



COVID-19: Insights and Guidance

An ABC webinar series featuring industry experts to answer your questions about the legal, safety and economic impacts of COVID-19.



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Return of the Economist



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Sage Policy Group, Inc.

On Behalf of
ABC

March 19th, 2020

Ring Verse

*Three Rings for the Elven-kings under the sky,
Seven for the Dwarf-lords in their halls of stone,
Nine for Mortal Men doomed to die,
One for the Dark Lord on his dark throne,
In the Land of Mordor where the Shadows lie,
One ring to rule them all, one ring to find them,
One ring to bring them all and in the darkness bind them*

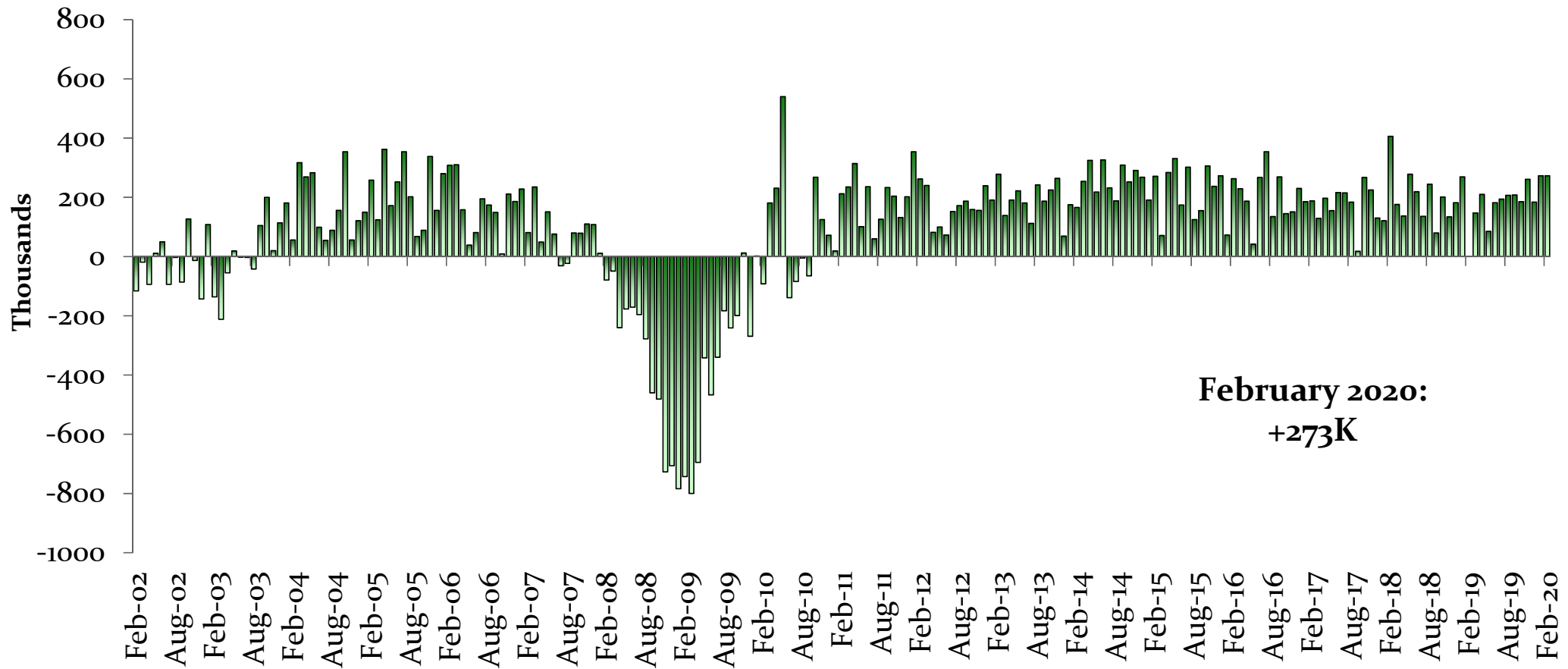


Nine Reasons for Hope in the Kingdom of Men (& Women)



I. There was Plenty of Job Growth on Middle Earth (OK, America)

Net Change in U.S. Jobs, February 2002 – February 2020



Employment Growth, 25 Largest Metros (NSA)

January 2019 v. January 2020 Percent Change

Rank	MSA	%	Rank	MSA	%
1	Dallas-Fort Worth-Arlington, TX	3.2	13	Washington-Arlington-Alexandria, DC-VA-MD-WV	1.4
1	Phoenix-Mesa-Scottsdale, AZ	3.2			
3	San Antonio-New Braunfels, TX	2.9	15	Portland-Vancouver-Hillsboro, OR-WA	1.3
4	Denver-Aurora-Lakewood, CO	2.8	15	San Diego-Carlsbad, CA	1.3
4	Orlando-Kissimmee-Sanford, FL	2.8	17	New York-Newark-Jersey City, NY-NJ-PA	1.2
6	Tampa-St. Petersburg-Clearwater, FL	2.7	18	Baltimore-Columbia-Towson, MD	1.1
7	Seattle-Tacoma-Bellevue, WA	2.2	18	Miami-Fort Lauderdale-West Palm Beach, FL	1.1
8	Charlotte-Concord-Gastonia, NC-SC	2.1	20	Boston-Cambridge-Nashua, MA-NH	0.8
9	Houston-The Woodlands-Sugar Land, TX	2.0	20	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	0.8
10	Atlanta-Sandy Springs-Roswell, GA	1.9	22	Detroit-Warren-Dearborn, MI	0.7
10	San Francisco-Oakland-Hayward, CA	1.9	23	Chicago-Naperville-Elgin, IL-IN-WI	0.6
12	Los Angeles-Long Beach-Anaheim, CA	1.6	23	St. Louis, MO-IL	0.6
13	Riverside-San Bernardino-Ontario, CA	1.4	25	Minneapolis-St. Paul-Bloomington, MN-WI	0.1

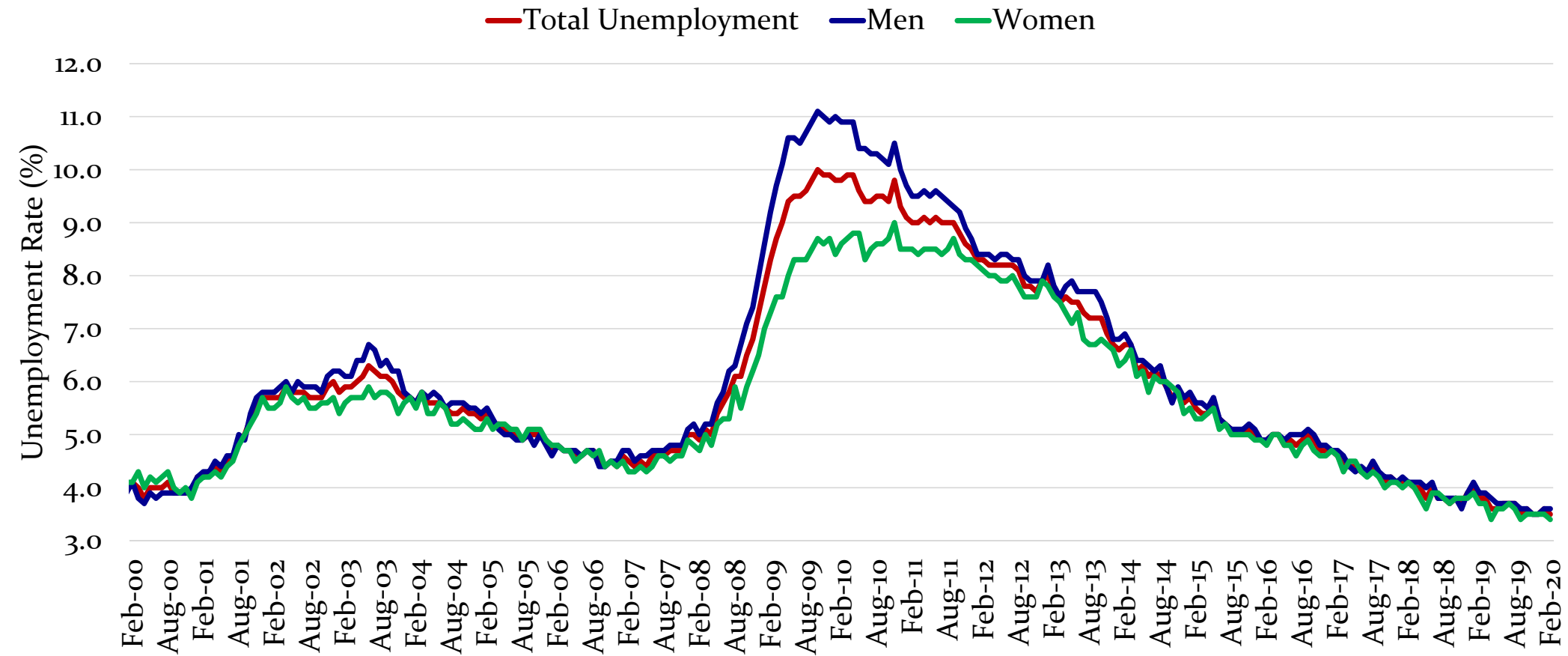
U.S. Year-over-year Percent Change

Jan: +1.4% Feb: +1.6%

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics (CES) Survey

II. Fewer Idle in the Shire

U.S. Unemployment Rate, February 2000 – February 2020



Unemployment Rates, 25 Largest Metros (NSA)

