

# THE POWER OF BEING UNDERSTOOD

# RSM ECONOMIC OUTLOOK

The state of the economy as businesses reopen



June 3, 2020

# Presenter

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# Economic outlook... pre-pandemic

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## Primary themes

- **Growth deceleration**
  - GDP 1.8% 2019
  - Deceleration to 1.5% 2020
  - Consumer propping up economy
  - Weak fixed business investment
- **Employment growth solid**
  - Unemployment rate at 3.6%
- **Fed On Hold**
- **Inflation back toward 2%**
- **Risks to outlook**
  - Policy errors: trade and/or central banking
  - Liquidity event: COVID-19

# US economic dashboard: Recession and recovery

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## **U.S. Economy has suffered a series of shocks**

- Supply, demand and financial shocks
- Minus -40% Q2 GDP
- Depression like shocks, but no depression
  - Policy choice, not fate
- Recession will likely last 2-3 quarters

## **Policy Response**

- Robust fiscal and monetary policy response

## **Shape of recovery**

- Elongated and frustrating in some industries

# Real economy shock: Labor market

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## Labor market shock

- 60 million jobs at risk
- Damage implies -40% Q2 GDP

## Initial jobless claims

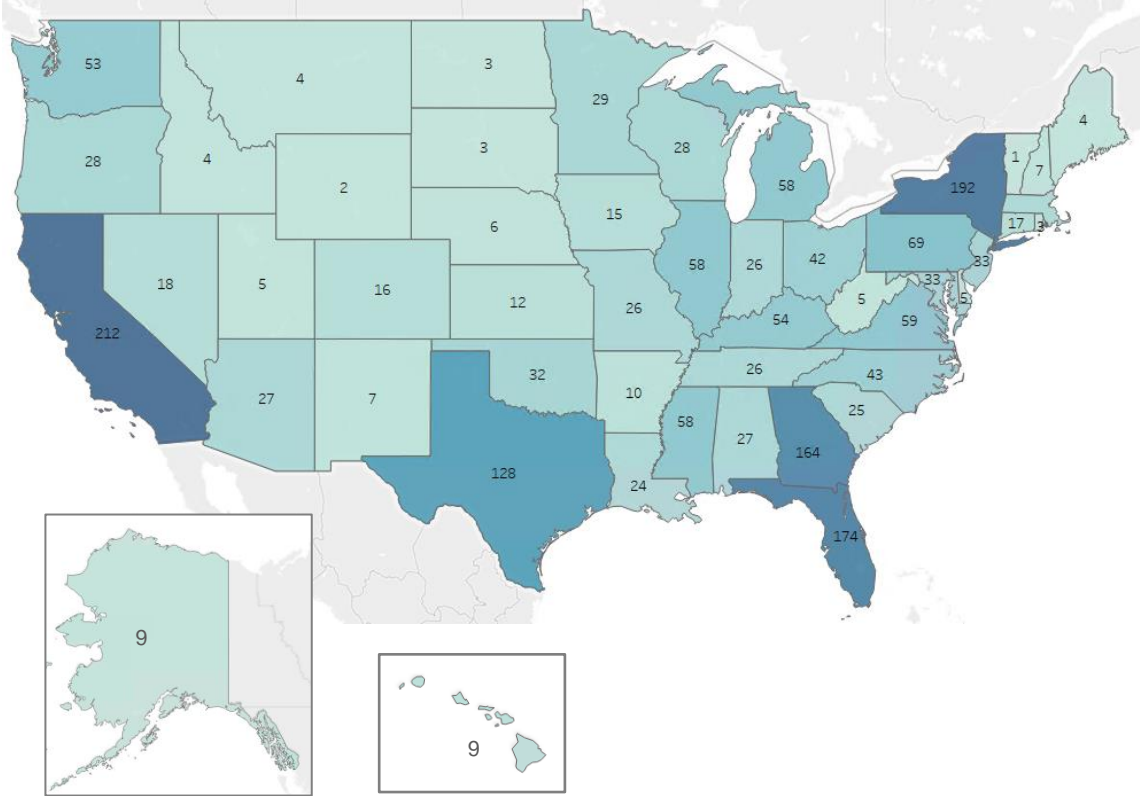
- 40.7 million jobs lost in 10 weeks
- About 27.2% of those who held jobs prior to the pandemic have filed for unemployment

## Unemployment

- ~25-30% peak in 2020

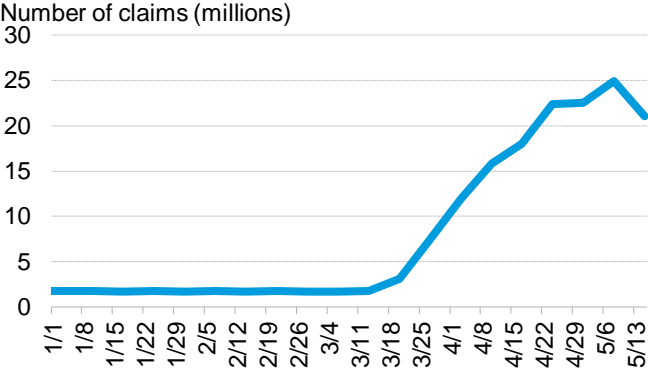
# Unemployment claims

## New jobless claims filed week ending May 23 (thousands)

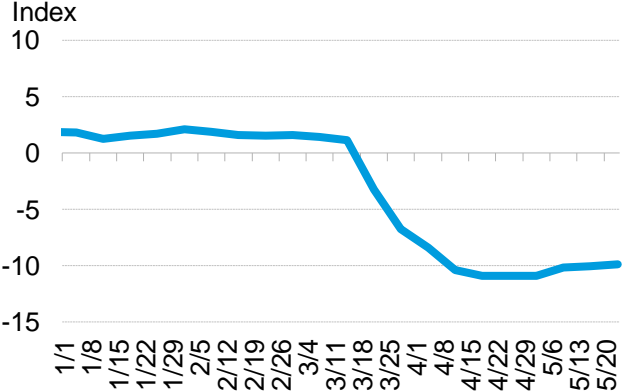


Source: BloombergNEF, Department of Labor, U.S. Federal Reserve Bank of New York; Note: The Weekly Economic Index tracks 10 weekly indicators of real economic activity, scaled to have the units of four-quarter percent change of real GDP.

