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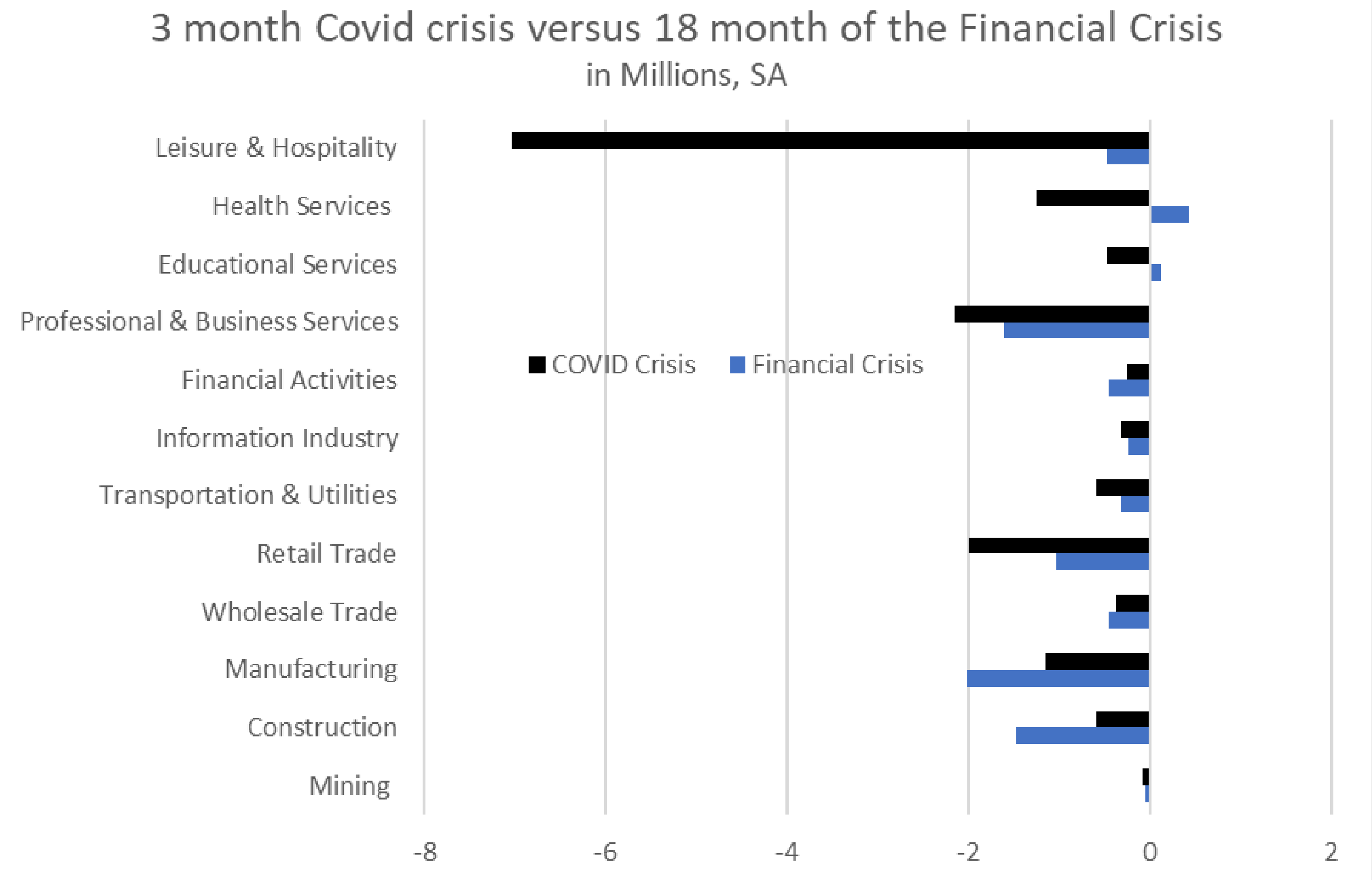
Economist’s Outlook during COVID-19

Dr. Patricia Buckley, Managing Director of Economics, Deloitte

In just 3 months, U.S. employment has fallen more than 2.5 times as much as it did during 18 months of the Financial Crisis…and the pain is widespread

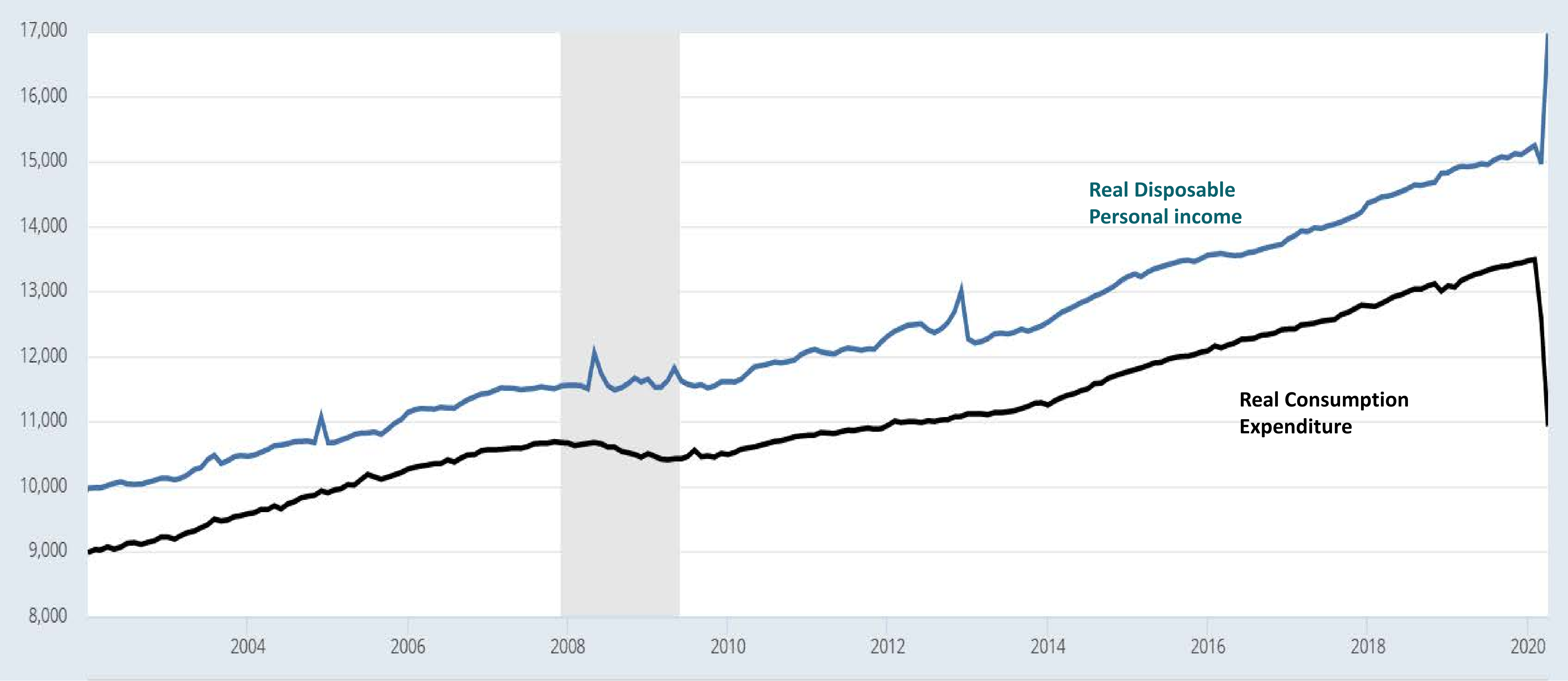


Source: Bureau of Labor Statistics

Federal payments pushed income up by 12.9% in April, even as consumption fell by 13.6%

