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Q4 2020 ECONOMIC REPORTS

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ECONOMIC REPORTS

GDP GROWTH

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GDP GROWTH: TRENDING IN Q4 2020

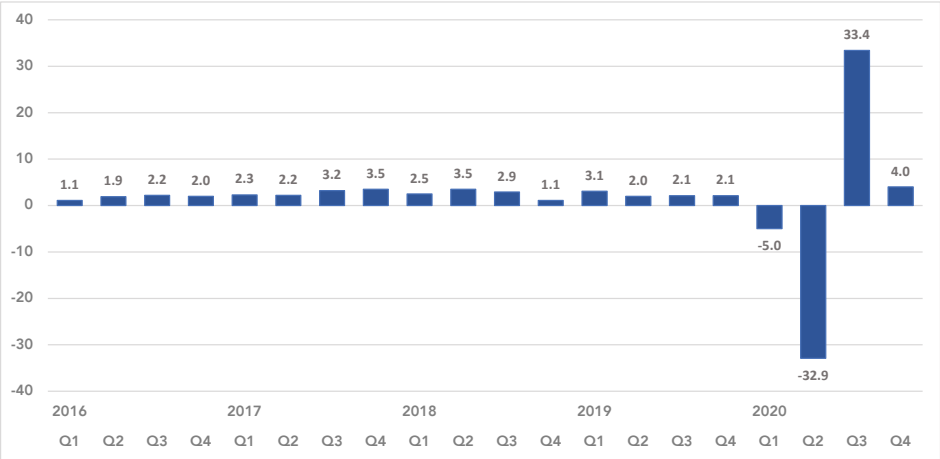
The U.S. economy improved in the fourth quarter with the nation's gross domestic product rising at a 4% annualized rate. The Q4 report from the Commerce Department follows a record quarterly gain in the third quarter. But despite the strong second half, the U.S. economy contracted 3.5% in 2020. It was the first annual drop since the financial crisis and the most since 1946.

There is wide agreement that the economy will improve in 2021 as long as vaccinations proceed as planned. "We're a long way from a full recovery," Federal Reserve Chairman Jerome Powell said on the eve of the Commerce Department's report in late January. "There's nothing more important to the economy now than people getting vaccinated."

Increased exports, nonresidential fixed investment, residential investment and inventories and consumer spending contributed to the fourth-quarter gain, while across-the-board declines in government spending at the federal, state and local levels weighed on growth, the Commerce Department said. Among businesses hit hardest in Q4 were restaurants as a wave of increased coronavirus infections and deaths made customers nervous about going out. The leisure and hospitality sector shed nearly 500,000 positions in December. The restaurant industry's major trade group says 17%, about 110,000 establishments, are closed long-term or permanently.

Real GDP: Percent Change from Prior Quarter

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



> *"There's nothing more important to the economy now than people getting vaccinated"*
>
> *– Fed Chair Jerome Powell*

The slowing in the fourth quarter was expected after the record-setting 33.1% annualized rate posted in Q3, which recovered roughly two thirds of the losses from earlier in the year. Also, it was expected that without more federal stimulus and with worsening infection rates Q4 growth was going to be harder to come by. Personal income fell $339.7 billion in the fourth quarter, which followed a Q3 decline of $541.5 billion, the Commerce Department said. Personal saving was $2.33 trillion in the fourth quarter, down from $2.83 trillion in the third quarter. Consumer spending slowed to a 2.5% adjusted annual rate in Q4, down from the third quarter's gain of 41%, with consumers pulling back from shopping.

Gross private domestic investment jumped 25.3% while government spending fell by 1.2% with nondefense spending down 8.4%. Exports grew by 22% but imports were up 29.5%. The housing market was a strong performer in 2020 as families working from home bought larger places, which also drove spending on home improvement.