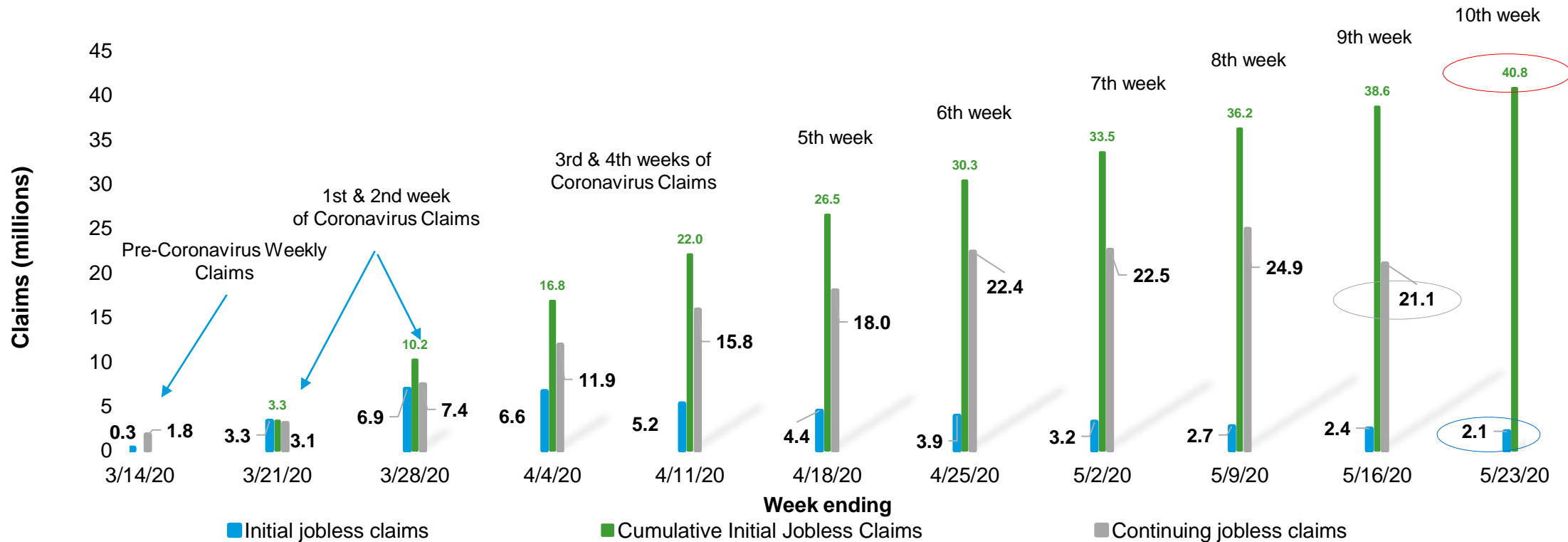
## U.S. continuing jobless claims



## U.S. Federal Reserve Bank of New York Weekly Economic Index



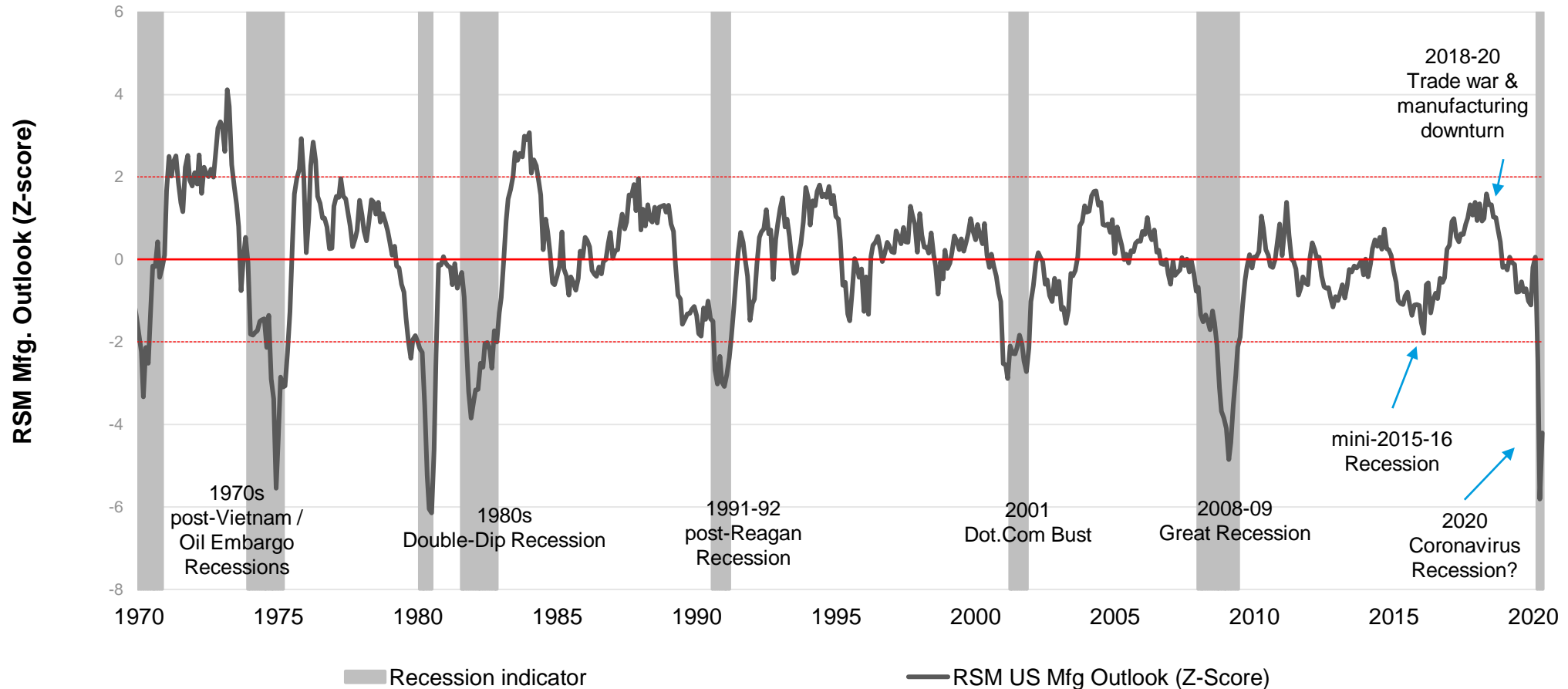
# Cumulative initial jobless claims and continuing estimate



Source: BLS; Bloomberg; RSM US



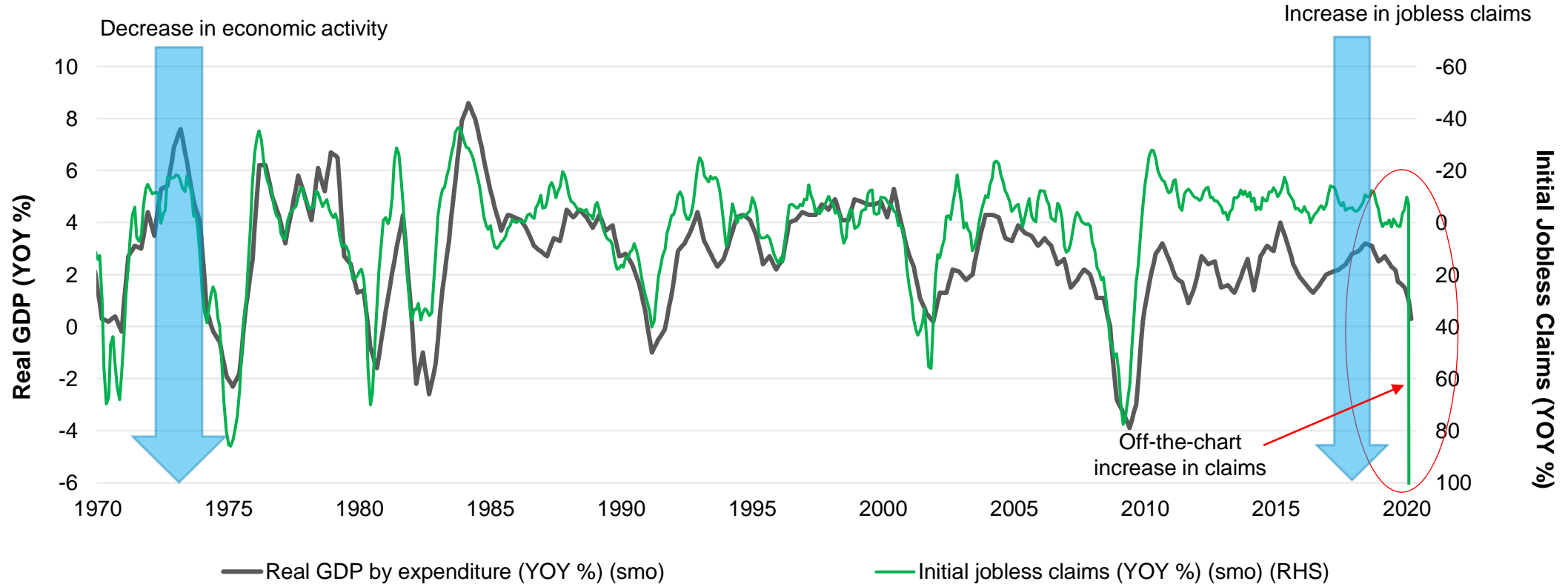
# RSM US Manufacturing Index and past recessions



Source: NBER; Bloomberg; RSM US Calculations

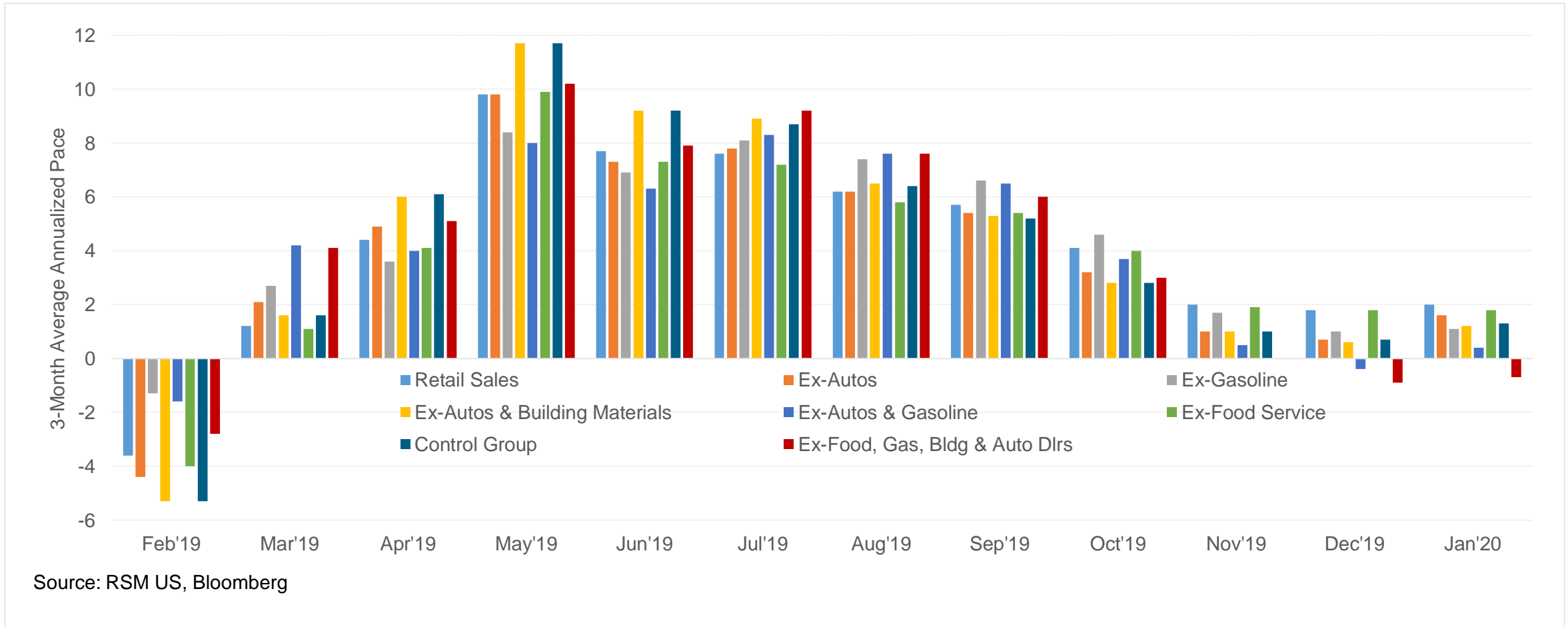
# Real GDP implications

Real GDP growth and growth of initial jobless claims since 1970  
(Year-over-year percent changes)