December 2019

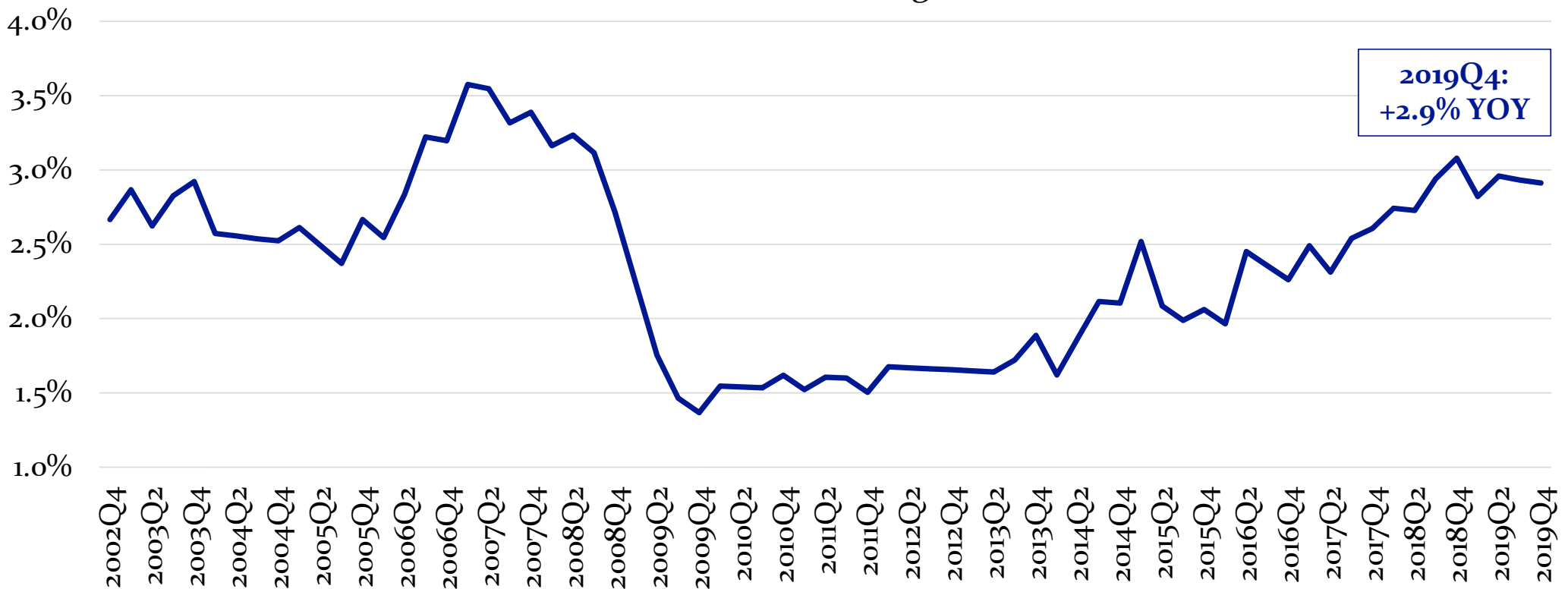
Rank	MSA	%	Rank	MSA	%
1	Boston-Cambridge-Nashua, MA-NH	2.1	13	Baltimore-Columbia-Towson, MD	2.9
2	Miami-Fort Lauderdale-West Palm Beach, FL	2.2	13	Dallas-Fort Worth-Arlington, TX	2.9
2	San Francisco-Oakland-Hayward, CA	2.2	15	Minneapolis-St. Paul-Bloomington, MN-WI	3.0
4	Denver-Aurora-Lakewood, CO	2.3	16	Charlotte-Concord-Gastonia, NC-SC	3.1
5	Orlando-Kissimmee-Sanford, FL	2.5	17	Chicago-Naperville-Elgin, IL-IN-WI	3.2
6	Tampa-St. Petersburg-Clearwater, FL	2.6	18	St. Louis, MO-IL	3.3
6	Washington-Arlington-Alexandria, DC-VA-MD-WV	2.6	19	New York-Newark-Jersey City, NY-NJ-PA	3.4
8	Atlanta-Sandy Springs-Roswell, GA	2.7	20	Riverside-San Bernardino-Ontario, CA	3.5
8	Seattle-Tacoma-Bellevue, WA	2.7	21	Houston-The Woodlands-Sugar Land, TX	3.6
10	Portland-Vancouver-Hillsboro, OR-WA	2.8	21	Los Angeles-Long Beach-Anaheim, CA	3.6
10	San Antonio-New Braunfels, TX	2.8	23	Detroit-Warren-Dearborn, MI	3.7
10	San Diego-Carlsbad, CA	2.8	23	Phoenix-Mesa-Scottsdale, AZ	3.7
			25	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	4.0

U.S. Unemployment Rate: 3.5%

III. Gold Aplenty

Growth in Wages & Salaries, U.S. Employment Cost Index (ECI), 2002Q4 – 2019Q4

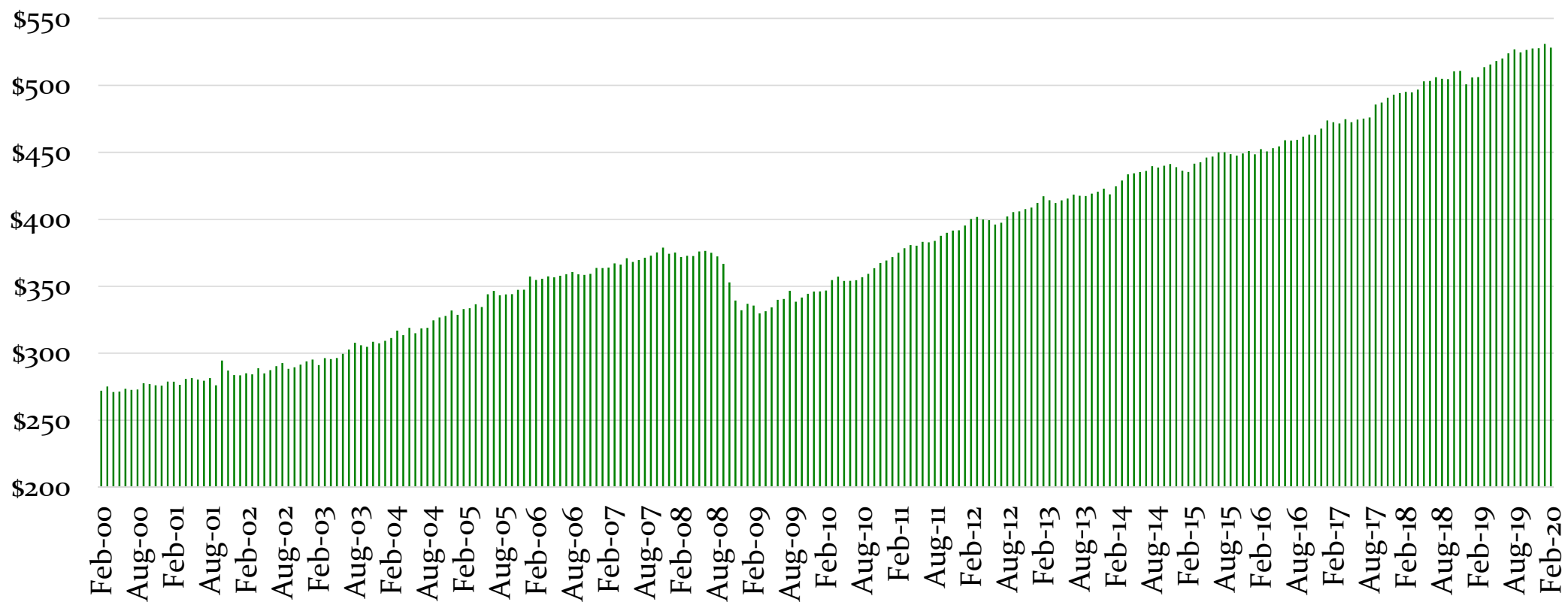
ECI for Wages & Salaries
12-Month % Change