Real Disposable Personal Income and Real Consumption Expenditures

Billions of Chained 2012 $

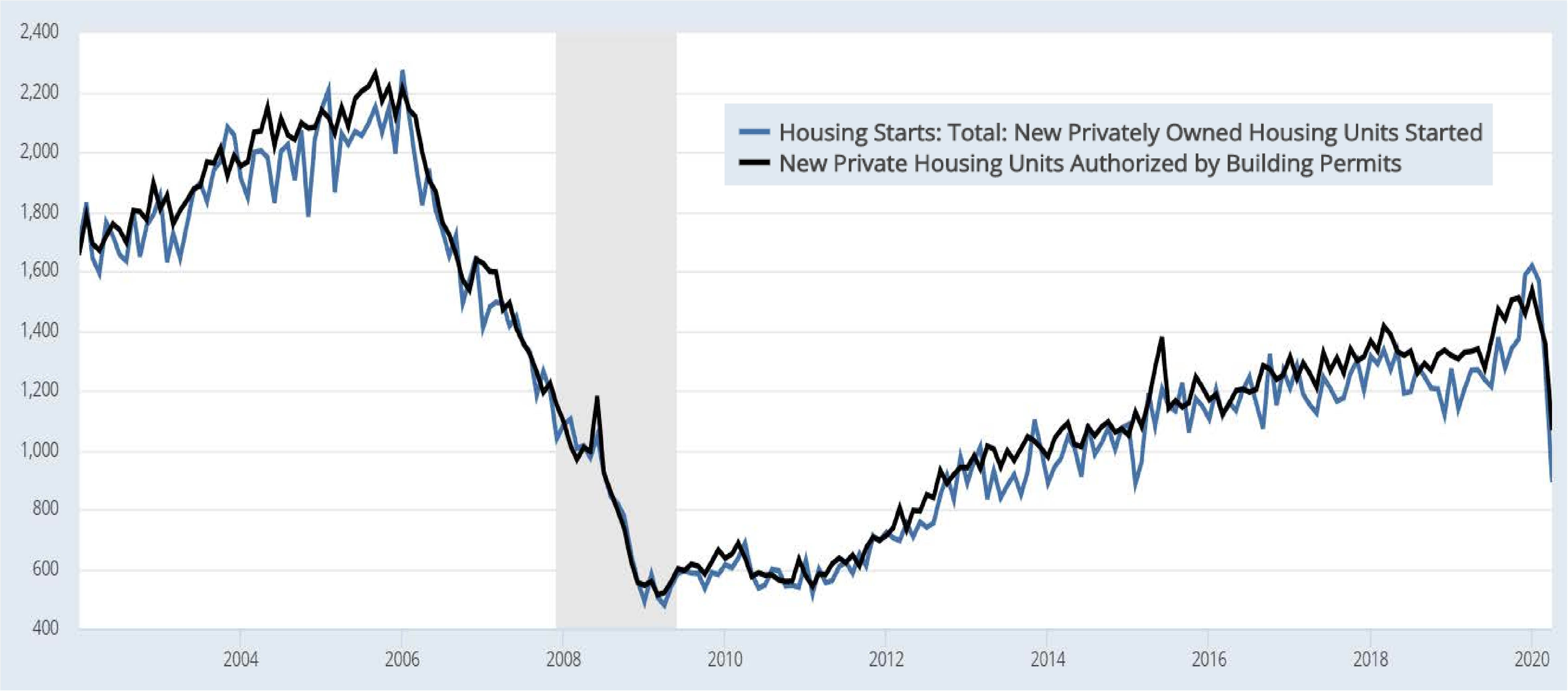


Source: Bureau of Economic Analysis, via FRED

Housing Starts fell by 43% between February and April, while Permits fell by 26%

Housing Starts and Permits

Thousands of Units

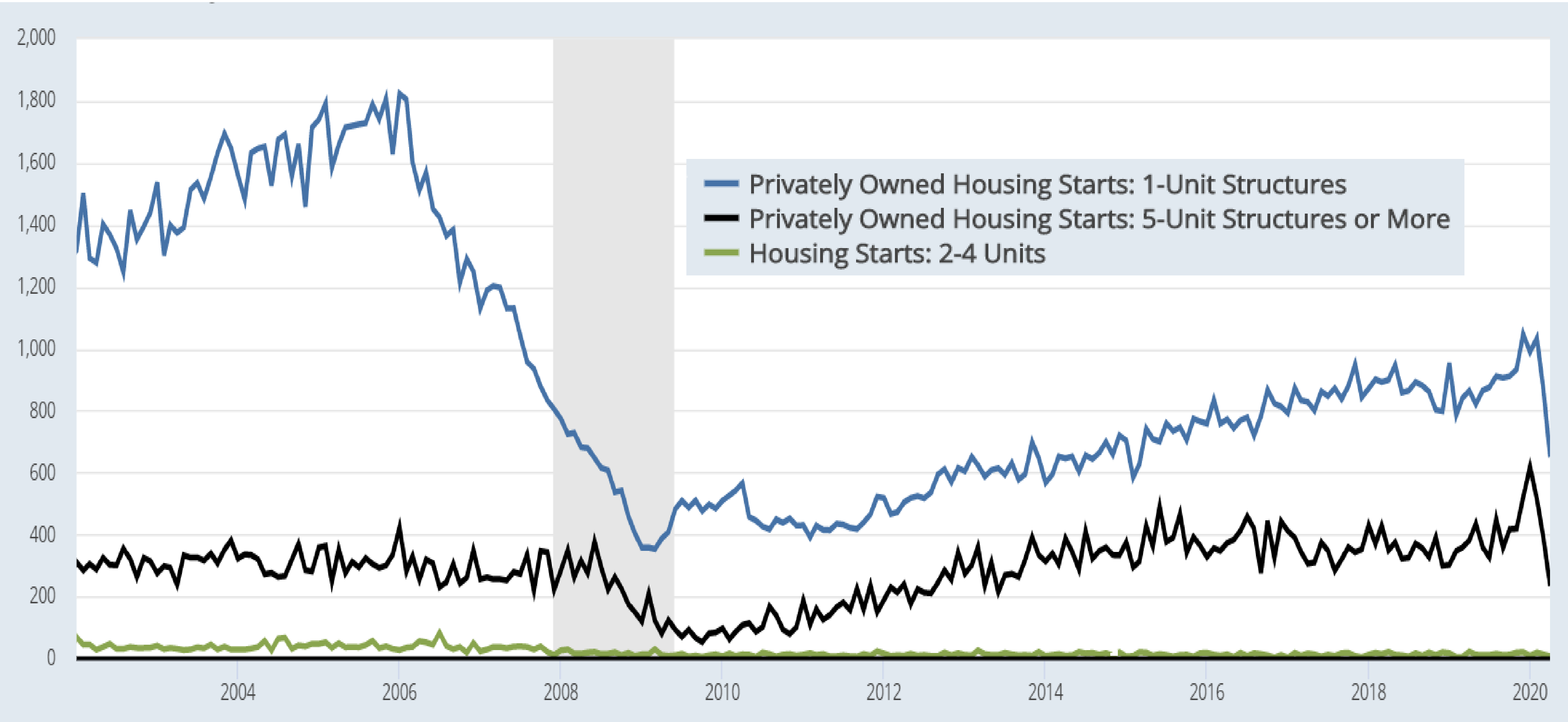