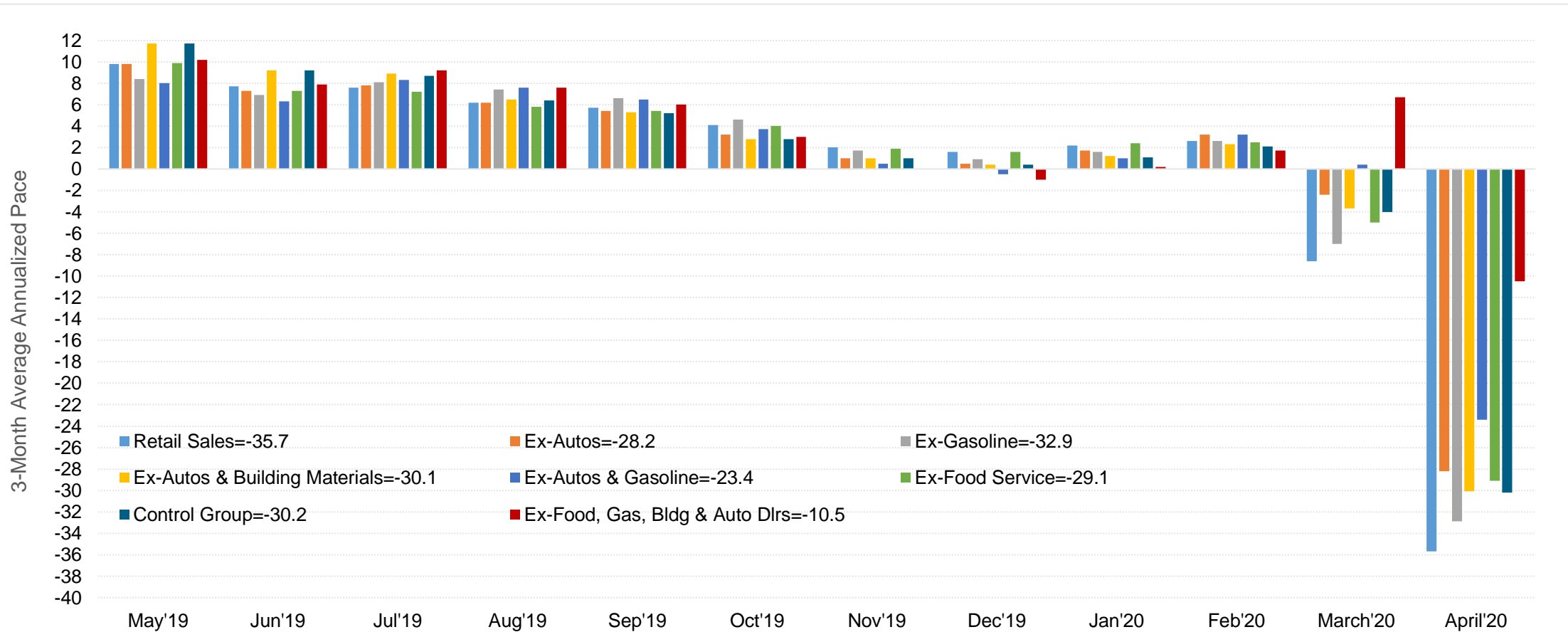


Source: BLS; Bloomberg; RSM US

# Retail sales and consumer spending: Pre-pandemic



# Retail sales during pandemic



Source: RSM US, Bloomberg

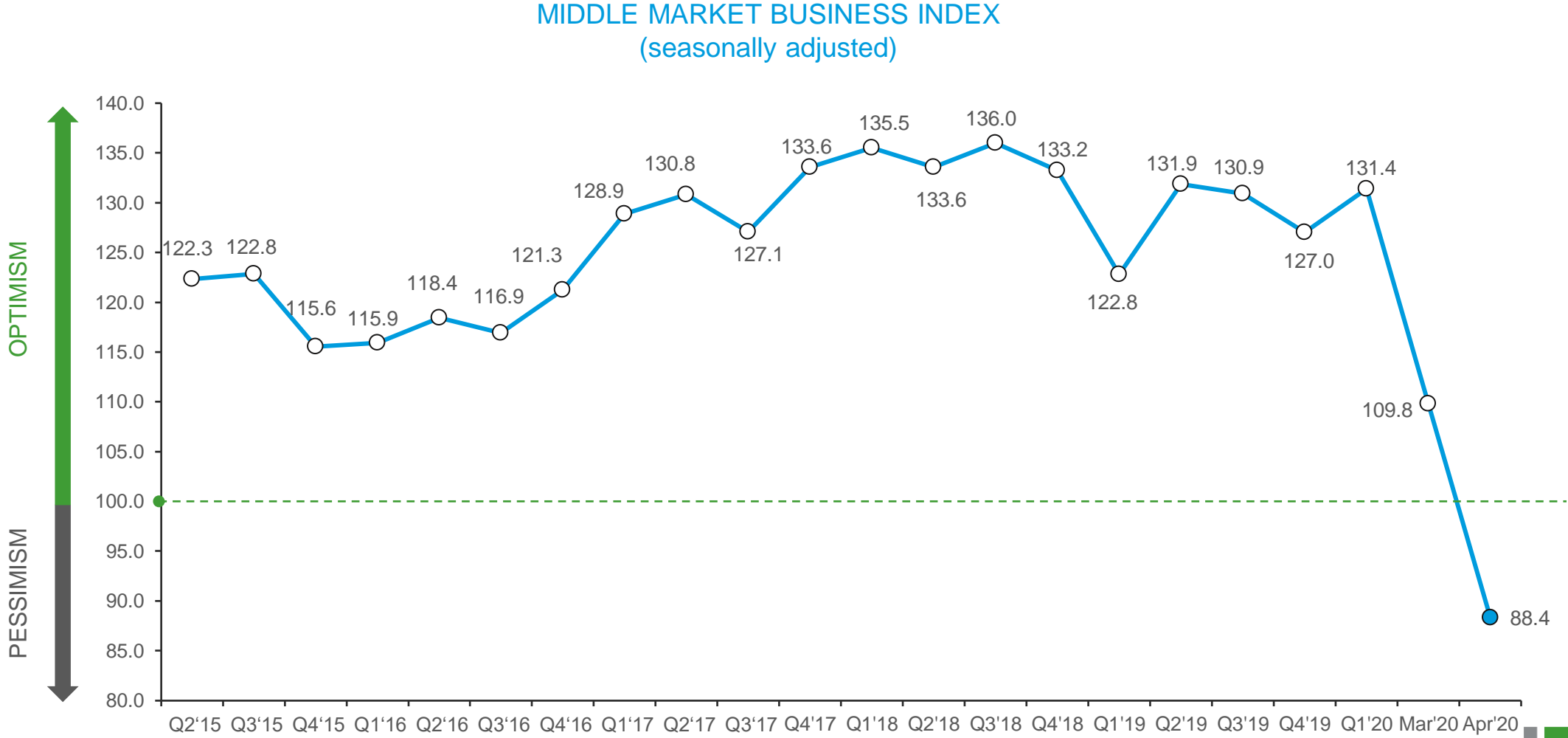
# Retail sales

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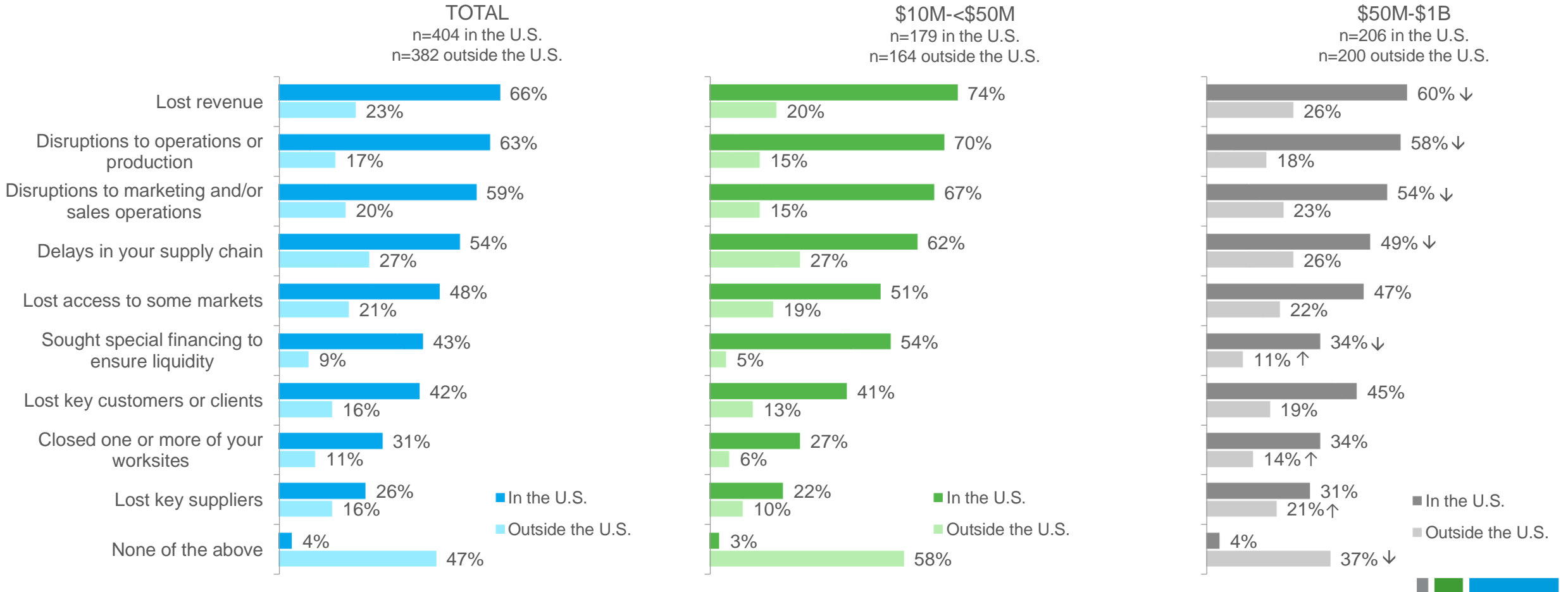
- **Dire results**

- 16.4% decline in topline retail sales
- Three-month avg. annualized pace – 35.7%
- Control group that feeds into GDP calculation – 30.2%
- Only positive data was increase of 8.4% in proxy for e-commerce

Middle market business conditions suffered significant declines sending the MMBI to a historical low of 88.4 in the April monthly reading from 109.8 in March



# ORGANIZATION EXPERIENCED BECAUSE OF COVID-19 PANDEMIC EITHER IN THE U.S. OR OUTSIDE THE U.S.



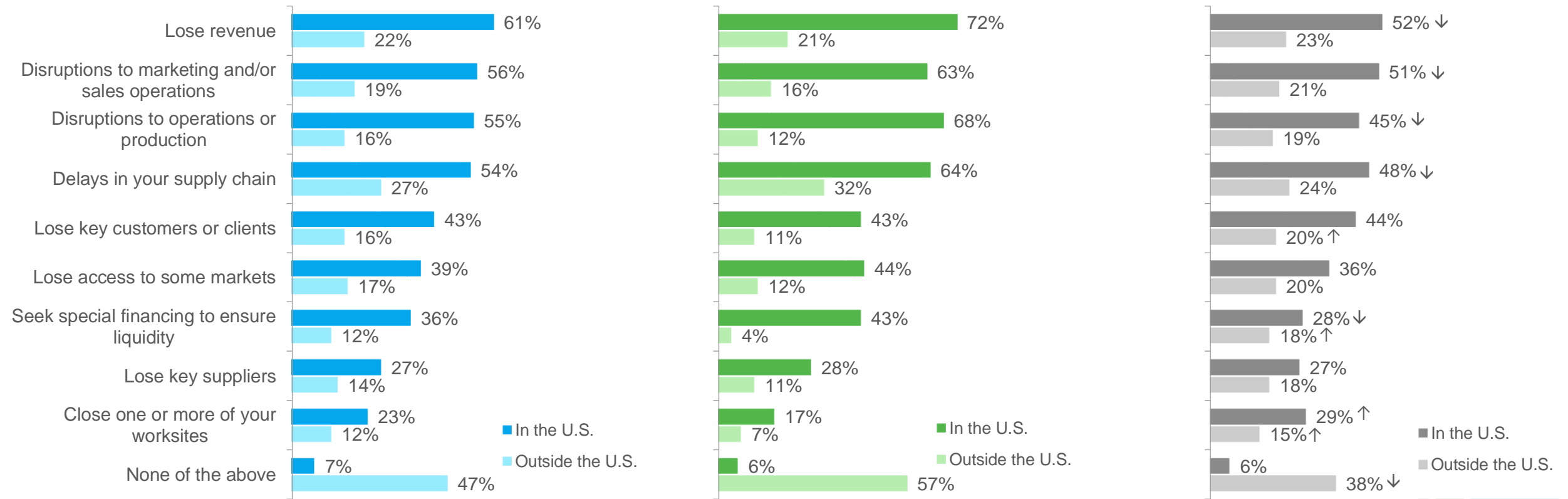
V1 Which, if any, of the following has your organization experienced because of the COVID-19 pandemic, either in the United States or outside the United States? Please select all that apply.

# ORGANIZATION ANTICIPATES HAPPENING OVER THE NEXT SIX MONTHS DUE TO COVID-19 PANDEMIC EITHER IN THE U.S. OR OUTSIDE THE U.S.

**TOTAL**  
n=402 in the U.S.  