Looking ahead, analysts do not have high expectations for first quarter growth but agree the economy should expand from 4.2% to the 5.1% forecast by the International Monetary Fund. "Growth is likely to be very weak in the first quarter, below 1% annualized," Gus Faucher, chief economist at PNC, told CNBC. "With record-high caseloads early in the year consumers have turned more cautious cautious and states have re-imposed additional restrictions on economic activity, although in a more targeted fashion than in the early stages of the pandemic. But growth should pick up through the rest of 2021."

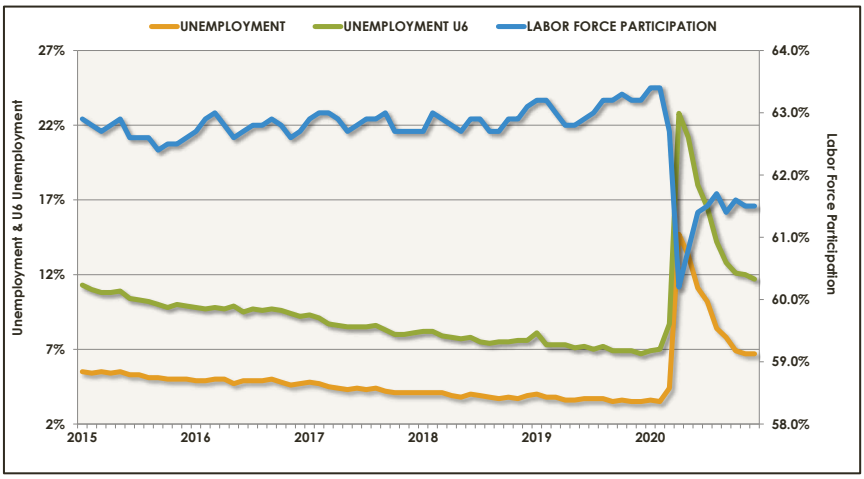
EMPLOYMENT: TRENDING IN Q4 2020

At the close of 2020, the steadily improving job market suffered its first contraction since the spring lockdown. Employers cut 140,000 jobs in December and the unemployment rate settled at 6.7%. Weekly jobless claims remained above the pre-pandemic peak of 695,000 – more than in any prior recession going back to 1967. Nearly 11 million more workers were unemployed than in February. It was the first monthly drop in payrolls since the lockdown in March. After spending steadily for several months, consumers cut back on buying this winter. Nevertheless, many households have boosted their savings during the pandemic and pent-up demand is expected to drive growth.

"What's really driving the economy is still the path of the virus," Erica Groshen, a senior economics adviser at Cornell University and former commissioner of the U.S. Bureau of Labor Statistics, told ABC News ahead of the report's release. Groshen noted that December's data likely reflects the surge in cases after Thanksgiving and the restrictions put in place to quell its spread.

During the week ending January 2nd, Extended Benefits were available in the following 20 states: Alaska, California, Connecticut, District of Columbia, Georgia, Hawaii, Illinois, Louisiana, Massachusetts, Michigan, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, Puerto Rico, Rhode Island, the Virgin Islands, and Washington.

United States Unemployment



Since February, employment in leisure and hospitality is down by nearly 3.9 million jobs.

The highest insured unemployment rates in the week ending January 2nd were in Kansas (7.5%), Pennsylvania (7.2%), Alaska (6.6%), Illinois (6.1%), Nevada (5.9%), California (5.8%), Puerto Rico (5.8%), New Mexico (5.7%), Colorado (5.6%), and Minnesota (5.5%).

Notable job losses last month occurred in leisure and hospitality, which shed some 498,000 jobs, according to the Department of Labor. Since February, employment in leisure and hospitality is down by nearly 3.9 million jobs. Heavy job cuts also occurred in the private education industry last month, which cut 63,000 jobs.

These job losses were partially offset by some hiring last month in professional and business services, which was up 161,000 jobs; retail trade, up 121,000 jobs, and construction, which added 51,000 positions.