Source: Census Bureau, via FRED

The decrease in activity was spread across size classes

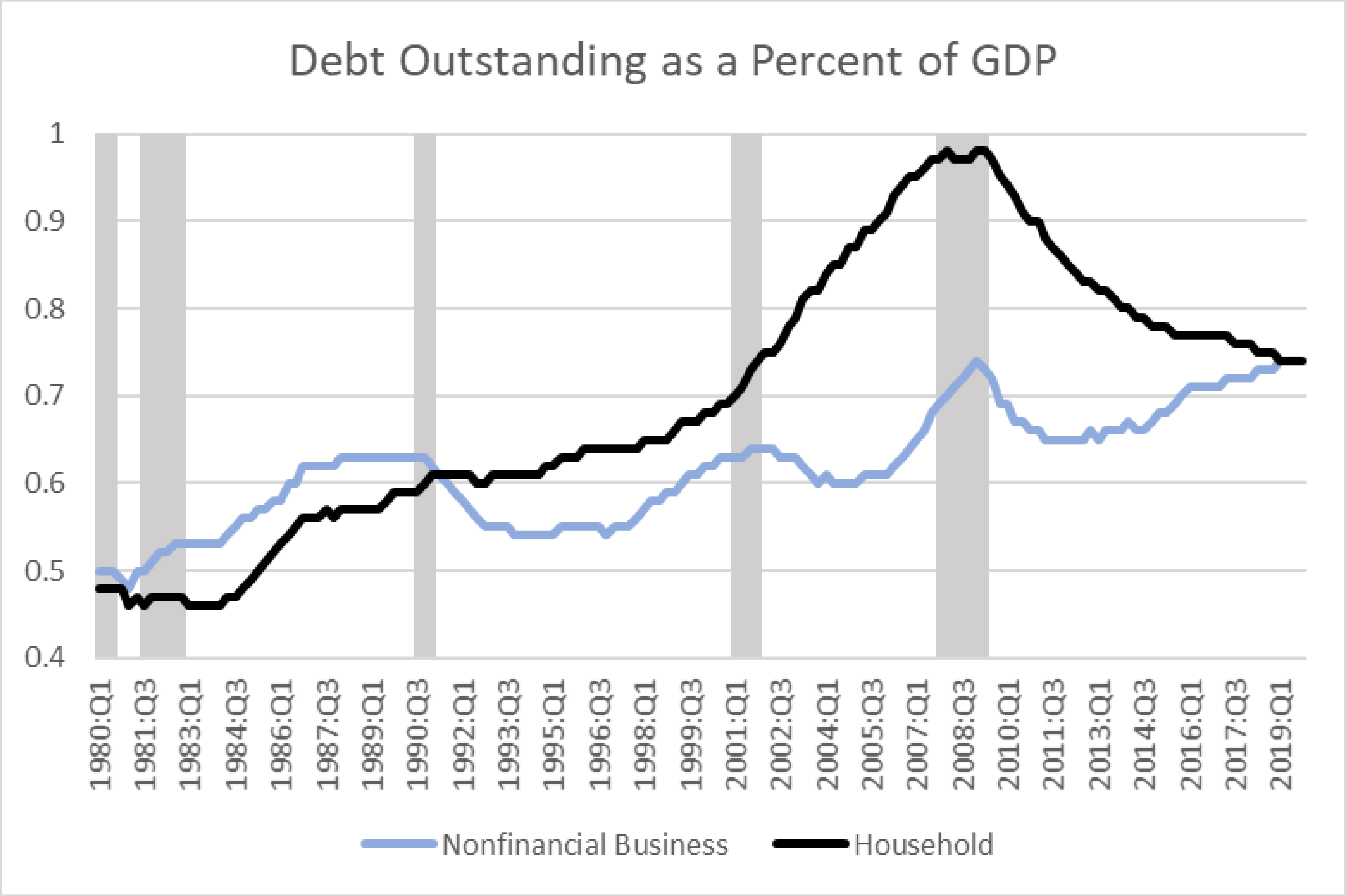
Housing Starts by number of units

Thousands of Units



Source: Census Bureau, via FRED

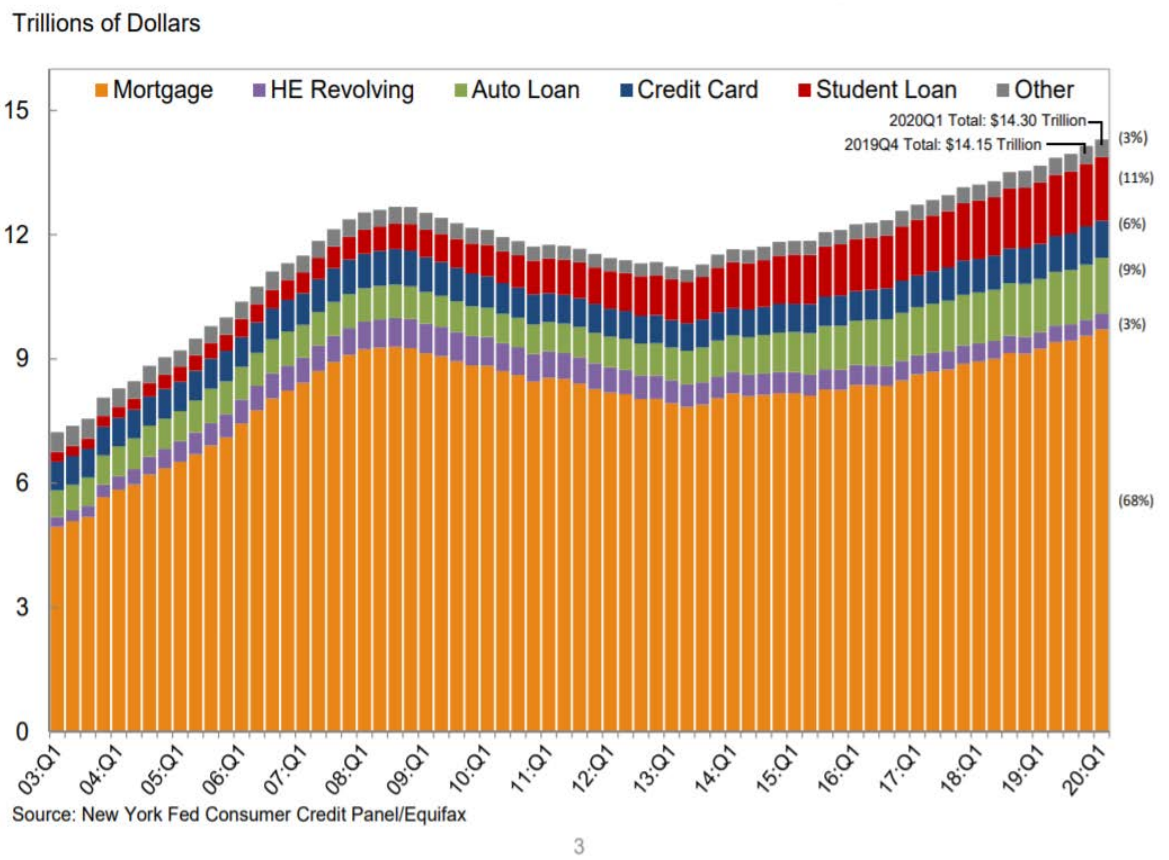
Household debt as a percent of GDP declined post-financial crisis