n=382 outside the U.S.

**\$10M-<\$50M**  
n=179 in the U.S.  
n=165 outside the U.S.

**\$50M-\$1B**  
n=205 in the U.S.  
n=200 outside the U.S.



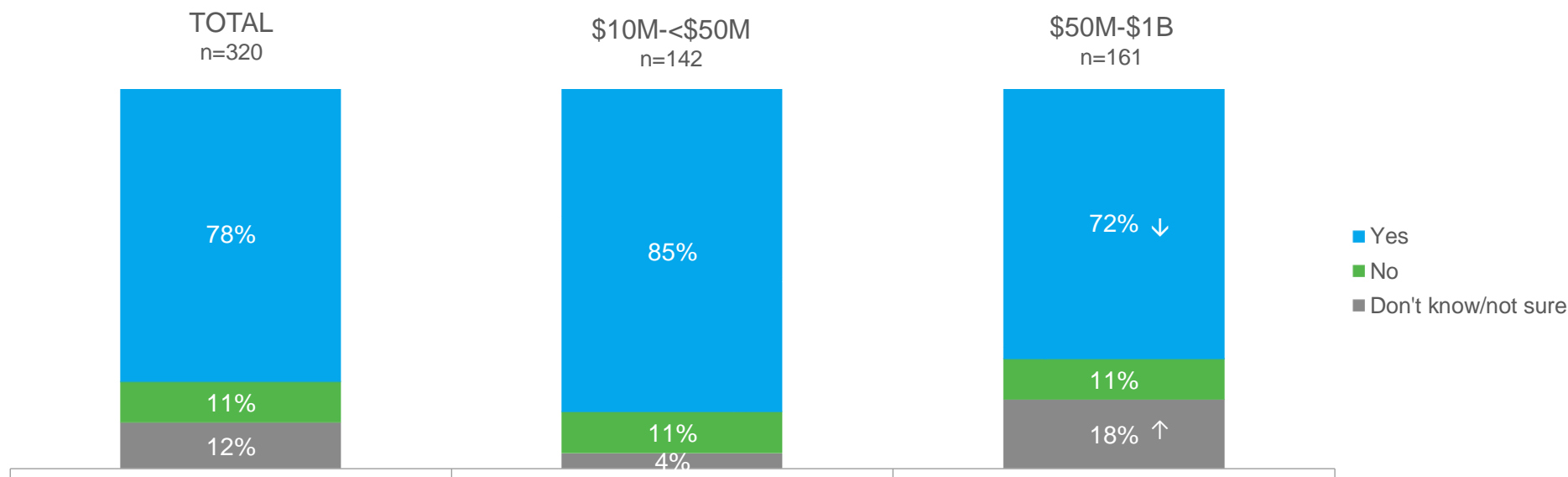
V2 Which, if any, of the following does your organization anticipate happening over the next six months due to the COVID-19 pandemic, either in the United States or outside the United States? Please select all that apply.



# ANTICIPATE ALL EMPLOYEES NOW WORKING REMOTELY AS DIRECT RESPONSE TO COVID-19 PANDEMIC WILL RETURN TO NORMAL WORK LOCATIONS WHEN COVID-19 PANDEMIC SUBSIDES

## ANTICIPATE ALL EMPLOYEES NOW WORKING REMOTELY AS DIRECT RESPONSE TO COVID-19 PANDEMIC WILL RETURN TO NORMAL WORK LOCATIONS WHEN COVID-19 PANDEMIC SUBSIDES

(BASE = more employees now working from home since emergence of COVID-19 pandemic)



V5 What percent of all your employees are **now working from home or other remote locations since the emergence of the COVID-19 pandemic**, including those who were working at home prior to COVID-19 concerns?

V6 Do you anticipate that all employees who are now working remotely as a direct response to the COVID-19 pandemic will return to their normal work locations when the COVID-19 pandemic subsides?