The latest economic data continues to show the disproportionate impact of the economic crisis on people of color. The unemployment rate for White workers was 6% last month compared to 9.9% for Black workers and 9.3% for Hispanic workers.

"There have been huge losses in leisure and hospitality and travel-related industries," Groshen noted. "And many of these are low-wage workers who cannot do the work from home." Moreover, "these are places where business models may be changing and so many of these jobs may not come back," Groshen said. Groshen said that one of her concerns for the recovery is the growing number of temporary furloughs that have turned into permanent job losses.

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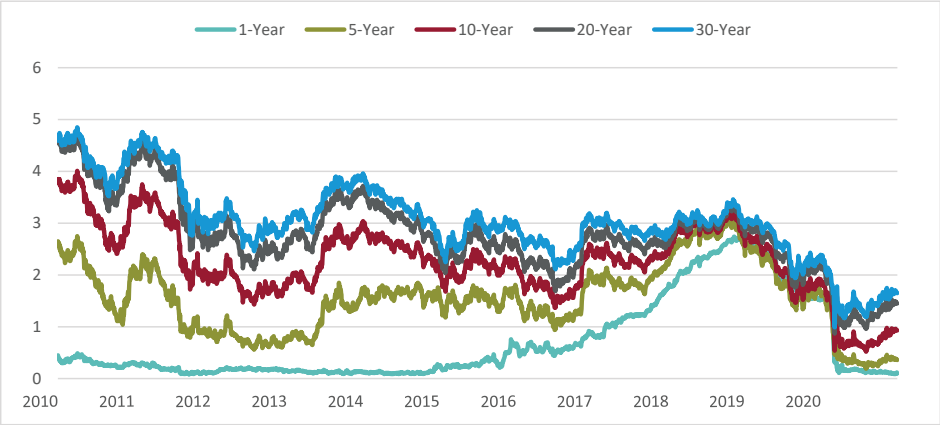
MONETARY POLICY: TRENDING IN Q4 2020

The Federal Reserve remained committed to bolstering the economy throughout the Covid pandemic era, recently outlining its intent to keep interest rates near zero through 2021 while continuing to buy Treasuries, and corporate and mortgage bonds. Purchases by the Fed in 2021 since March totaled nearly $2.7 trillion.

At the central bank's last meeting of the year in mid-December, officials announced an increase in its 2021 GDP forecast to 4.2%. Fed Chair Jerome Powell told reporters after the meeting that support from the bank would continue "for some time." Powell remarked that many businesses and households under severe stress would continue to suffer until the economy begins to bounce back in the second half. The first quarter is "likely to be very challenging," he said, and that the Fed would "deliver powerful support to the economy until the recovery is complete."

Powell also repeated his call for more federal stimulus and signaled that the limitations of the Fed's program were not unrestrictive. "The case for fiscal policy right now is very, very strong, and I think that's widely understood," Powell said. "Now that we can kind of see the light at the end of the tunnel, it would be bad to see people losing their business, their life's work, even generations' worth of work" with the recovery expected soon.

Daily Treasury Yield Curve Rates (Decade Trend)



Greeting the new year were two key metrics, jobless claims and retail sales, taking turns for the worse and increasing the challenge to get the economy back in trim.

Fed officials now expect real gross domestic product to fall just 2.4% in 2020 compared to the 3.7% drop forecast in September. Other new estimates from the meeting included a brightened outlook for the unemployment rate, improving to 6.7% by the end of the year from a previously predicted 7.6%. Also, bank officials expect the unemployment rate should fall to 5% in 2021, less than the previous 5.5% estimate.

Greeting the new year were two key metrics, jobless claims and retail sales, taking turns for the worse and increasing the challenge to get the economy back in trim. At the end of November there were nearly 10 million fewer jobs than in February. Also, holiday travel led to hospital overcrowding and reintroductions of lockdowns by state and local governments.