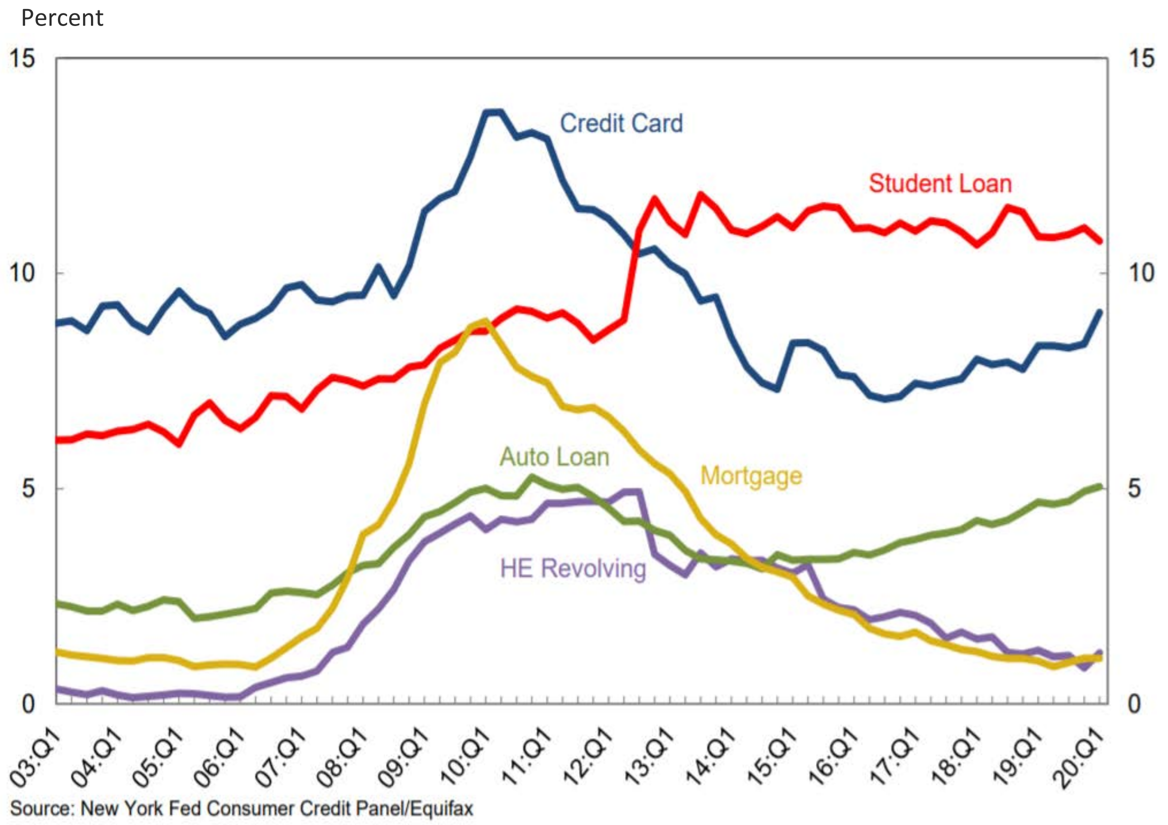
Source: United States Federal Reserve

Student loan debt is a particular concern in its contribution to the increase in total debt and delinquencies, and auto and credit card delinquencies are on the rise

Composition of Household Debt

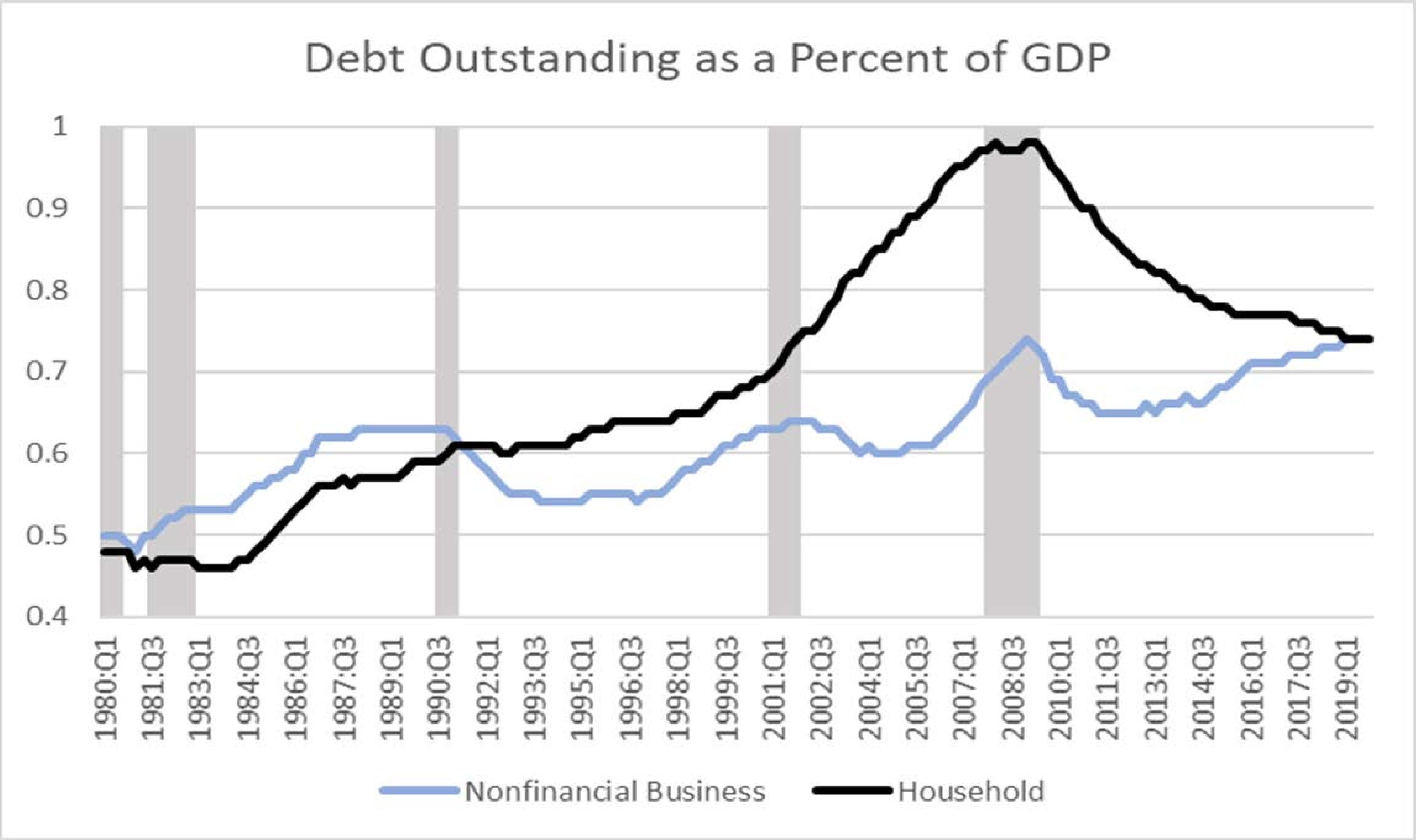


Percent of Balance 90+ Days Delinquent by Loan Type



A prolonged period of low interest rates increased business debt

In the United States, nonfinancial business sector debt was 74.0% of GDP in Q4 2019, the highest ever since the data series started in Q4 1947