# Polling question

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- If you had to work remotely for an extended period of time, how much longer do you think you could effectively perform your job duties from home?
  - a) One month
  - b) Two months
  - c) Three months
  - d) Indefinitely

# Fiscal policy response: 11.4% of GDP (will get larger)

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- **What has been done**

- Phase 1: \$8.5 billion
  - Medical, Scientific, R&D, SBA Catastrophe Fund
- Phase 2: \$105 billion
  - Unemployment Insurance & Sick Leave
- Phase 3: \$2.2 Trillion
  - Composition
    - \$500 billion cash payout to individuals
    - \$350 billion in small business loans
    - \$425 billion bailout for industry
    - \$454 billion backstop for the Fed
- Phase 4: \$484 Billion
  - PPP, EDIL, small business, hospitals, testing R&D

# Monetary policy response

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- **Policy rate to zero**
  - Temporary yield targeting or capping yields likely
  - Negative rate policy not on table... yet
  - \$6 trillion in liquidity commitments
- **Restart quantitative easing: \$700 billion**
  - Large scale asset purchases to accelerate
- **Loans to banks at 0%**
- **Open trillion dollar swap lines**
- **Liquidity & lending facilities**
  - 9 different lending facilities
  - Main Street Lending Program

# Polling question

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- How ready are you to return to working from the office?
  - a) I prefer to return to working from the office
  - b) I prefer to continue working from home

# How long before US back to full production?

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- **How long?**

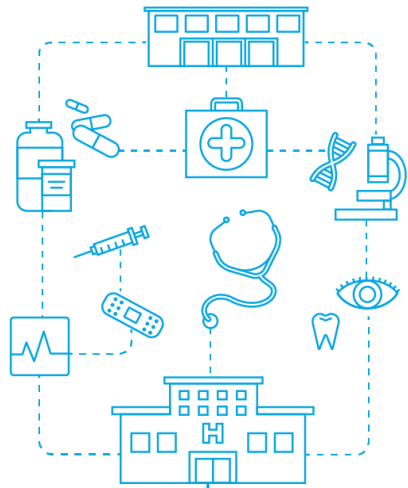
- Scenario one: single pandemic wave
  - US economy should begin to recover in Q4 2020
- Scenario two: second pandemic wave
  - US economy will endure regionalized lockdowns
  - Recovery in second half of 2021
- Scenario three: persistent pandemic waves
  - US economy will endure regionalized lockdowns
  - Recovery in 2022

- **Steps to *Fully* reopening economy**

- A consistent decrease in the number of cases
- The ability to test, isolate and trace
- Sufficient amount of health-care infrastructure available if re-emergence
- Effective therapy and vaccine available to entire population