IV. In the Baggins!

U.S. Retail Sales, February 2000 – February 2020

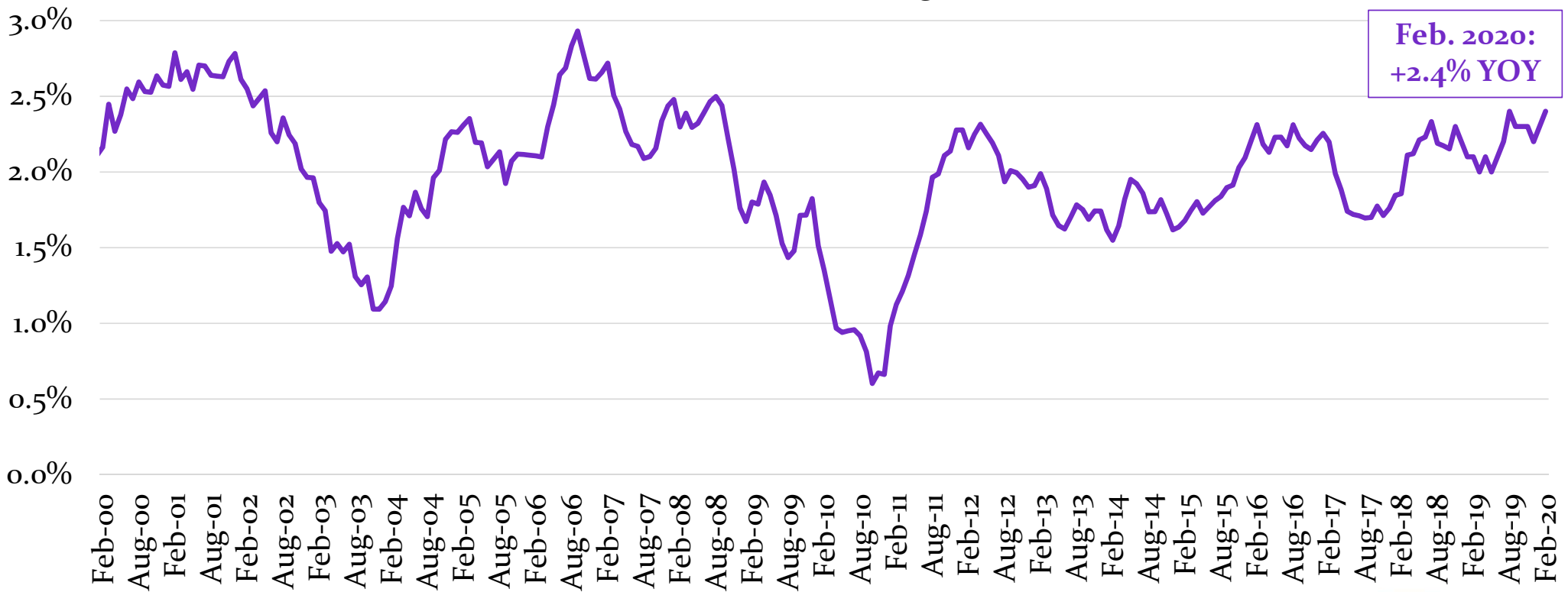
Retail Sales (\$Billions)



V. Your Gold Coins Go Further

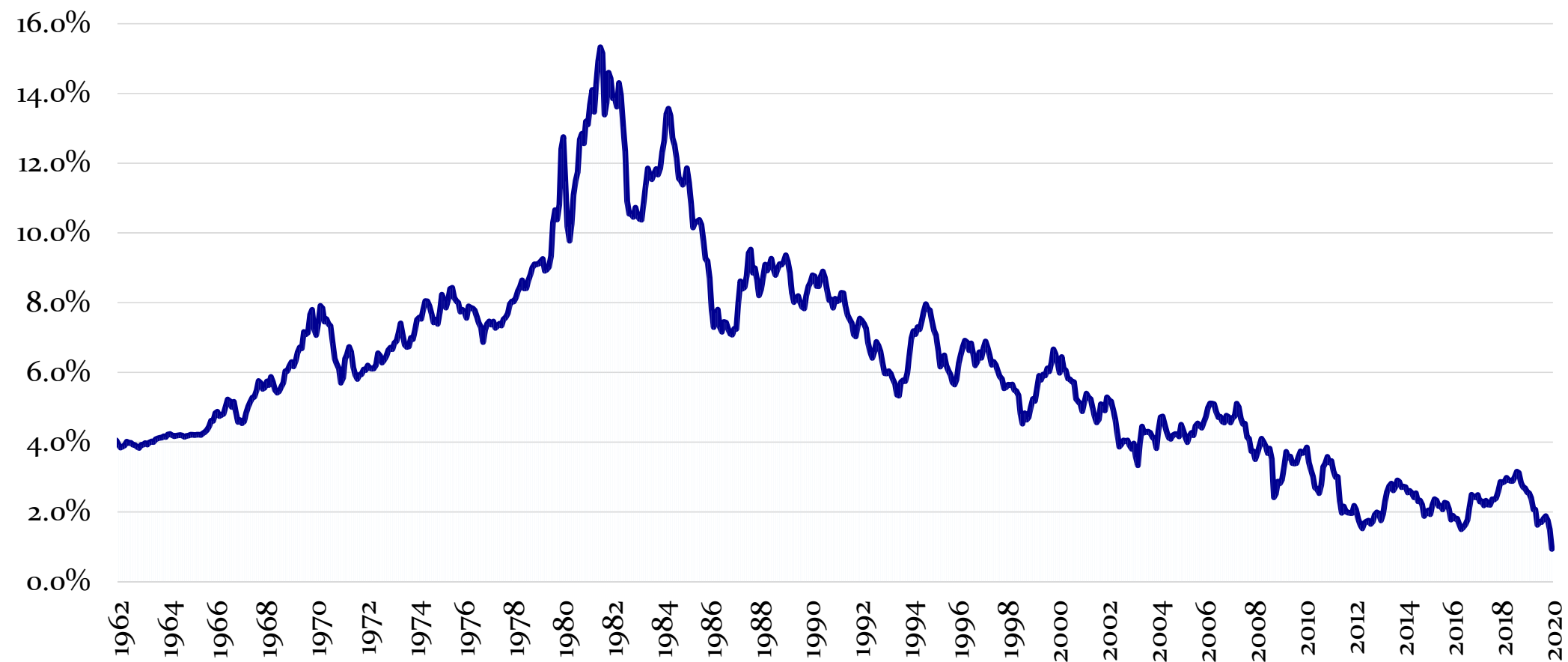
Consumer Price Index: All Items Less Food & Energy, February 2000 – February 2020

Core CPI (All Items Less Food & Energy)
12-Month % Change



VI. Interest Rates are Hobbit-Sized

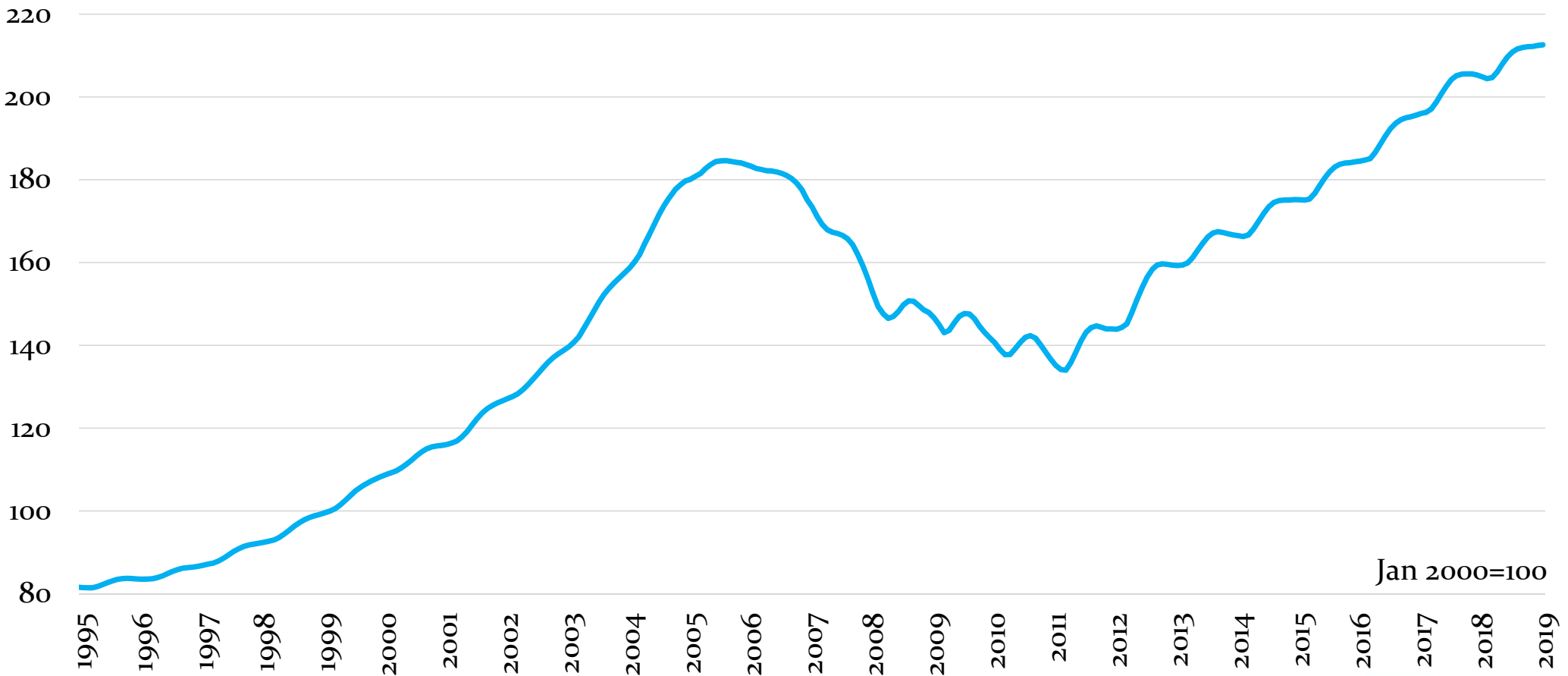
*U.S. 10-Year Treasury Constant Maturity Rate, 1962 – 2020**