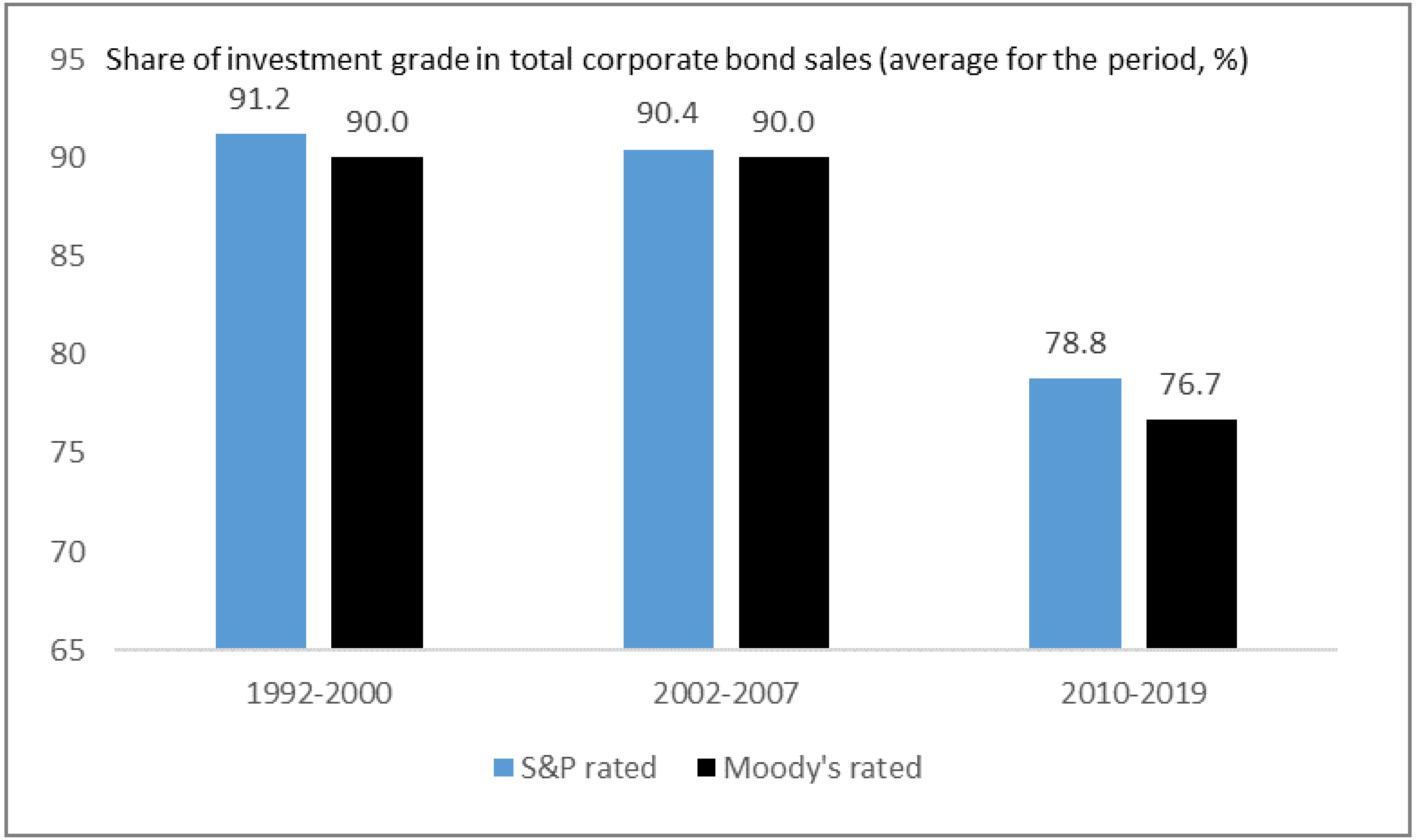


Source: United States Federal Reserve

The quality of corporate debt in the United States has declined

The share of investment grade-corporate bonds sold in the United States was lower in the 2010-2019 recovery than in the 2 previous ones

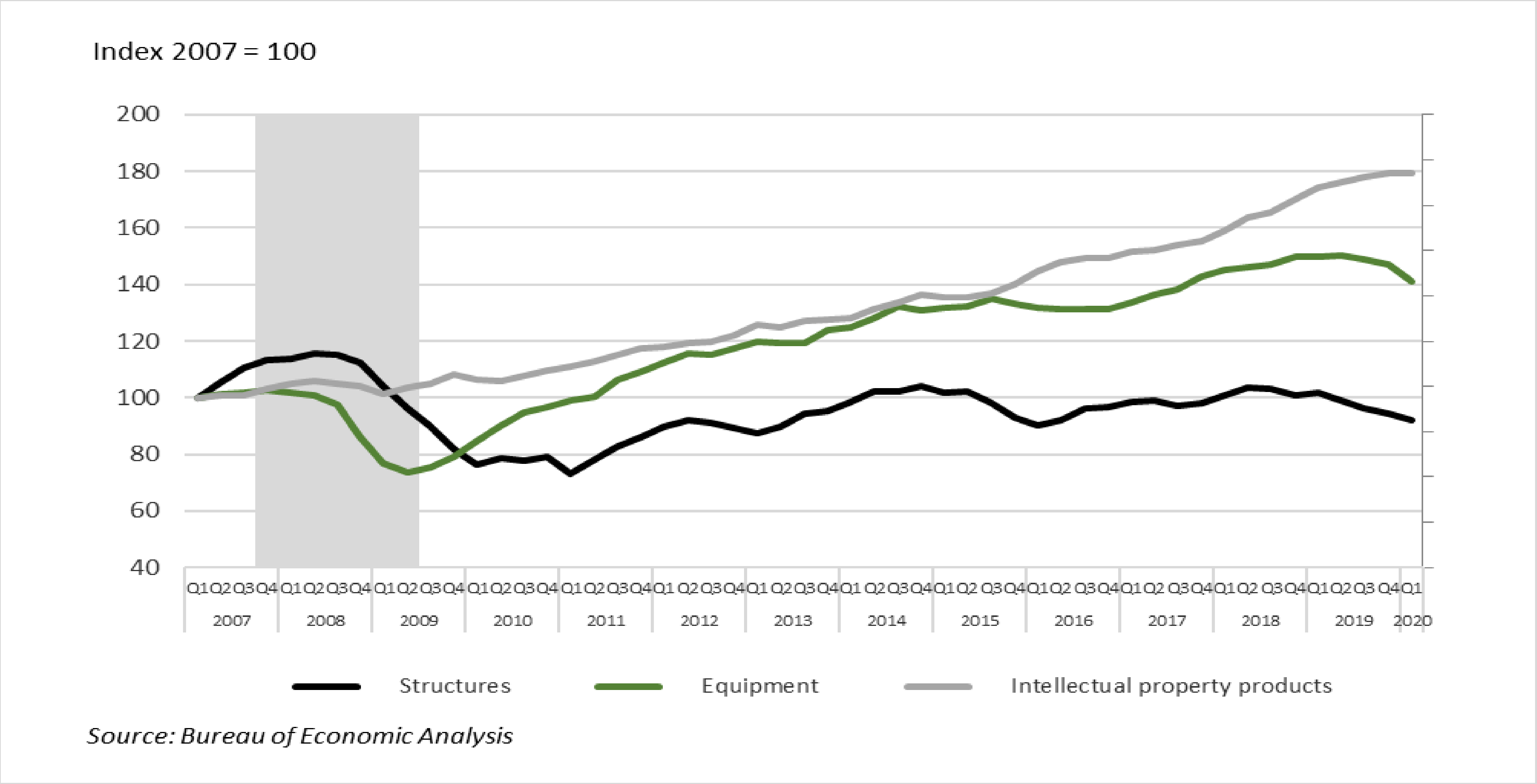
Share of investment grade in total corporate bond sales (average for the period, %)



Sources: Thomson Reuters; Deloitte Services LP economic analysis.