# “There is the risk of permanent damage...” – Jerome Powell

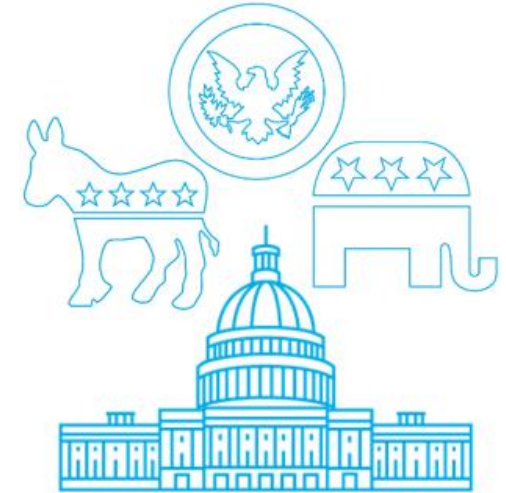
## Health & Public Safety



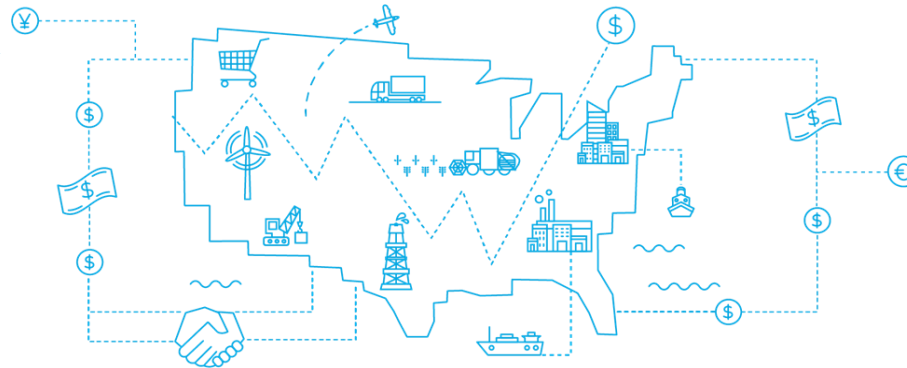
## Economic Preservation



## Political Views & Personal Freedoms

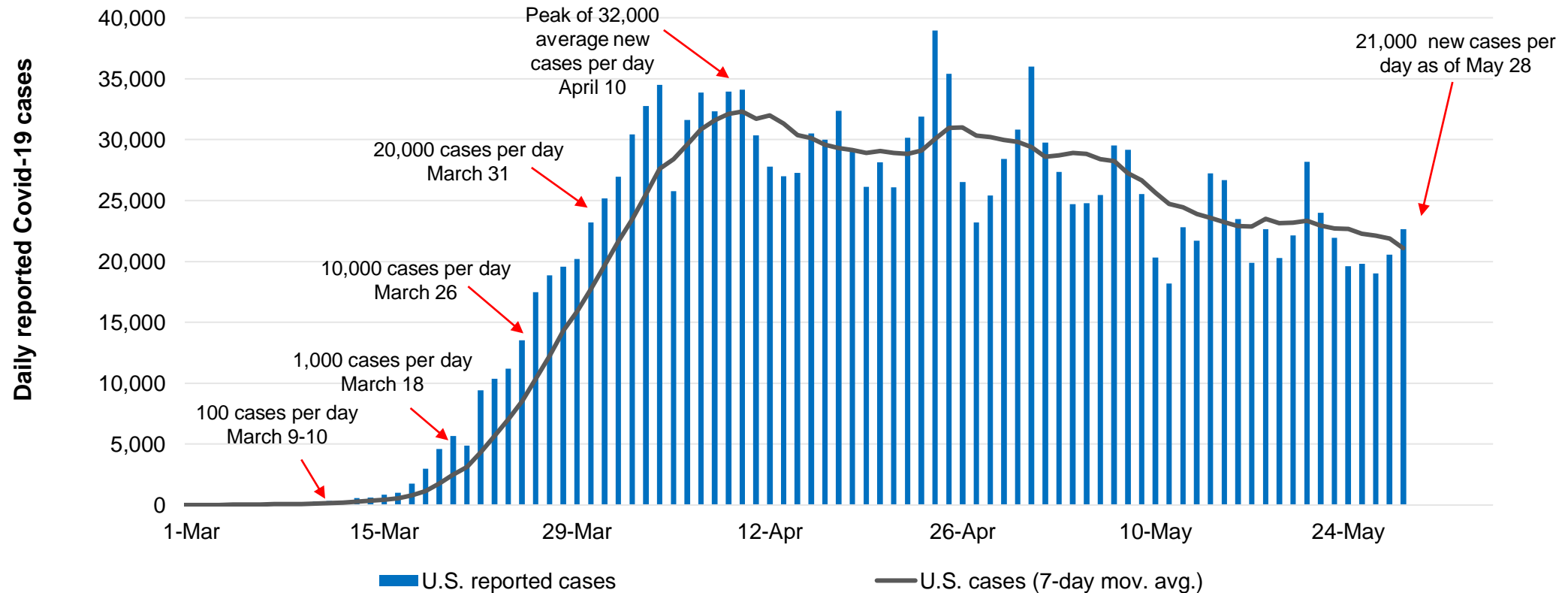


## Reopening the Economy



# US newly reported coronavirus cases

Daily and 7-day moving average of newly reported cases of COVID-19 infections

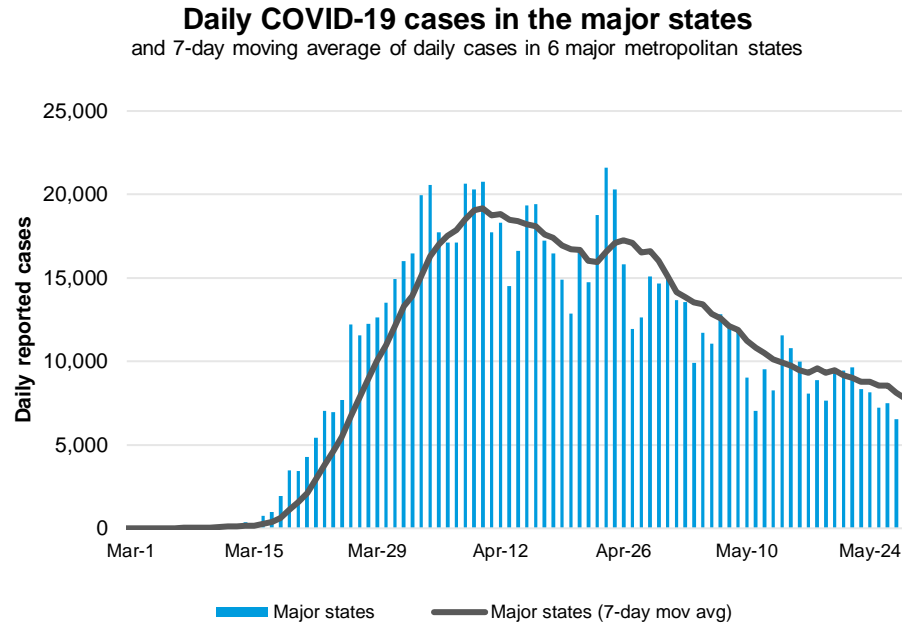


Sources: *Worldometers.info*; *RSM US*

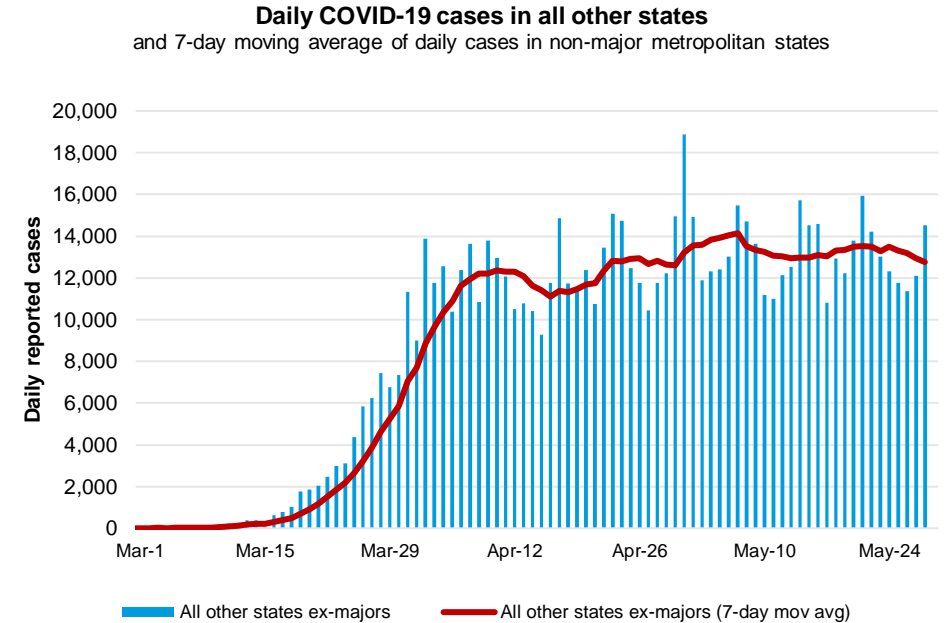


# Major States vs Other States

- Six states with 50,000+ cases: NY, NJ, IL, MA, CA, and PA
- Spread in metropolitan areas decelerating since early April
- Spread has been trending higher since early April in all other states



Source: Johns Hopkins; Bloomberg News; RSM US

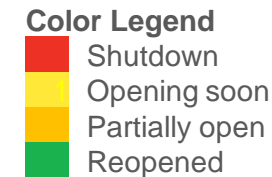
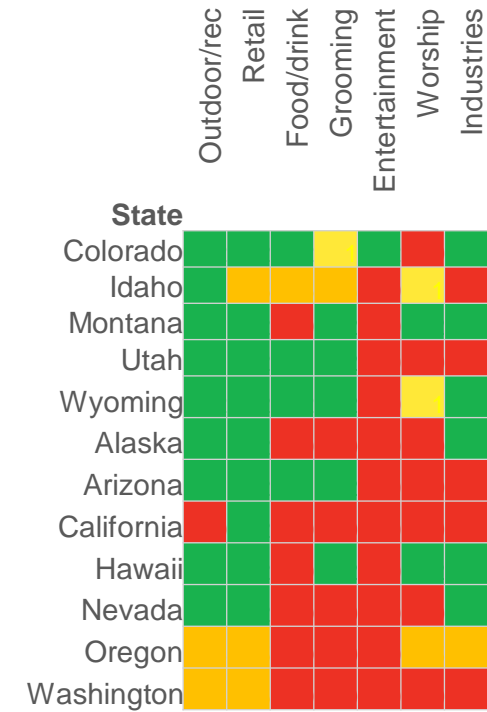
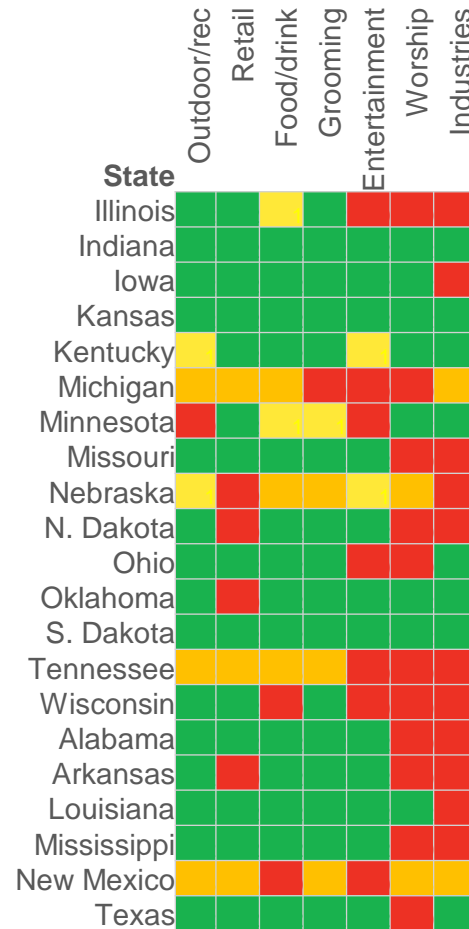
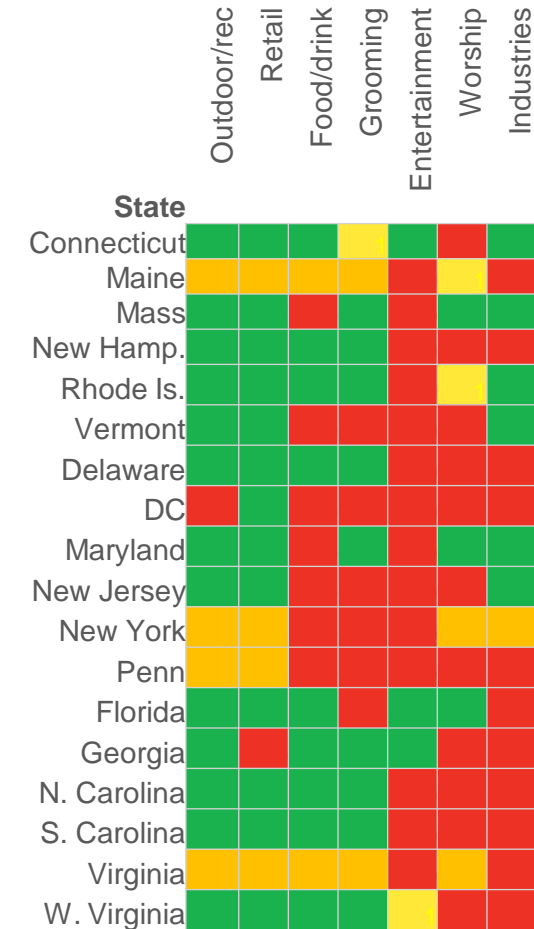


Source: Johns Hopkins; Bloomberg News; RSM US

# Stay-home restrictions

## States reopening status by sector

States continue to reopen and now most have loosened restrictions on retail activities and outdoor recreation, though the status of industries is more varied

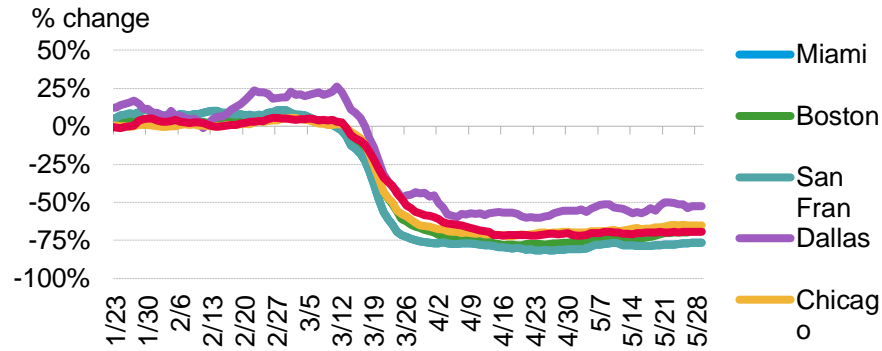


Source: BloombergNEF, New York Times, ABC News, U.S. Census; Note: Data as of May 27, 2020.



