RECOVERY FROM VIRAL RECESSION HAS STARTED, BUT HOW STRONG?

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THE LONGEST U.S. EXPANSION IS NOW OFFICIALLY HISTORY

Length of expansion, months, by starting date of recovery

Source: NBER
2019 WAS ESPECIALLY GOOD FOR INCOMES

Real median household income, % change

Source: Census Bureau
TWO EMERGENCY FED RATE CUTS, LONG-TERM RATES AT RECORD LOWS...

Source: Federal Reserve Board

Interest rate, %

10-year Treasury bond

3-month Treasury bill

Source: Federal Reserve Board
...AND STOCKS ARE ANTICIPATING RECOVERY

Sources: S&P; CBOE
WITH ABOUT HALF OF U.S. ECONOMY AT RISK...

Share of US GDP, 2019. Imports excluded (15% of GDP).

- Government (17%)
- Consumer nondurables (14%)
- Consumer healthcare, housing, utilities (21%)
- All other consumer services (24%)
- Consumer durables (7%)
- Private investment (18%)
- Exports (12%)

Source: BEA
ECONOMY CONTRACTS MORE THAN TEN PERCENT IN FIRST HALF OF 2020, THEN REBOUNDS...

Source: BEA
...WITH A BIG IMPROVEMENT SINCE APRIL

% change

- Food service
- Unit auto sales (Feb. to Oct.)
- Housing starts
- Existing home sales
- Industrial production
- Establish. employment (Feb. to Oct.)
- Retl sales ex food, rest, autos, gas
- Food and beverages
- Nominal after-tax hh inc.

Sources: Census Bureau, AutoData, BLS, Federal Reserve Board, BEA
EVEN WITH 12 MILLION JOBS ADDED IN MAY-OCTOBER, FIVE YEARS OF GAINS WIPED OUT...

Establishment employment, mil

Source: BLS
...WITH ONLY 57 PERCENT OF ADULTS NOW WORKING

Employment-to-population ratio, %

Source: BLS
CONSUMERS IN MUCH BETTER SHAPE THAN HEADING INTO GREAT RECESSION...

Sources: BEA; Federal Reserve Board

Financial obligations ratio, % of after-tax income (R)

Personal saving rate, % of after-tax income (L)

Great Recession

Sources: BEA; Federal Reserve Board
...BUT BUSINESS DEBT IS MORE OF A CONCERN

Interest payments as % of cash flow, non-financial corporate sector (R)

Non-financial corporate debt as % of GDP (L)

Sources: Federal Reserve Board; BEA
MORE THAN $2 TRILLION IN STIMULUS SO FAR...

CARES, Paycheck Protection Program and Health Care Enhancement Acts spending, $ bil

- Big business, govt. loans/guarantees
- Small business loans/grants
- One-time checks
- Business tax cuts
- Health
- Unemployment insurance
- Aid to states
- Other

MORE THAN $2 TRILLION IN STIMULUS SO FAR...

Source: CBO
...AND PAYCHECK PROTECTION PROGRAM HAS BEEN VERY IMPORTANT

Small, mid-size firms that have applied for PPP or plan to do so in future

- Extremely important (69%)
- Somewhat important (28%)
- Not important (3%)

Source: PNC
BUSINESSES NEED ANOTHER POLICY BOOST...

Importance of additional stimulus funding to small, mid-size firms

- Extremely important (55%)
- Somewhat important (22%)
- Not important (27%)
- Don't know/refused (18%)

Source: PNC
...AND WORRY ABOUT THE BUDGET DEFICIT LATER

4-quarter moving average, % of GDP

Sources: Treasury Department; BEA
FED HAS PULLED OUT ALL OF THE STOPS...

Federal Reserve assets, $ tril

- Treasury Bills
- Other Treasuries
- MBS/GSA Debt
- Other

Source: Federal Reserve Board
...AND WANTS HIGHER INFLATION

5-year, 5-year forward inflation expectations, %

Source: Federal Reserve Board
WHAT I’M PRETTY SURE ABOUT

- Very steep recession
- Recovery has started
- Unemployment rate peaked at 14.7 percent
- Inflation will remain low
- Structural shifts
  - Retail, supply chains, commercial real estate
WHAT I’M LESS SURE ABOUT

- Shape of recovery
  - V, U, Checkmark, Swoosh, W?
- How effective PPP, MSLP are, how many business failures
- Future stimulus
- How quickly unemployment rate falls
- Longer-run impact on growth
- Housing market impact
WHAT MATTERS

- Public health response
  - If we don’t get this right, not much else matters

- How much more stimulus
  - Go big or go home

- Business assistance
ONE-THIRD OF SMALL, MID-SIZE BUSINESSES STILL AT RISK

How long small, mid-size firms can continue to operate under current conditions

- Less than six months (16%)
- Six months to one year (16%)
- More than one year (60%)
- Don’t know/refused (9%)

Source: PNC
INTENSE BUT SHORT RECESSION, WITH RISKS TO THE DOWNSIDE...

Sources: BEA; BLS; PNC
...AND A LONG TIME TO MAKE UP LOST GROUND

Index, pre-recession peak=100

Sources: BEA; BLS; Federal Reserve Board; Census Bureau; PNC
SOLID CONDITIONS IN EARLY 2020...

February 2020 State Coincident Indexes: Three-Month Change

Source: Federal Reserve Bank of Philadelphia
...AND THEN THINGS WERE BAD ALL OVER...
BUT MOST STATES ARE LOOKING BETTER NOW
LARGER JOB LOSSES IN PITTSBURGH METRO AREA...

Employment, index, Feb. 2020=100

Source: BLS
...BUT LESS EXPOSURE TO LONG-TERM RESTRUCTURING

% of employment in oil/gas, air transportation, leisure/hospitality, 2019

Sources: BLS, Moody’s Analytics
PENNSYLVANIA BUSINESSES LESS OPTIMISTIC

Expectations for next 6 months, % of respondents

Source: PNC
DECLINING POPULATION REMAINS THE REGION’S BIGGEST CHALLENGE

Population, % change

- US
- Pennsylvania
- Pittsburgh

Source: Census
Q&A

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