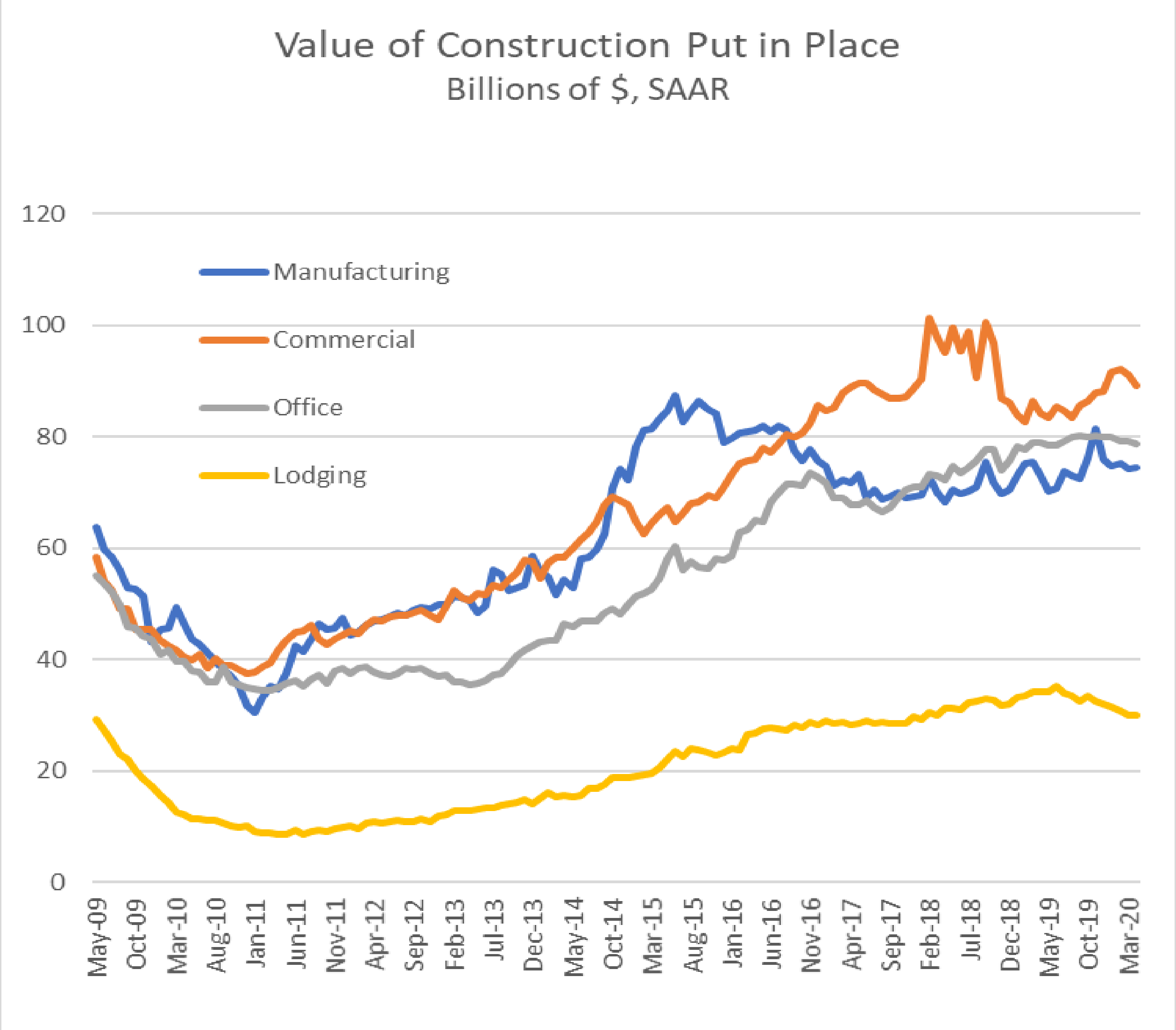
Business investment starting to feel the impact of the crisis