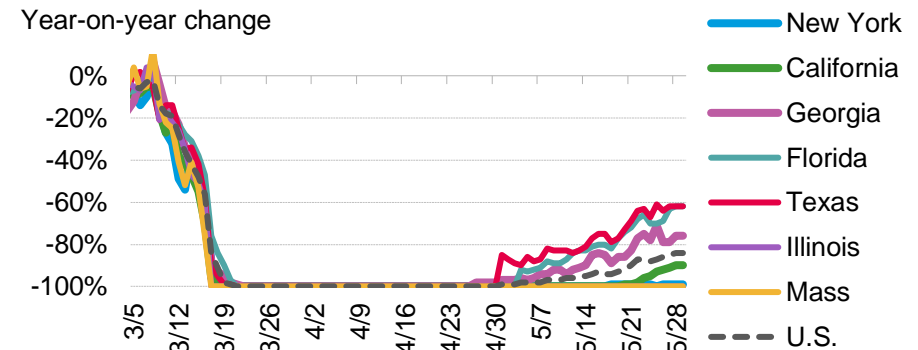
# Economic activity

## Public transport ridership



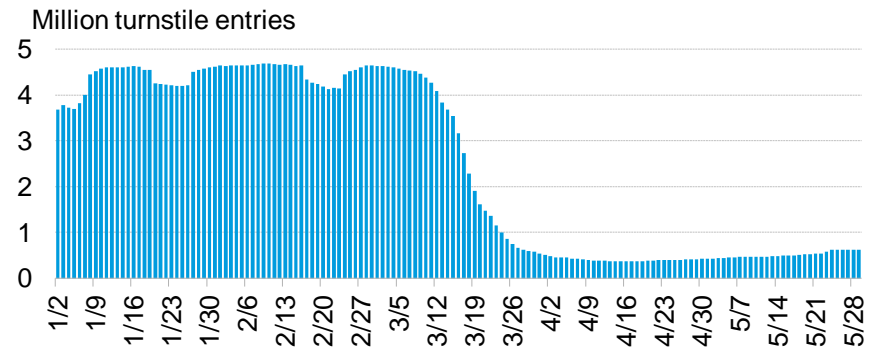
Source: Bloomberg, Moovit; Note: Data shows moving seven-day average Moovit app usage compared to a typical week before the outbreak began (the week prior to 1/15).

## Restaurant dine-in activity



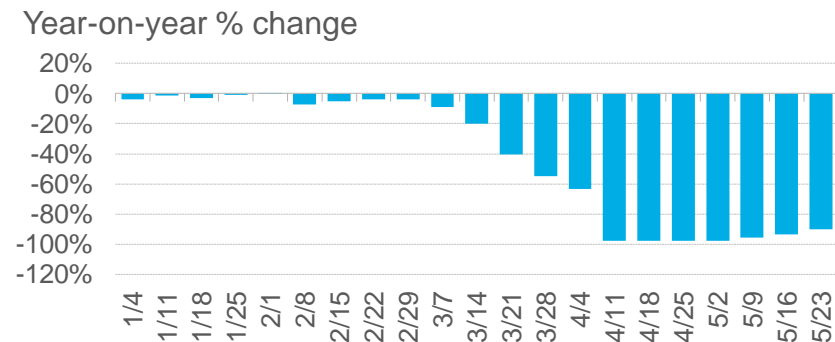
Source: Bloomberg, OpenTable

## Manhattan subway entries



Source: Bloomberg, New York City Metropolitan Transportation Authority

## Retail activity

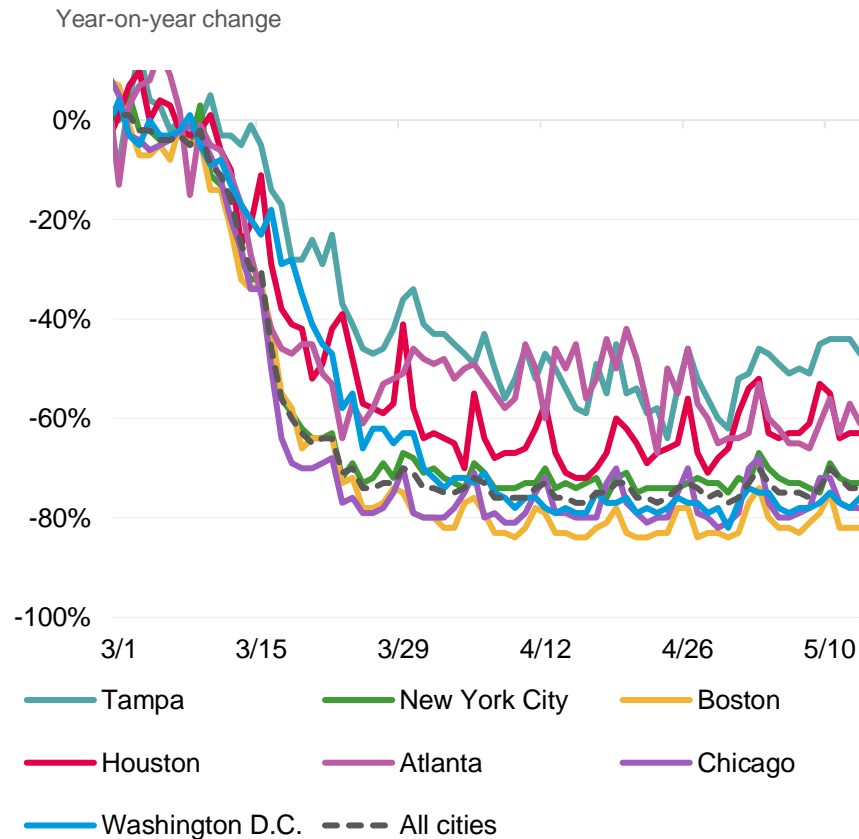


Source: Bloomberg, Prodcoc; Note: Data based on sensors mounted on doors at stores in the U.S. and Canada

# Economic activity

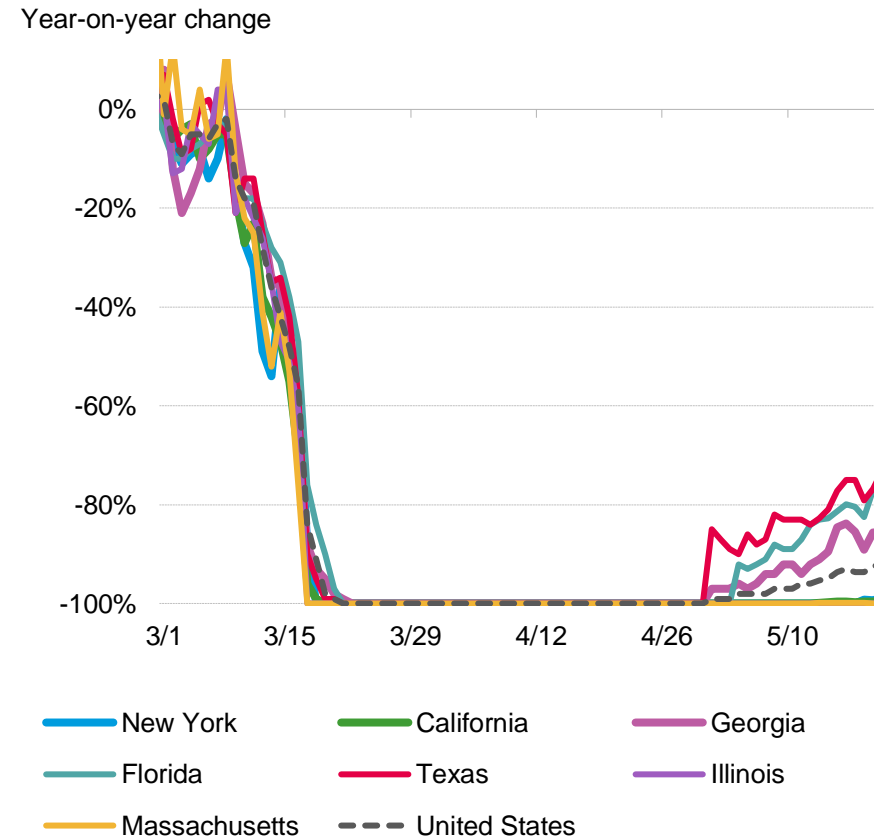
As states begin opening businesses, restaurant activity is picking up from Texas to Florida, but public transport in most cities is still muted

