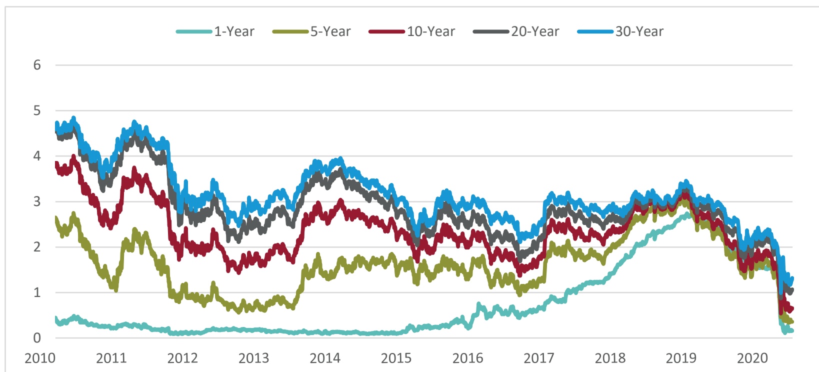
## MONETARY POLICY: TRENDING IN Q1 2020

For much of the first quarter the U.S. economy was healthy and Federal Reserve officials saw no need to reduce interest rates. On occasion since last year, however, the Fed has been busy printing money and buying bonds in an effort to stabilize financial markets. Then the coronavirus crisis landed and sent the U.S. and global economies into freefall.

There have been many questions about leadership in this crisis, but it is evident that Fed officials have appreciated the scale of the emergency and are activating the institution as never before. Since Feb. 26, the Fed's total assets have increased 53% to $6.38 trillion.  Of course, the Fed's moves are not without critics.

The immediate problem facing the Federal Reserve was a shortage of dollars across the U.S. economy.  Fed officials all but declared on March 23 that the central bank would do what was necessary to end the deficiency. That included buying Treasury bonds and mortgage-related securities in whatever quantities were required to maintain well-functioning financial markets.

### *Daily Treasury Yield Curve Rates (Decade Trend)*




*It is evident that Fed officials have appreciated the scale of the emergency and are activating the institution as never before.*

That was just the start. The Fed extended its buying spree in the following days to investment-grade corporate bonds and tax-exempt investment-grade bonds as well.

The Fed also aims to address the cash-flow crisis that is menacing millions of companies.  It has crafted a two-pronged strategy aimed at helping small business as well as large companies that are able to access the Wall Street debt market by buying the corporate bonds.

The Fed also aims to create a "Main Street Business Lending Program" to get cash into the hands of smaller businesses without access to Wall Street.  Four-year, no-interest loans with no payments for six months could help companies meet payroll and other obligations.

Another challenge is keeping otherwise healthy small businesses from becoming fatalities even if their revenue plunges or they are forced to temporarily close. The plan is to fund loans to these companies through "special purpose vehicles," which include investment from the Department of Treasury.

Detractors of the central bank's programs argue that the Fed is once again bailing out the biggest risk takers, including over-leveraged companies, hedge funds, mortgage REITS and private-equity firms and creating opportunities for the well-connected, while wiping out cash-flows for crash-averse savers and holders of Treasury securities. Moreover, there are questions whether the programs will be effective at getting money to Main Street and preventing a cascade of failures.

## GLOBAL ECONOMY: TRENDING IN Q1 2020

The coronavirus pandemic is inflicting grievous human costs worldwide and the fallout will result in a global economic contraction of -3% in 2020, according to the International Monetary Fund, whose baseline scenario released in early April also assumes the crisis fades in the second half, enabling a heavily subsidized economy to grow by 5.8% in 2021.

Another report by the Wall Street Journal affirmed the grim near-term outlook. A drop in April in the services sectors in the U.S., Europe and Japan "is unprecedented" in the history of purchasing managers surveys, the WSJ reported.

"The scale of the fall in the PMI adds to signs that the second quarter will see a historically dramatic contraction of the economy," said Chris Williamson, chief business economist at IHS Market, which conducts the surveys.

In its World Economic Outlook, the IMF said the contraction will be "much worse" than during the 2008-09 financial crisis and "the risks for even more severe outcomes, however, are substantial," said the IMF in its World Economic Outlook.

### *European Union GDP Annual Growth Rate*

*The contraction will be "much worse" than during the 2008-09 financial crisis and "the risks for even more severe outcomes, however, are substantial"*

*–IMF*

The IMF report said fiscal measures have been swift and sizable in many advanced economies – namely Australia, France, Germany, Italy, Japan, Spain, the U.S. and United Kingdom – but will need to be scaled up if the stoppages to economic activity are persistent or the resumption in activity as restrictions are lifted is too weak.

Economies facing financing constraints to combat the pandemic and its effects may require external support, the report said, adding that broad-based fiscal stimulus can preempt a steeper decline in confidence, lift aggregate demand and avert an even deeper downturn.

The IMF said that "significant actions of large central banks," which include significant monetary stimulus moves and activation of liquidity facilities, have supported confidence and helped reduce the shock. The report said that banks should be encouraged to renegotiate loans to distressed households and firms while maintaining a transparent assessment of credit risk. Strong multilateral cooperation is essential to overcome the effects of the pandemic, including aiding poorer countries.

The IMF said urgent international cooperation is needed to slow the spread of the virus and to develop a vaccine and therapies to counter the disease. "Until such medical interventions become available, no country is safe from the pandemic (including a recurrence) as long as transmission occurs elsewhere," the report said.

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