*Week ending 3/13/2020

VII. Property Values Had Been Rising in Middle East

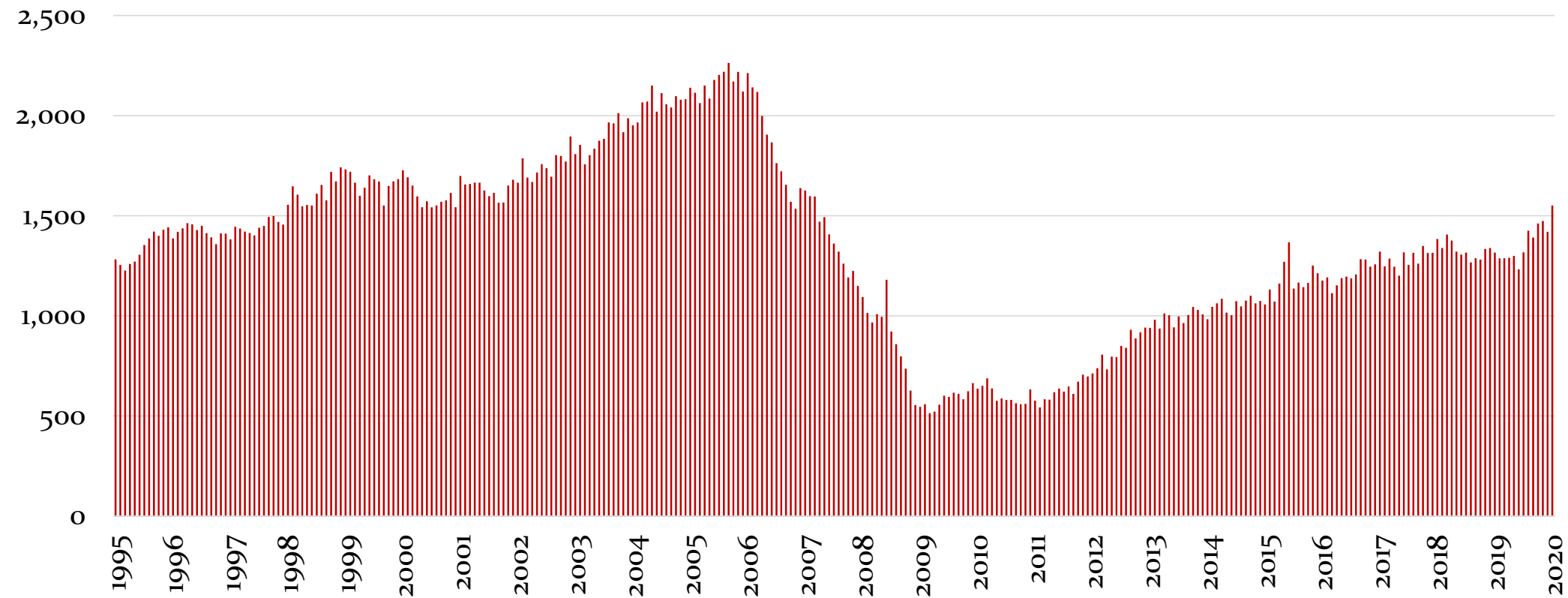
S&P Case-Shiller U.S. National Home Price Index, December 1995 – December 2019



VIII. The Kingdom is Under Construction

U.S. Residential Building Permits, January 1995 – January 2020

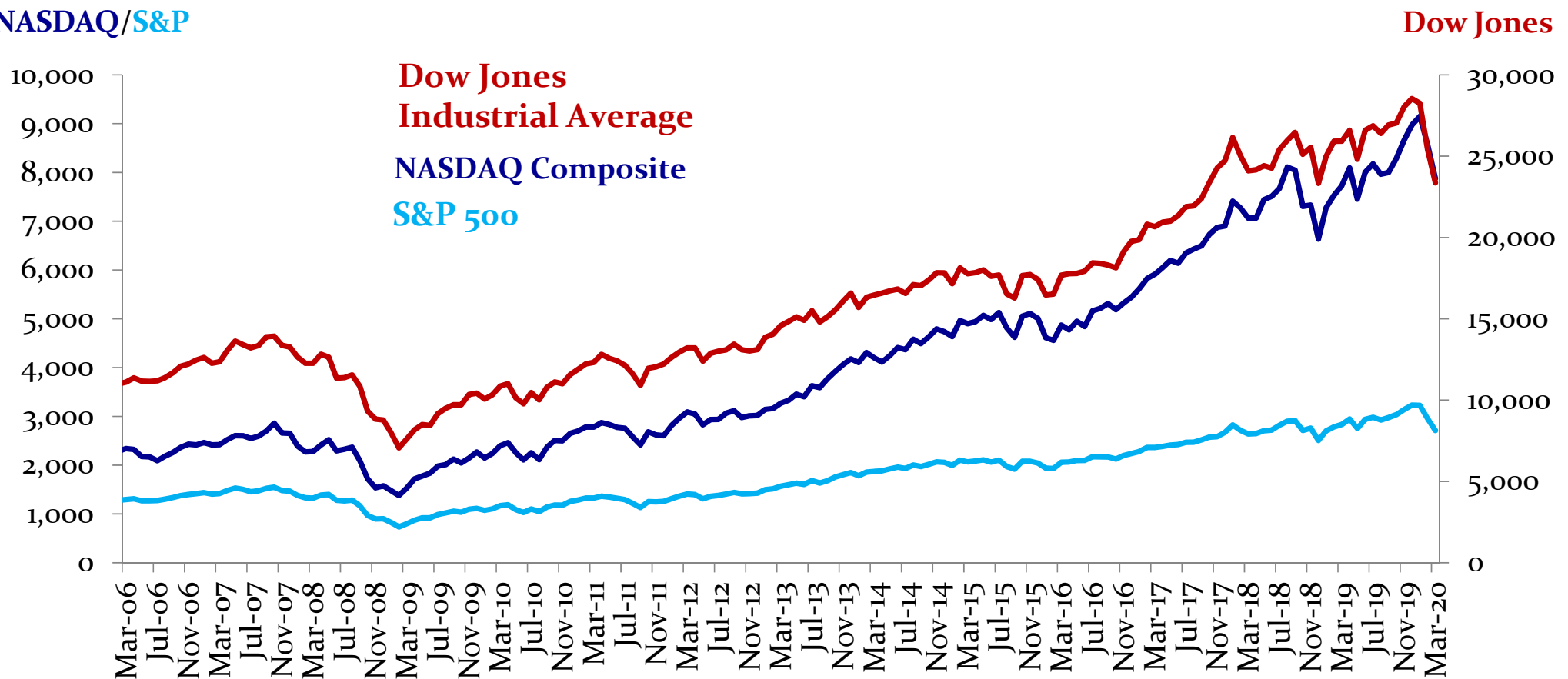
Building Permits (ooos of Units)