## Public transport ridership



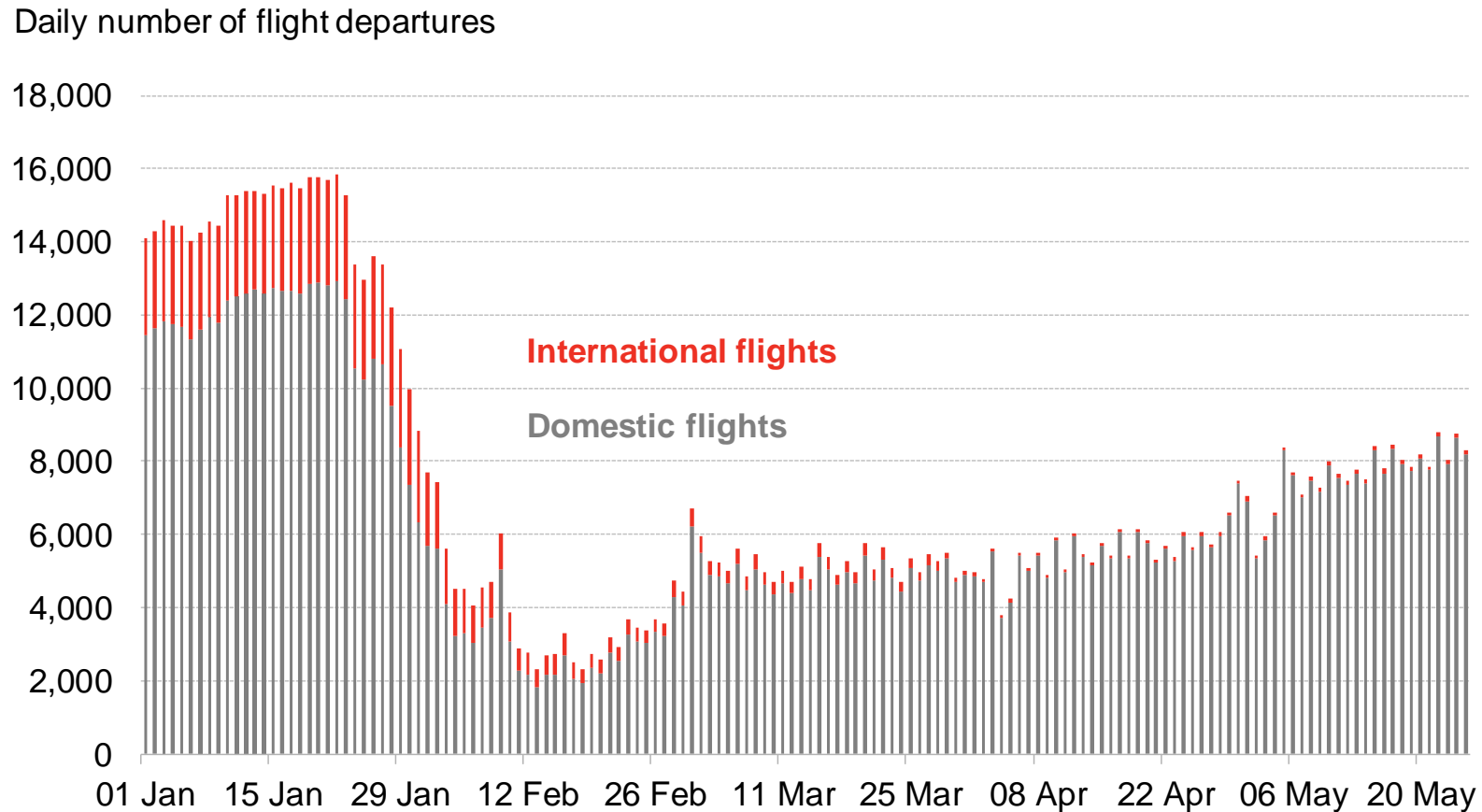
Source: TransitApp

## Restaurant dine-in activity



Source: OpenTable

# Flight departures: China



Source: BloombergNEF, FlightStats, Flightradar24

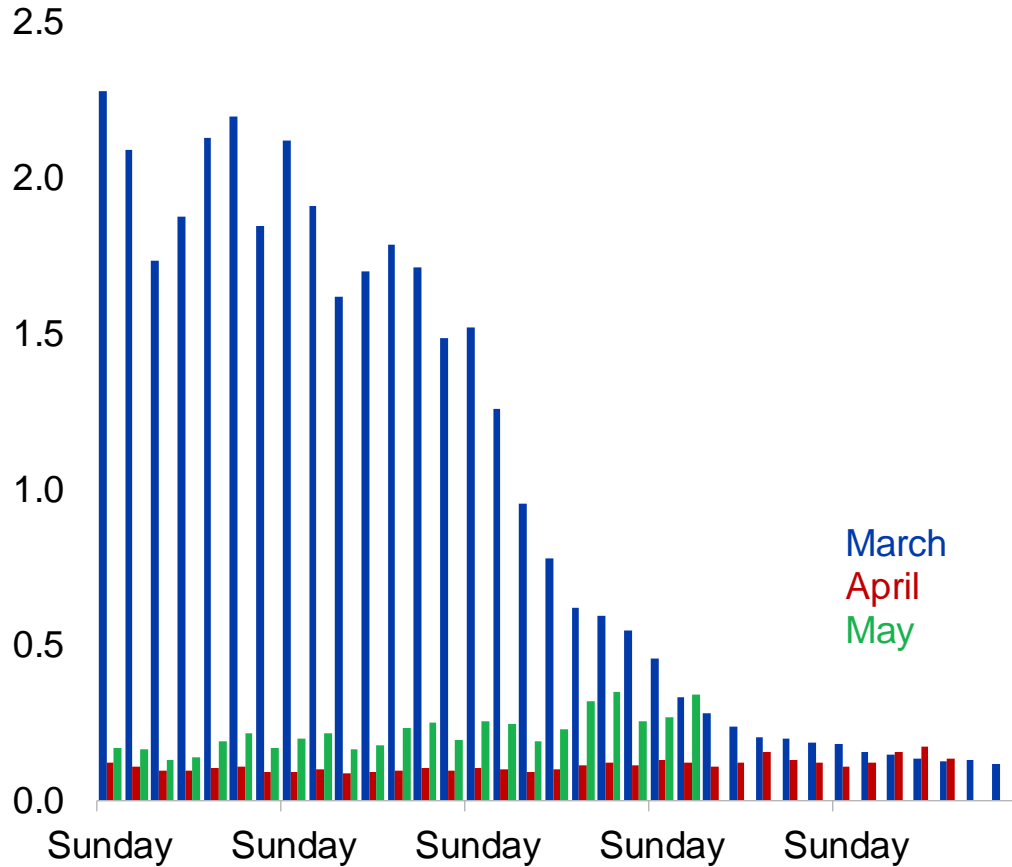
# Polling question

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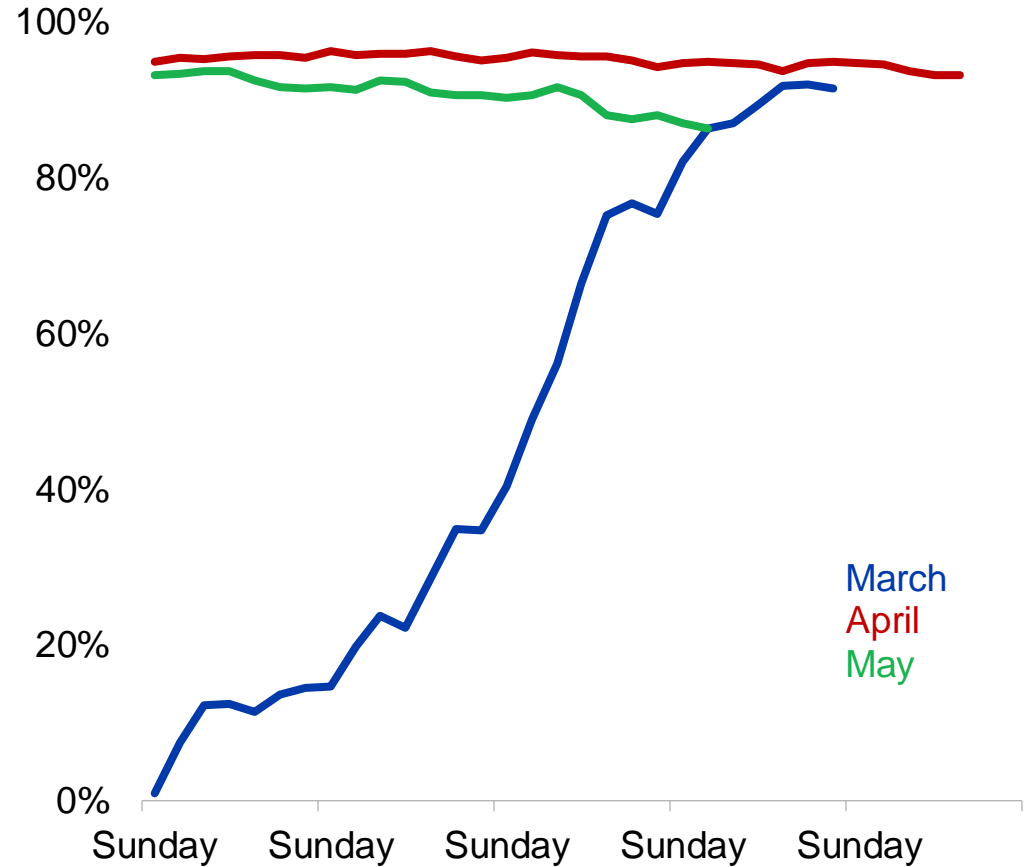
- When will you be comfortable traveling again?
  - a) Now
  - b) Soon
  - c) Not for a while

# U.S. Transportation Security Administration checkpoint traffic

Traveler throughput (million)



Decline year on year



Source: TSA, BloombergNEF



# US outlook: What could go right?

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## Positive themes

- **Growth acceleration**

- Business investment awakens
- Innovation takes off
- 5G changes current urban vs rural divide (new demand driven)
- Health care spending as a percentage of GDP drops

- **Employment growth solid**

- Unemployment rate at historic low
- Automation of jobs creates new, better employment opportunities (reconstitute)
- Wage growth resumes; household balance sheets very clean (top two quintiles)

- **Positive risks to the economic outlook**

- Peak polarization passes; collaboration defines coming decade
- Policy addresses key challenges; labor market, unbalanced growth



# Thank you!

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- For more information on these topics and more, visit our [Coronavirus Resource Center](#), updated on a daily basis.

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