At the onset of the crisis in March, Fed officials appreciated the scale of the emergency and activated the institution as never before. By comparison, the Federal Reserve only increased its purchases of government securities and bonds by $116 billion during the last recession from December 2007 to June 2009.

Fed officials all but declared on March 23 that the central bank would do what was necessary to insure against liquidity shortages. That included buying government debt and mortgage-related securities in whatever quantities were required to maintain well-functioning financial markets.

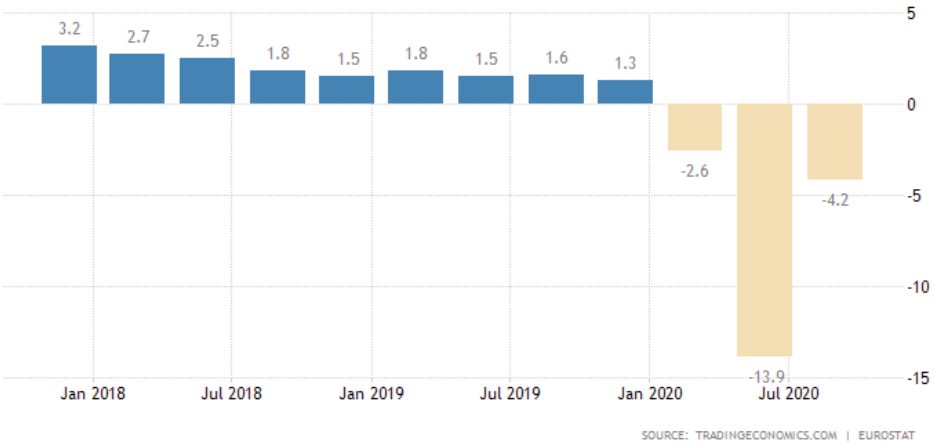
GLOBAL ECONOMY: TRENDING IN Q4 2020

Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the global outlook. Amid this exceptional uncertainty, according to the International Monetary Fund's latest forecast, the global economy is projected to grow 5.5% in 2021 and 4.2% in 2022.

The 2021 forecast released late January is revised up 0.3 percentage point relative to the previous forecast in October, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies. The IMF also said the December agreement on the terms of the United Kingdom's exit from the European Union has eliminated a key downside risk. Additionally, the IMF noted that the upbeat prospects for 2021 are widely reflected in the markets.

Finally, additional policy measures announced at the end of 2020—notably in the United States and Japan—are expected to provide further support in 2021–22 to the global economy. The IMF said these developments indicate a stronger starting point for the 2021–22 outlook than envisioned in the previous forecast.

European Union GDP Annual Growth Rate



… the December agreement on the terms of the United Kingdom's exit from the European Union has eliminated a key downside risk.

The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers and structural characteristics entering the crisis.

Major central banks are assumed to maintain their current policy rate settings throughout the forecast horizon to the end of 2022. As a result, financial conditions are expected to remain broadly at current levels for advanced economies while gradually improving for emerging market and developing economies. The IMF said policy actions should ensure effective support until the recovery is firmly underway with an emphasis on advancing key imperatives of raising potential output with widely shared growth that includes accelerating the transition to lower carbon dependence. As noted in the October 2020 World Economic Outlook, a green investment push coupled with initially moderate but steadily rising carbon prices would yield needed emissions reductions while supporting the recovery from the pandemic recession.

Strong multilateral cooperation is required to bring the pandemic under control everywhere, the IMF said. Efforts needed include bolstering funding for the COVAX facility to accelerate access to vaccines for all countries, ensuring universal distribution of vaccines, and facilitating access to therapeutics at affordable prices for all. Many countries, particularly low-income developing economies, entered the crisis with high debt that is set to rise further during the pandemic. The global community will need to continue working closely to ensure adequate access to international liquidity for these countries.Where sovereign debt is unsustainable, eligible countries should work with creditors to restructure their debt under the G20's common framework, the IMF said.

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