IX. But It Goes to Eleven

*U.S. Stock Markets, March 2006 – March 2020**

NASDAQ/S&P



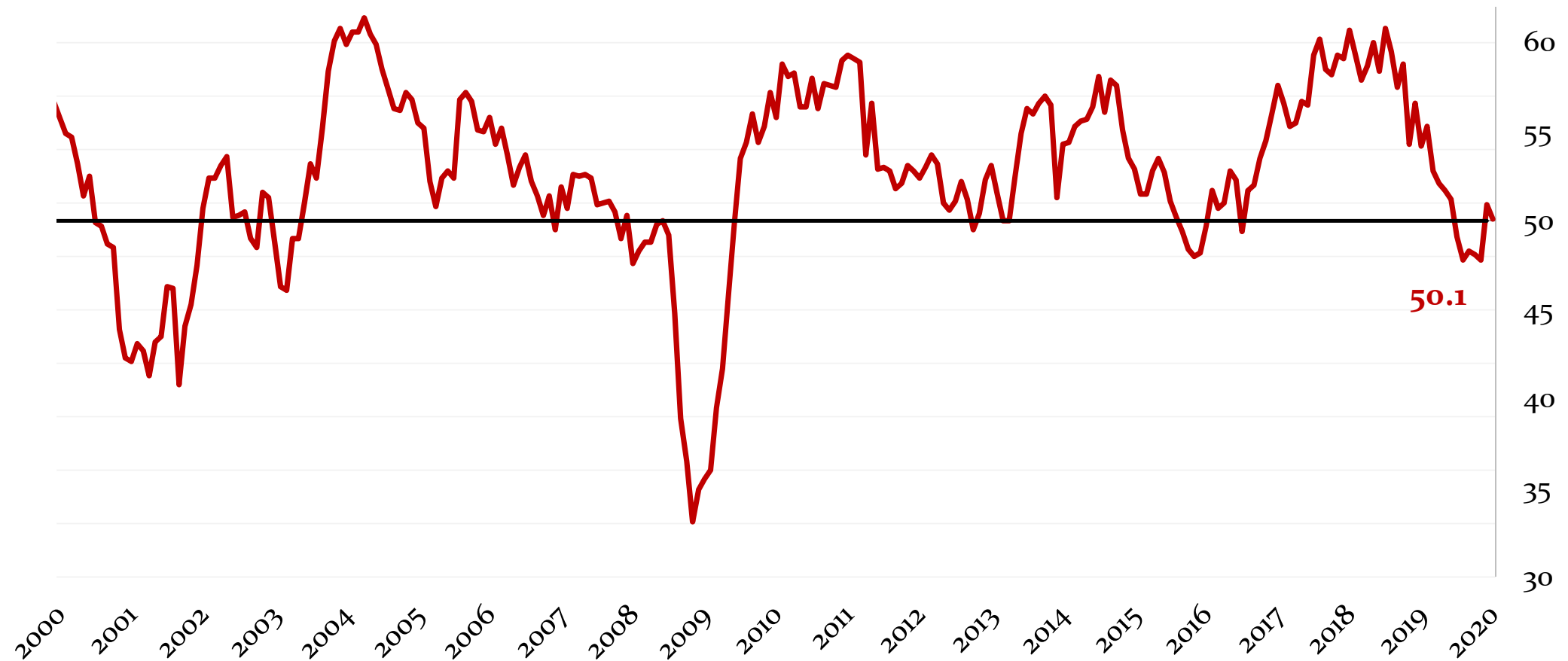
*Week ending 3/13/2020

Seven Factors Dwarfing Hope



I. Manufacturing Doth Decline

Institute of Supply Management: Purchasing Managers Index (PMI), 2000 – 2020



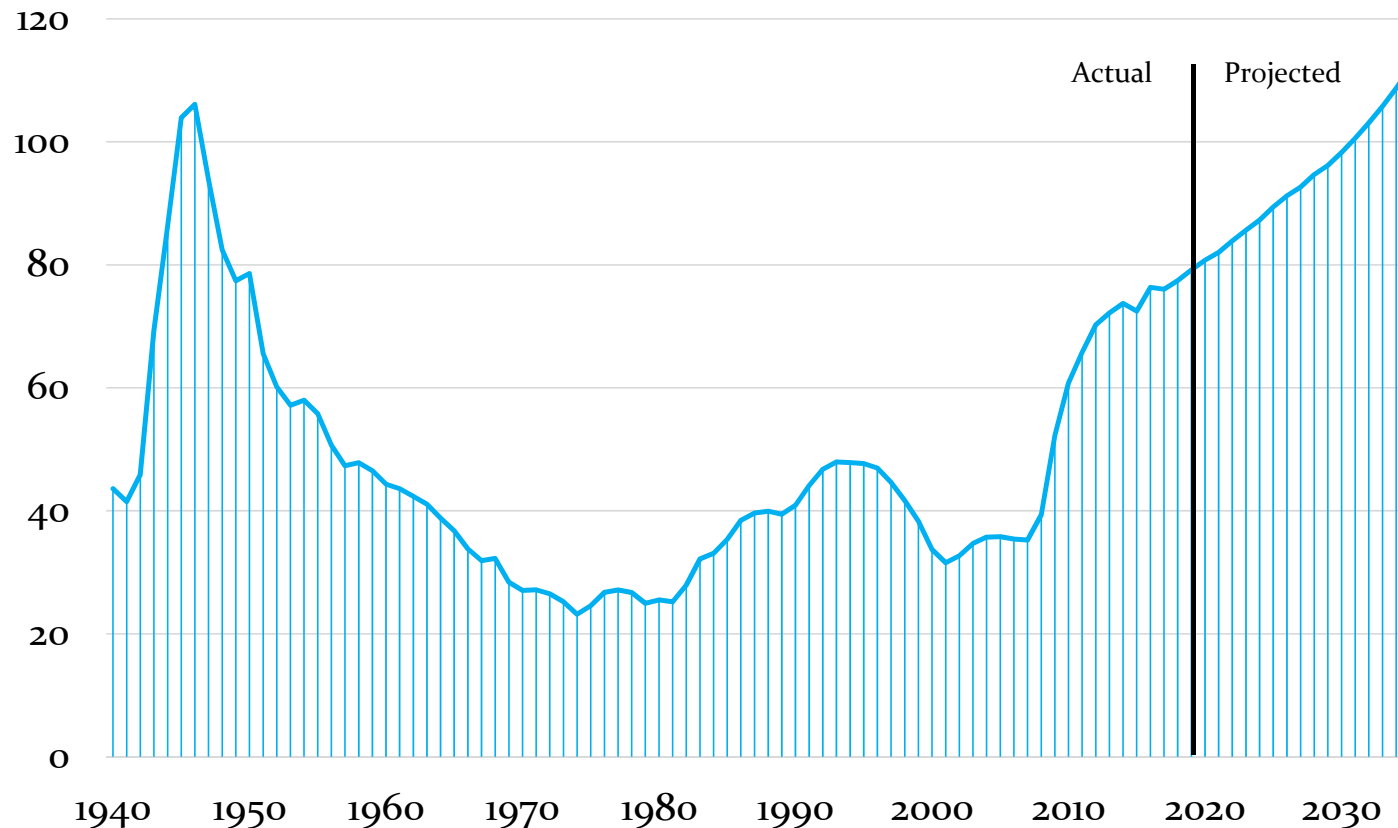
*A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

Source: Institute of Supply Management; Quandl.com

II. A Tower of National Debt

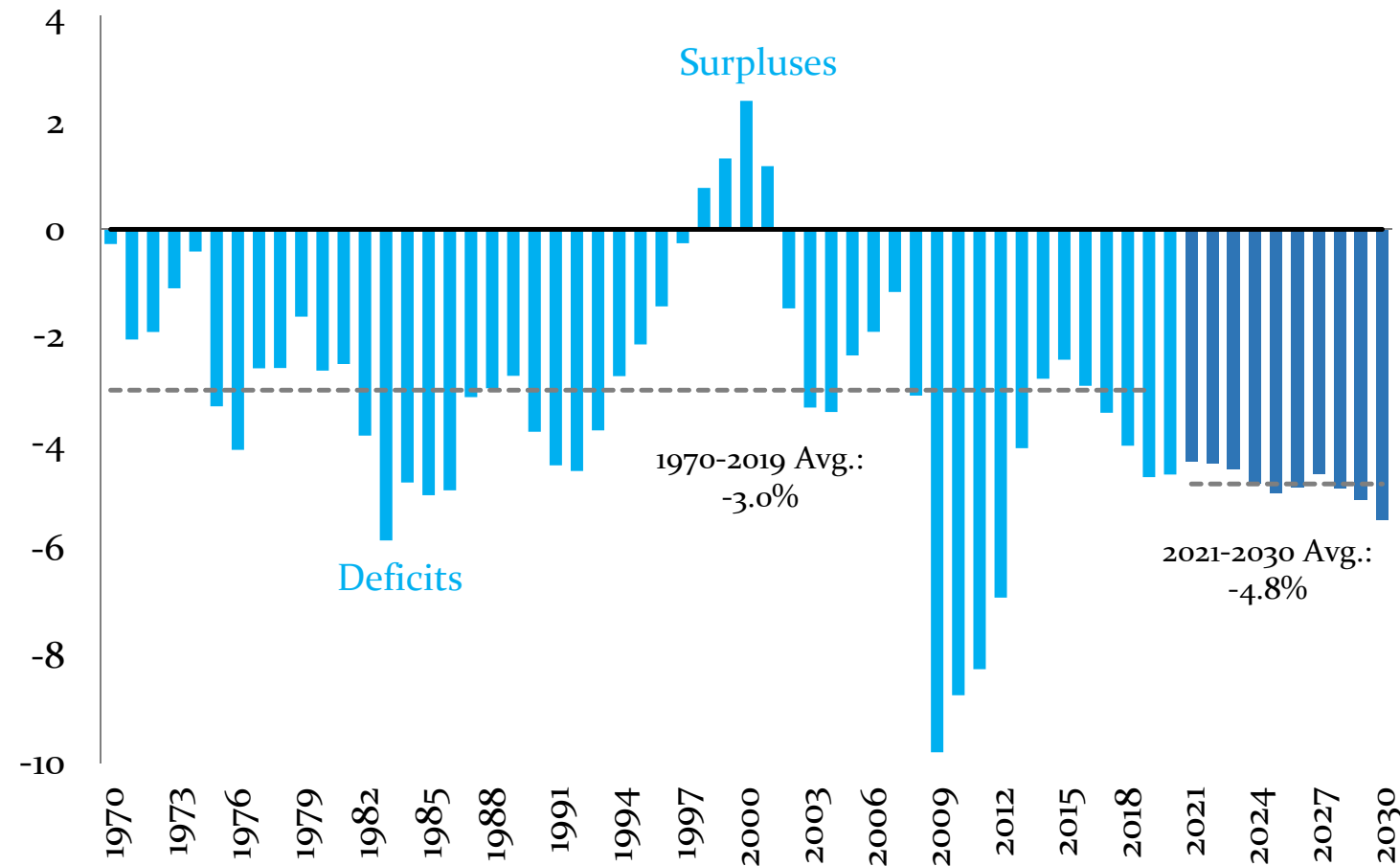
U.S. Federal Debt Held by the Public, % of GDP

Federal Debt Held by the Public (% of GDP)



- Relative to the size of the economy, federal debt in 2020 is projected to be nearly twice its average over the past 50 years.
- At the end of 2033, debt is projected to reach a higher level than it has at any point since just after World War II.