Relative growth rates for business investment components



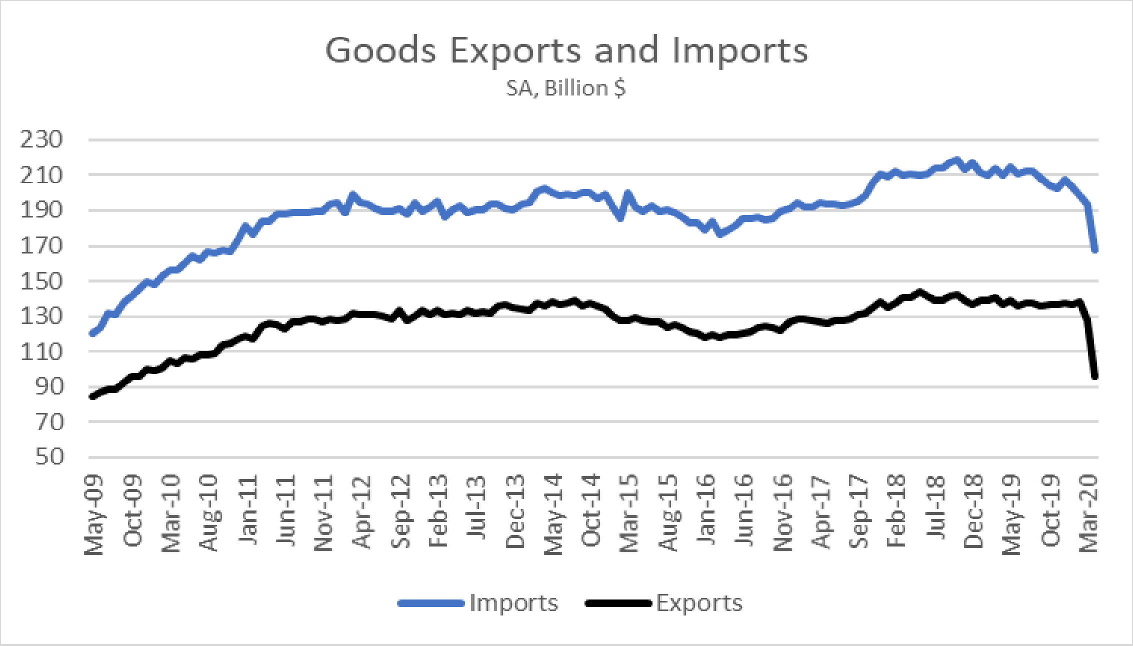
Source: Bureau of Economic Analysis

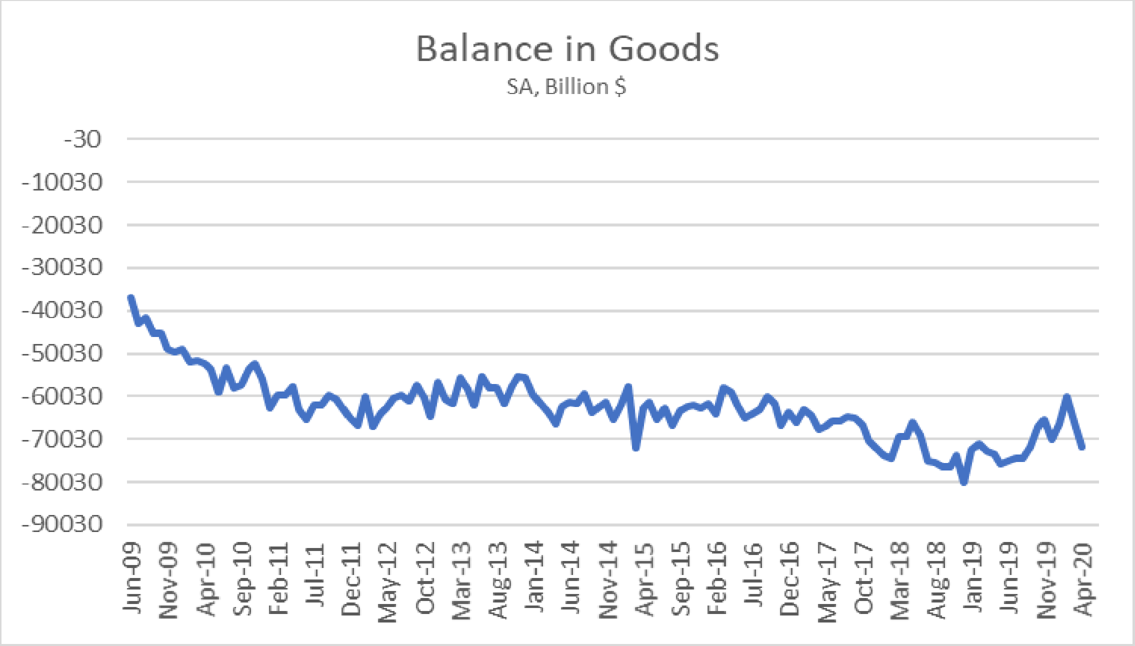
Nonresidential construction beginning to feel the pain



Source: Census Bureau via Haver

How will trade change in response to possible on-sourcing?





Source: Census Bureau via Haver

The dollar is seeing some impact

Trade-weighted value of the dollar, goods and services
January 2006 = 100

Source: Federal Reserve Board via Fred

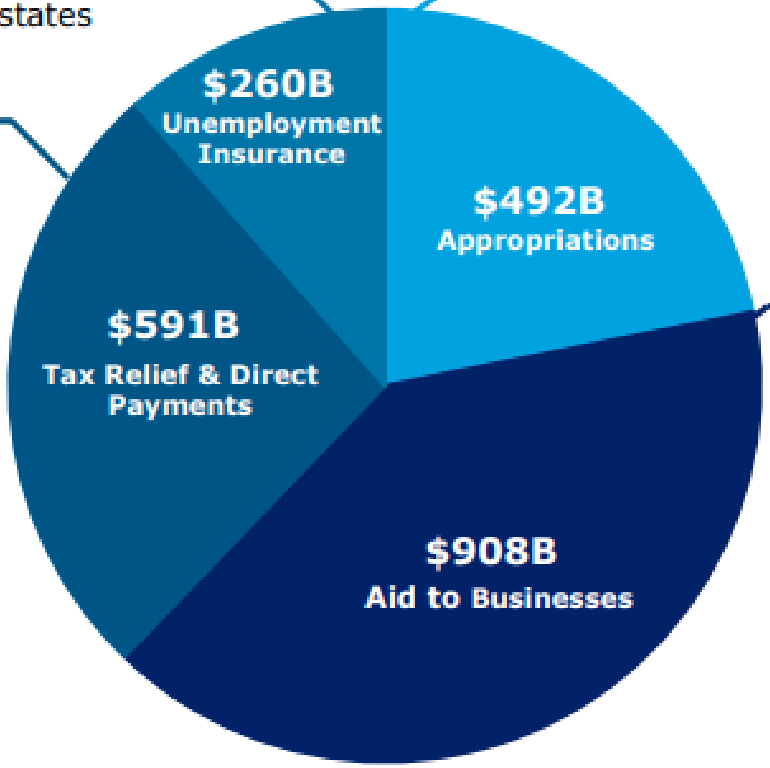
Policy response has been fast—the CARES Act (Fiscal Policy)

$260 billion to increase and extend benefits, expand eligibility, and increase funding to states

$292 billion of direct payments to individuals with AGI below certain levels

$280 billion of tax benefits for businesses

$19 billion of individual and health care tax benefits



$340 billion to federal agencies; 80% will flow to state and local governments

$150 billion directly to states and municipalities to help offset cost of COVID-19 response

$1 billion to Community Health Centers; **$1 billion** for various small business programs

$349 billion for loans and loan forgiveness for eligible small businesses and nonprofits

$10 billion for small business disaster relief loans

$17 billion to pay 6-months of principal and interest on small business 7(a) loans