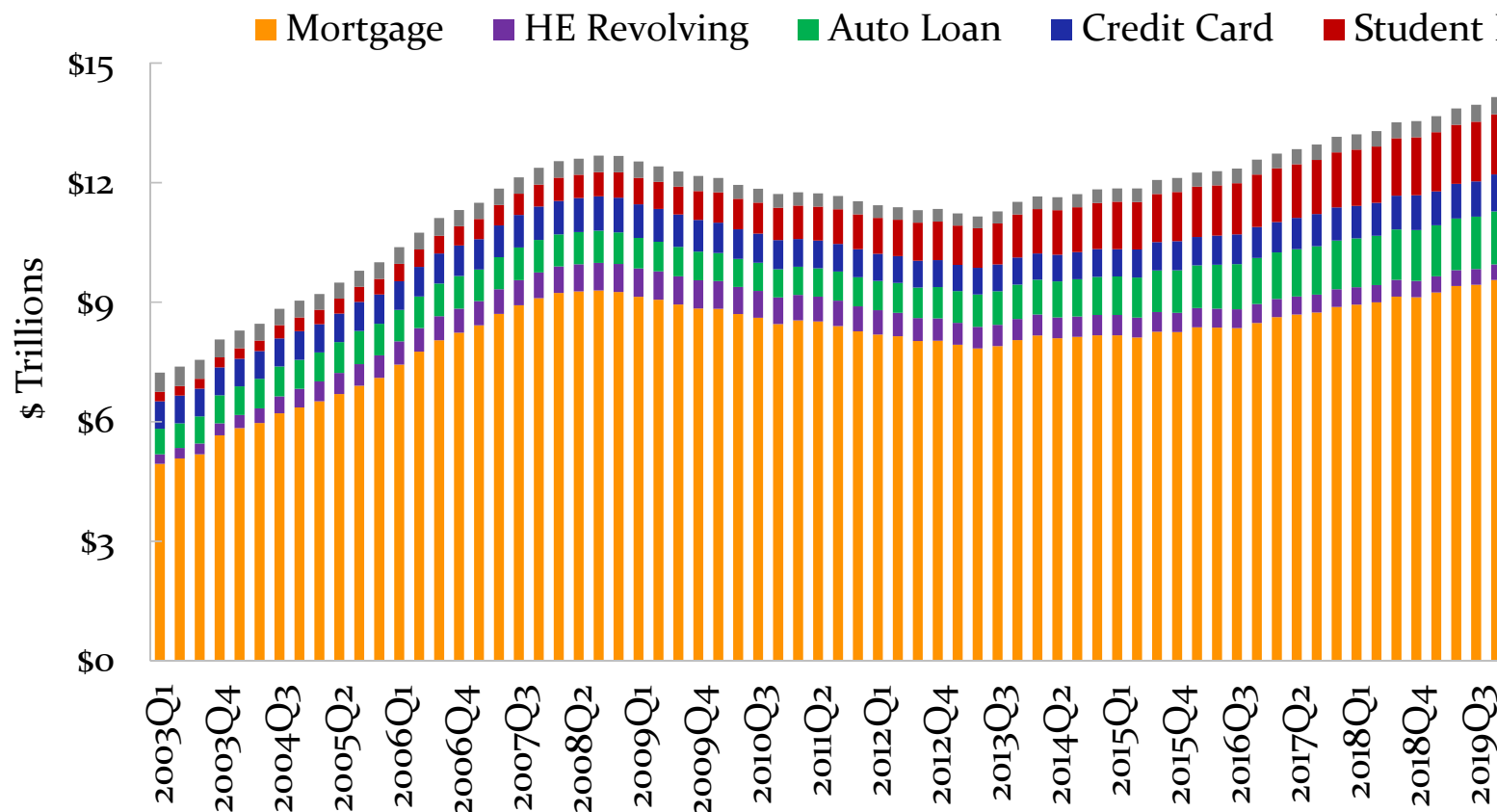
U.S. Federal Deficit, % of GDP



- Over the 2021–2030 period, deficits are projected to average 4.8% of GDP, totaling \$13.1 trillion.
- Over the past 50 years, deficits averaged just 3.0% of GDP.

III. A Mountain of Consumer Debt, Too

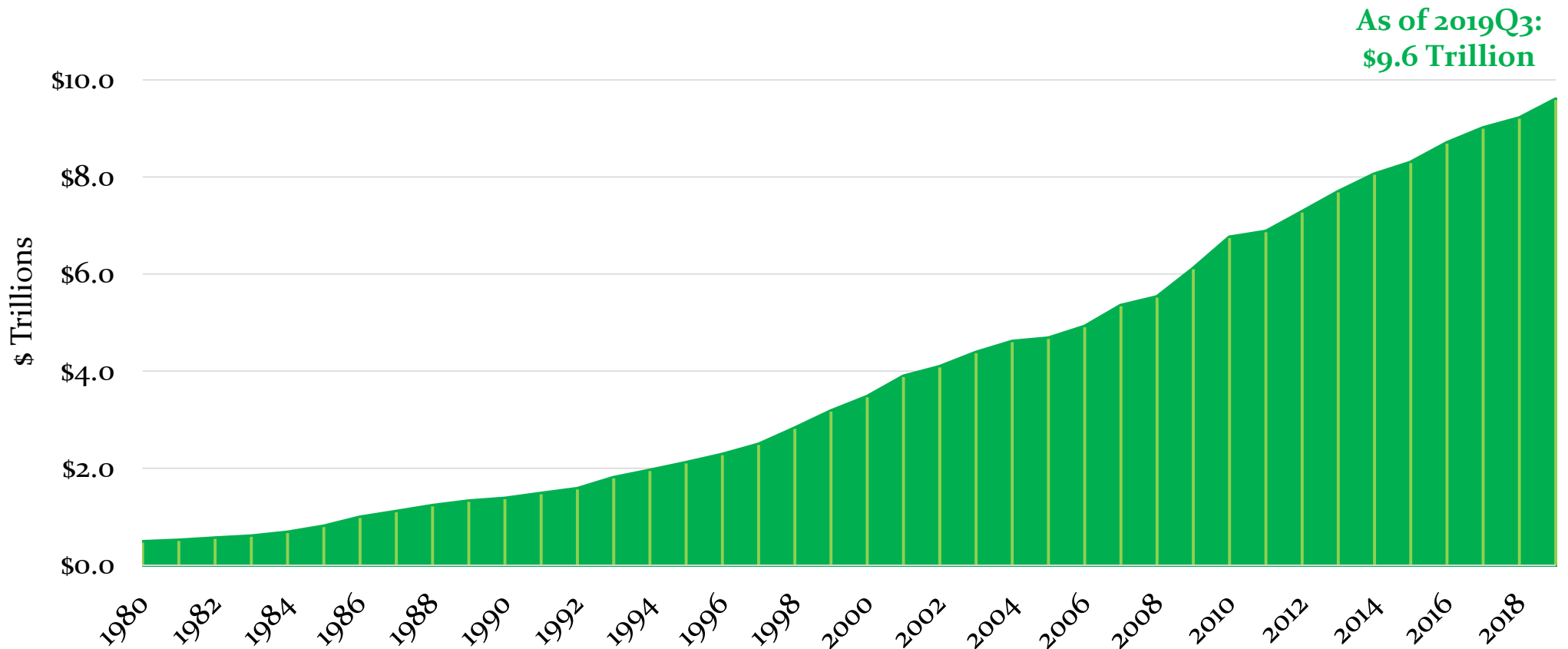
Total U.S. Household Debt, 2003 – 2019



Debt balances have been rising steadily for 5 years and are now \$1.5 trillion higher than the previous peak in 2008Q3 of \$12.7 trillion. Overall household debt is 26.8% above the 2013Q2 trough.

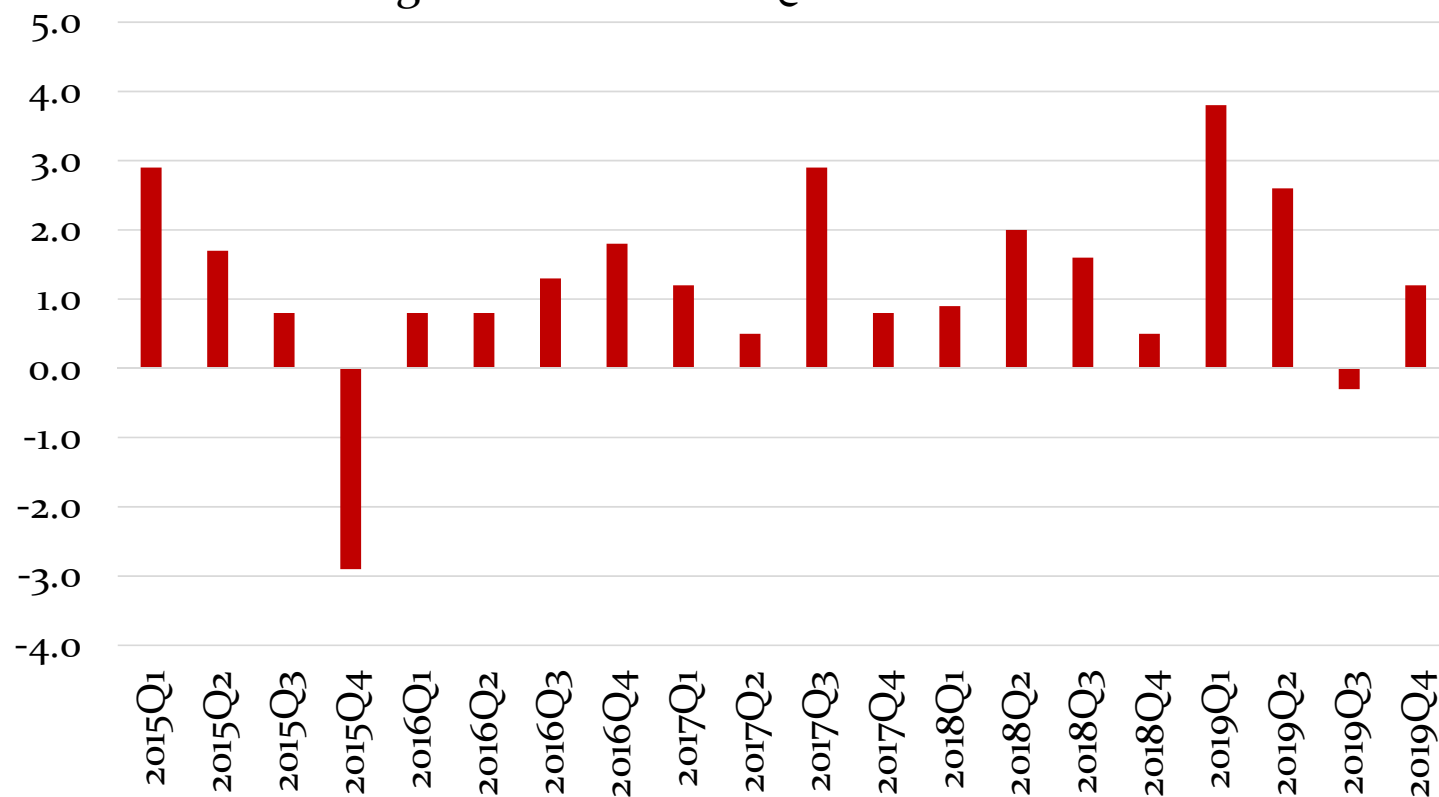
IV. How Did It Come to This?