$454 billion to support Federal Reserve liquidity facilities for businesses

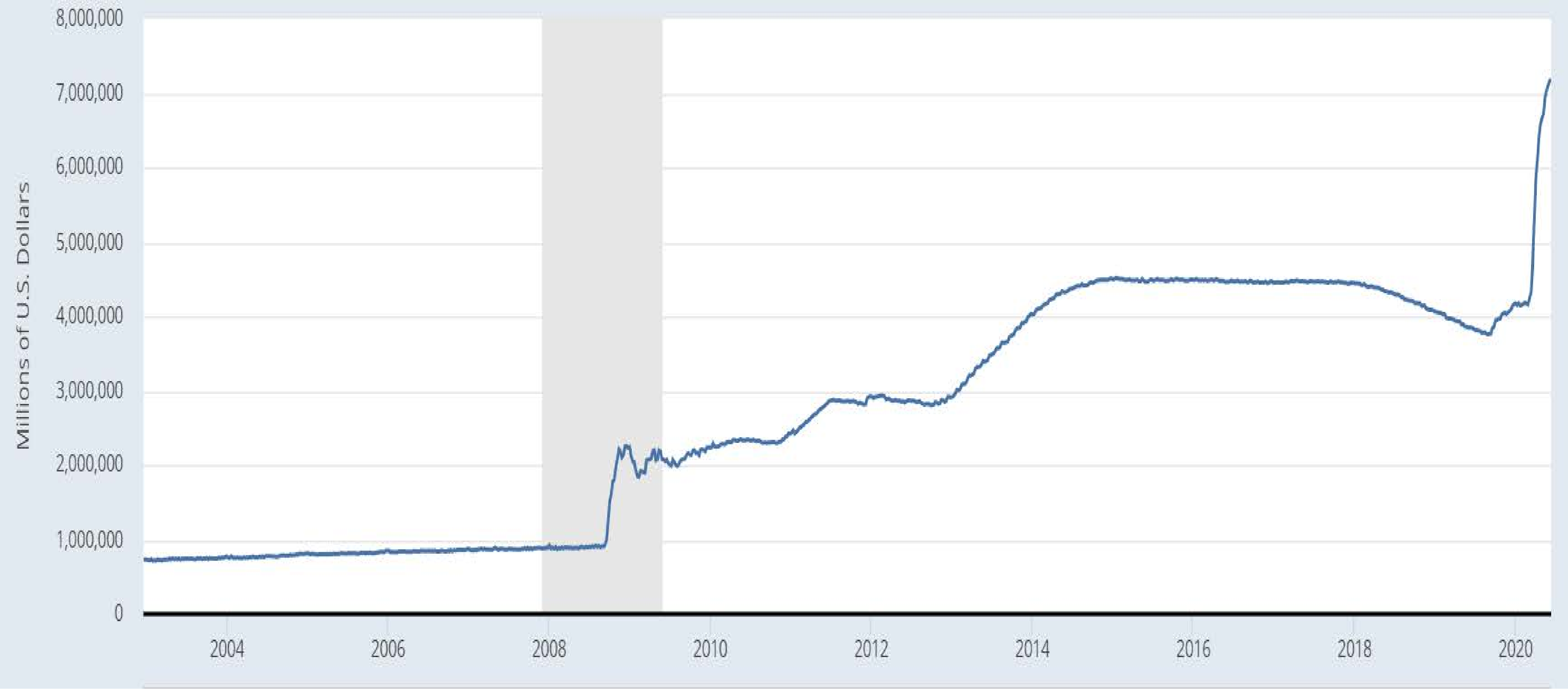
$61 billion of assistance for airlines

$17 billion for Treasury loans and loan guarantees for businesses critical to national security

Source: Deloitte KX Assets

Policy response has been fast—Monetary Policy

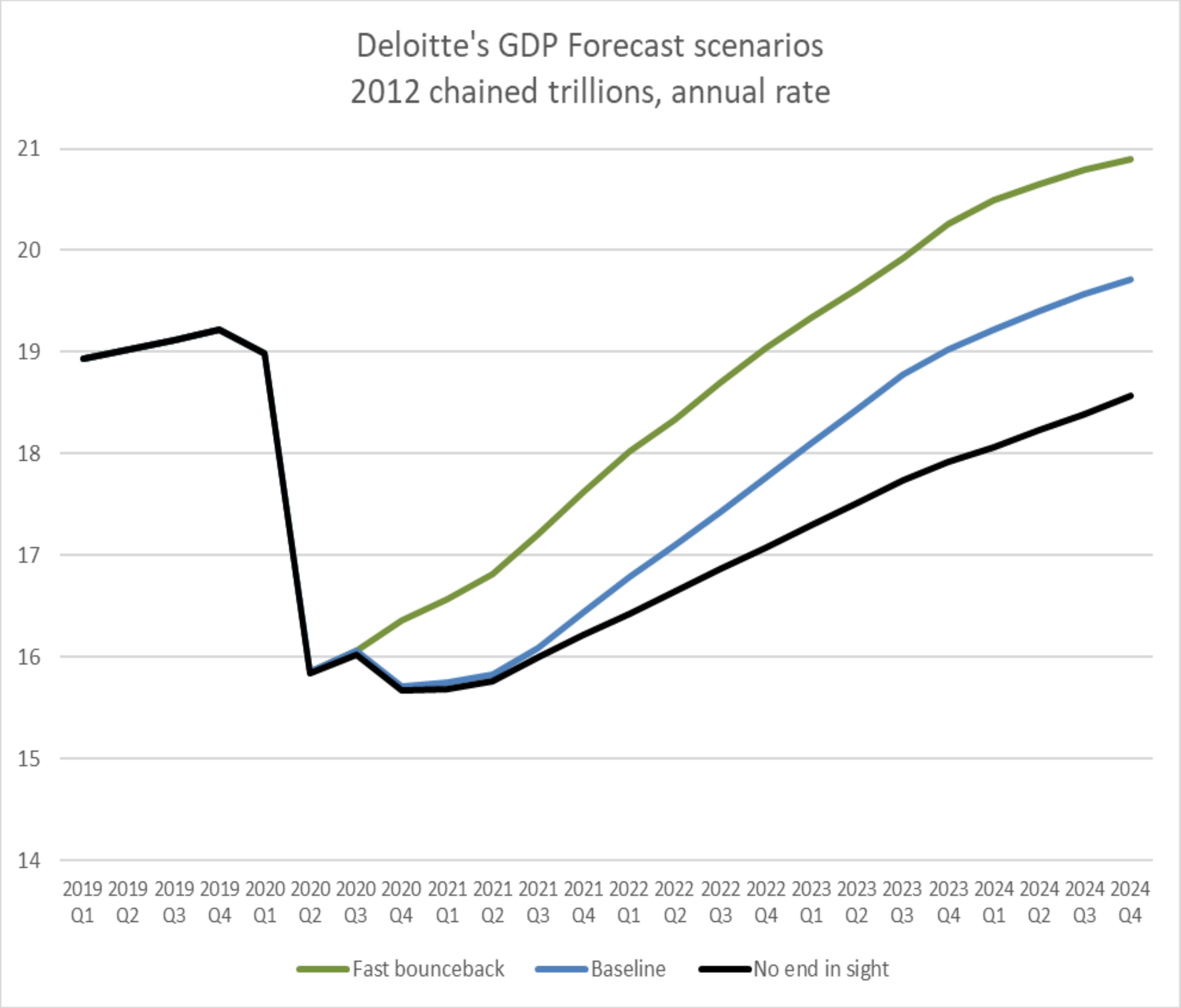
Federal Reserve Board Assets



Source: Federal Reserve Board via Fred

Our latest forecast is not good news

All 3 of our scenarios have very serious disruptions



Baseline (70% probability)

The “U” shaped recovery. Recovery will not really get underway until the middle of 2021, although we might see a blip up in Q3 2020. Growth would pick up between 2022-2024, and the economy could reach close to full employment by 2024-2025.

Fast bounceback (5% probability)

The “V” shaped recovery. Reopening the economy beginning in May proves successful. Growth picks up in the second half of 2020, but then accelerates in 2021 as a vaccine begins to be widely distributed in January. Economic activity largely returns to the pre-COVID normal by the end of 2023.

No end in sight (25% probability)

The “L” shaped recovery. The attempted reopening in the middle of the second quarter proves premature. COVID-19 cases jump and states are forced to attempt to limit economic activity again. The lack of treatment options and an effective vaccine into 2021 means that the cycle of restart attempts and subsequent reclosing continues. After a large decline in the first 3 quarters of 2020, growth remains very low, with recovery only starting hesitantly at the end of 2021. By 2025, unemployment remains very high and the level of GDP is about 10% below the level it would have reached had the pandemic not occurred.

Source: Deloitte Research and Insights and Oxford Economics

So what are the pieces to get the economy growing again?

Workforce insights from Deloitte's CFO Signals Survey

- Reflecting historic lows for expected year-over-year revenue and earnings growth, domestic hiring growth expectations fell sharply to -6.0%, indicating substantial staff cuts.
- Executive teams appear more focused on ensuring viability and adapting for near-term performance than on evolving for post-crisis success.
- Optimism about a return to near-normal operations has faded, with 60% saying this milestone will not be reached until 2021 or later.
- Three-fourths of CFOs say they can sufficiently manage the risks of on-site work, and most do not expect to provide hazard pay; 71% say those who can continue to work remotely will have the option.
- Just under half of CFOs say they will resume on-site work as soon as governments allow it; 43% say their efforts will be limited by a possible fall resurgence; just over half say effective on-site testing is necessary, with treatments and vaccines both coming in at 35%.
- In a year, CFOs expect major increases in remote work, automation, and cloud computing, and many expect a smaller real estate footprint; they are less likely to expect changes to cross-border sourcing, and there is disagreement around credit/currency markets and distressed asset purchases.

Deloitte.