U.S. Corporate Bond Debt Outstanding, 1980 – 2019



V. Entish: U.S. Nonfarm Business Sector: *Labor Productivity Growth, 2000–2019*

Nonfarm Business Sector Labor productivity
% Change From Previous Quarter at Annual Rate

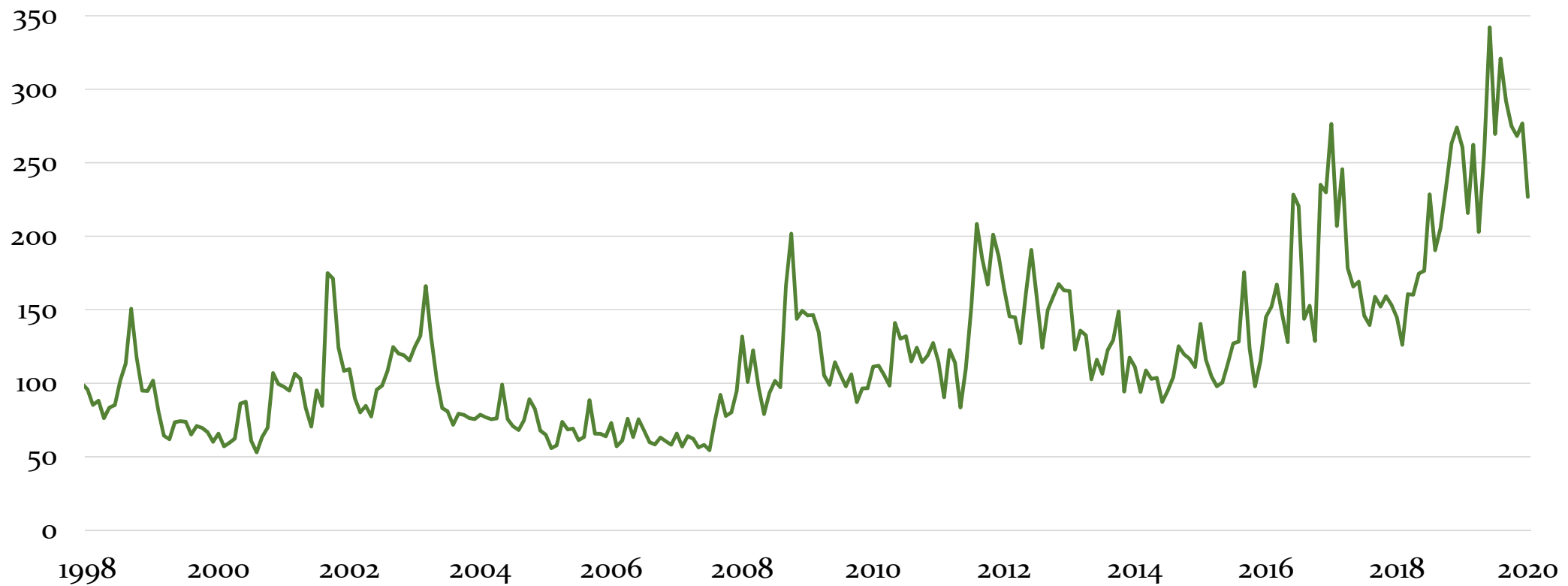


- In 2019Q3 nonfarm business sector labor productivity fell by 0.3%—the first decline since 2015.
- U.S. productivity has risen at an average rate of 1.3% since 2007, compared with a 2.1% average since the end of WWII.

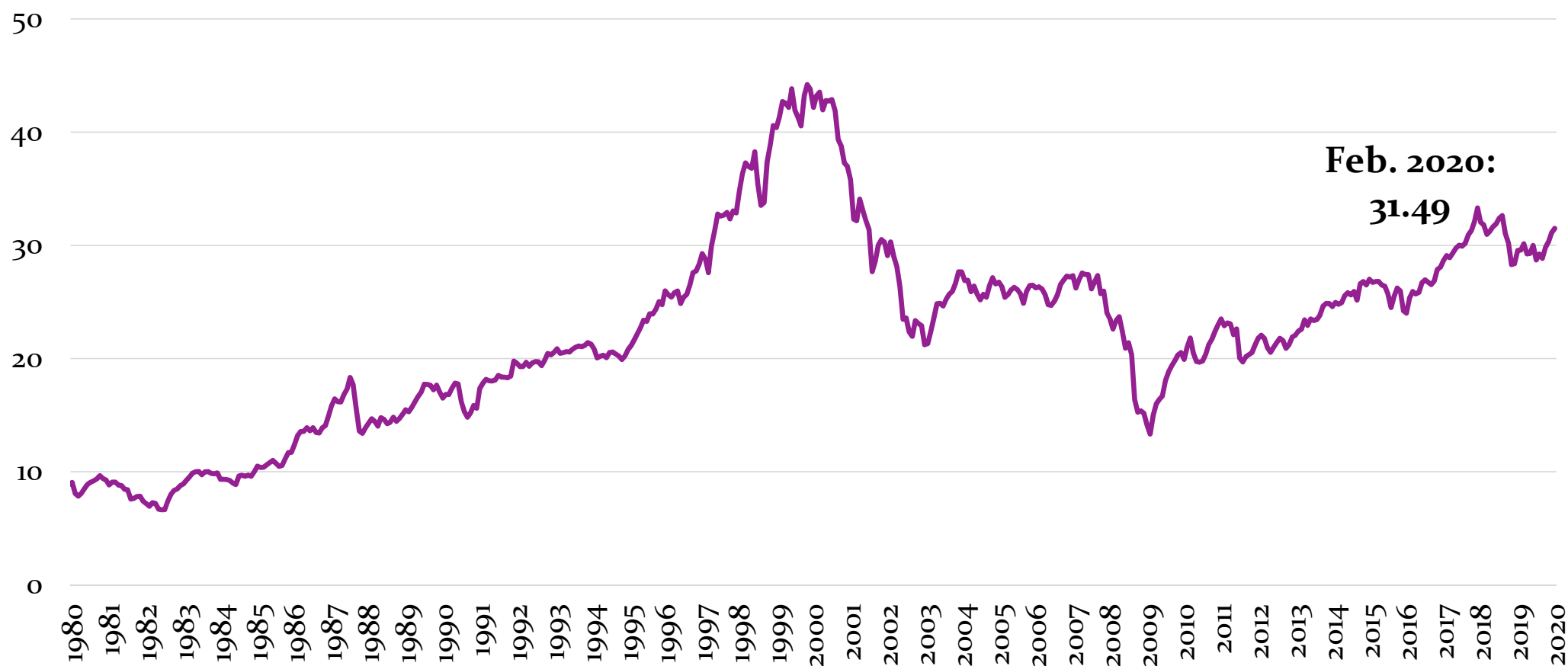
VI. Uncertainty Across the Realm:

Global Economic Policy Uncertainty Index, 1998 – 2020

Global Economic Policy Uncertainty Index

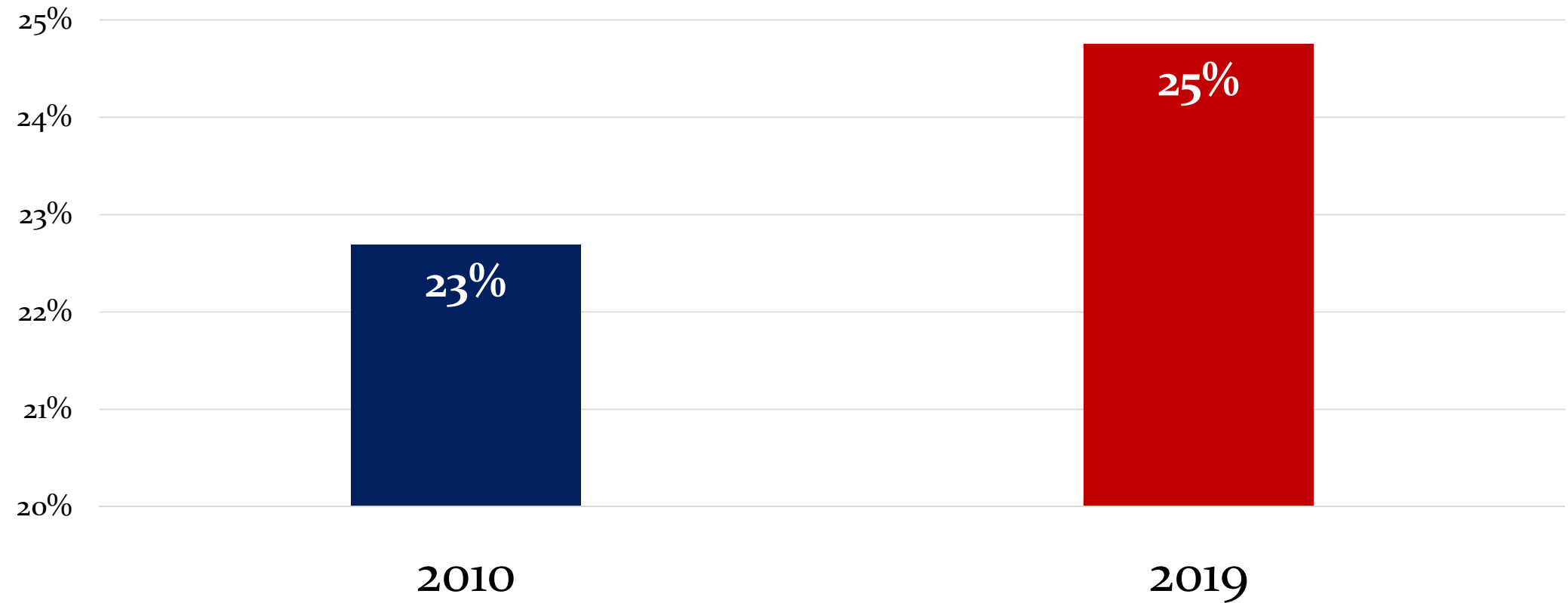


VII. The Eye is on Asset Prices: *Shiller Price-Earnings Ratio, 1980 – 2020*



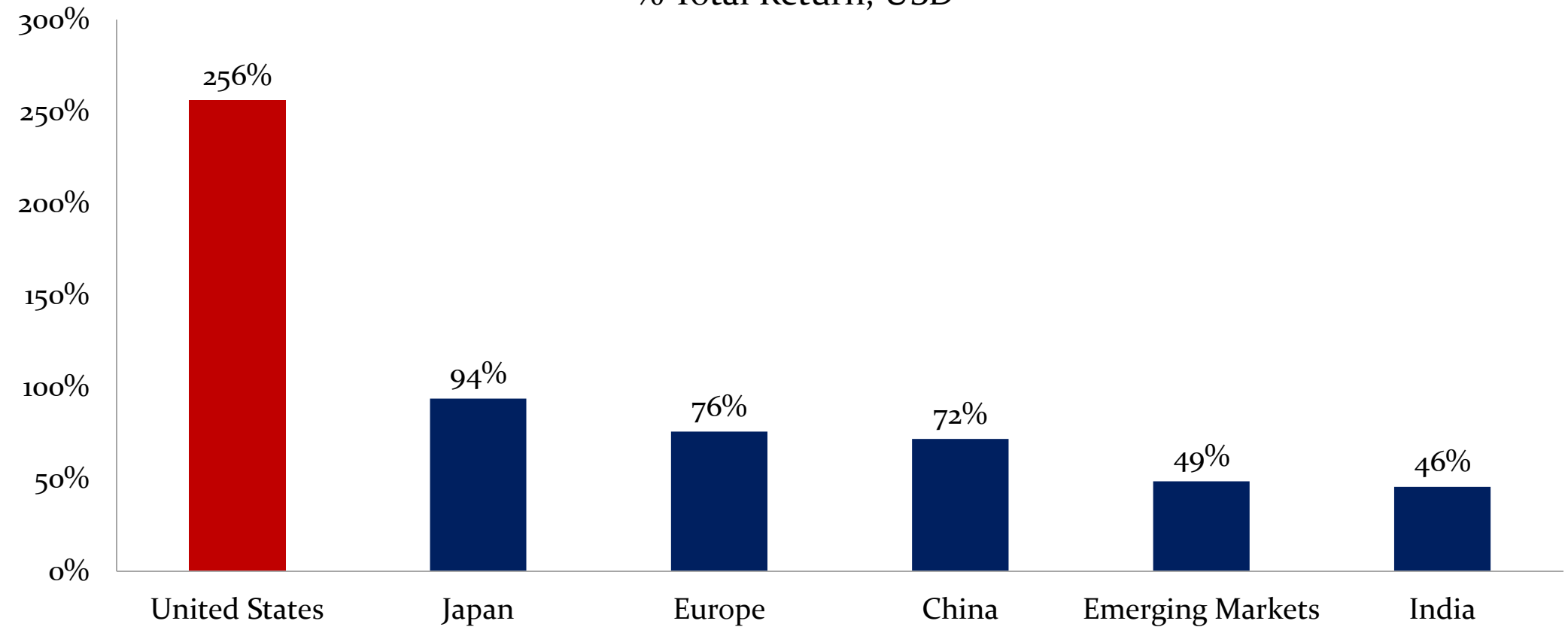
U.S. Share of Global GDP, 2010 v. 2019

U.S. Share of Global GDP (current USD)

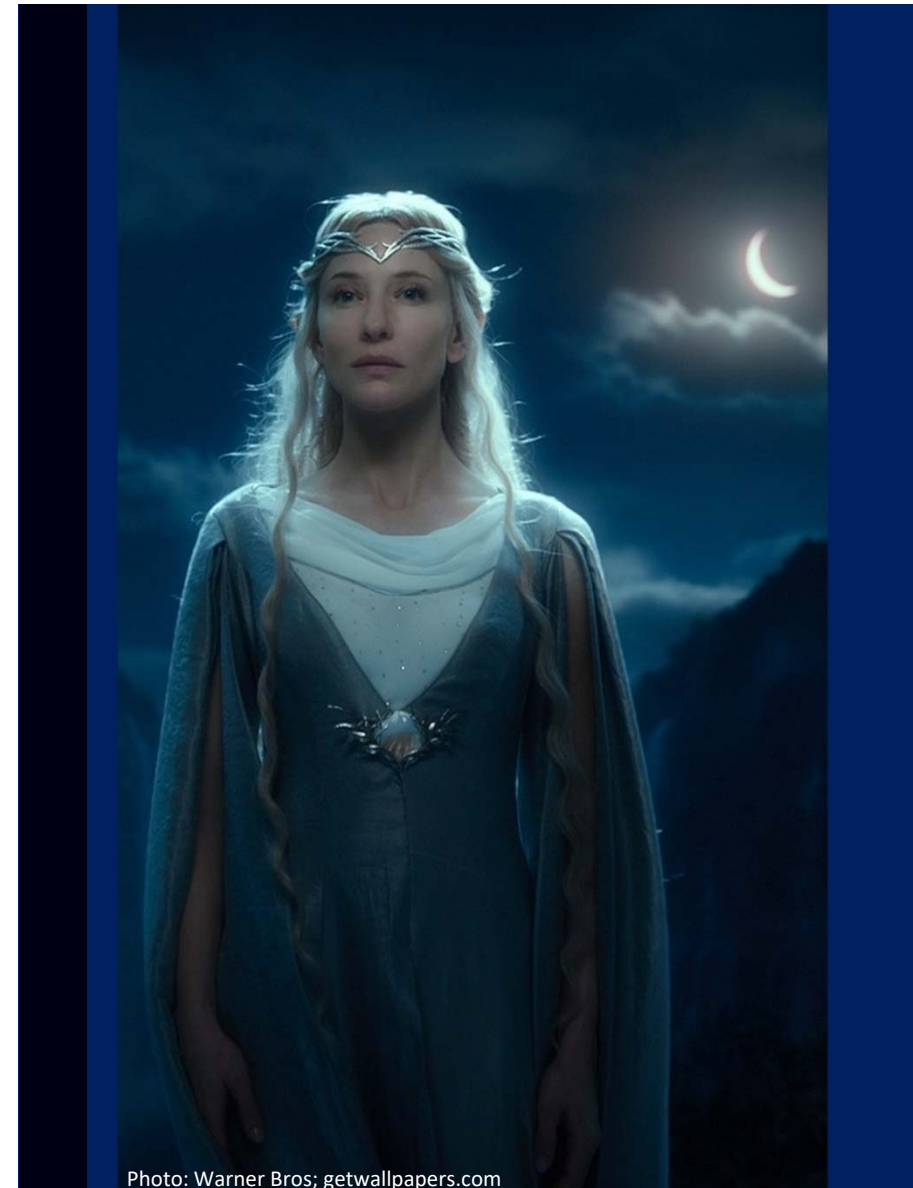


Stock Market Returns by Country, 2010 – 2019

% Total Return, USD



Three Things that Make COVID-19 Different, Economically



I. A Supply Shock of a Caliber Unknown in Modern Times

Containment measures	Supply	Demand
Quarantines	Factory closures	Loss of confidence
Travel bans and restrictions	Cutbacks in service provisions	Business and tourism travels
Closure of public places	Supply chain disruption	Education and entertainment services

Global Economy was Already Fragile

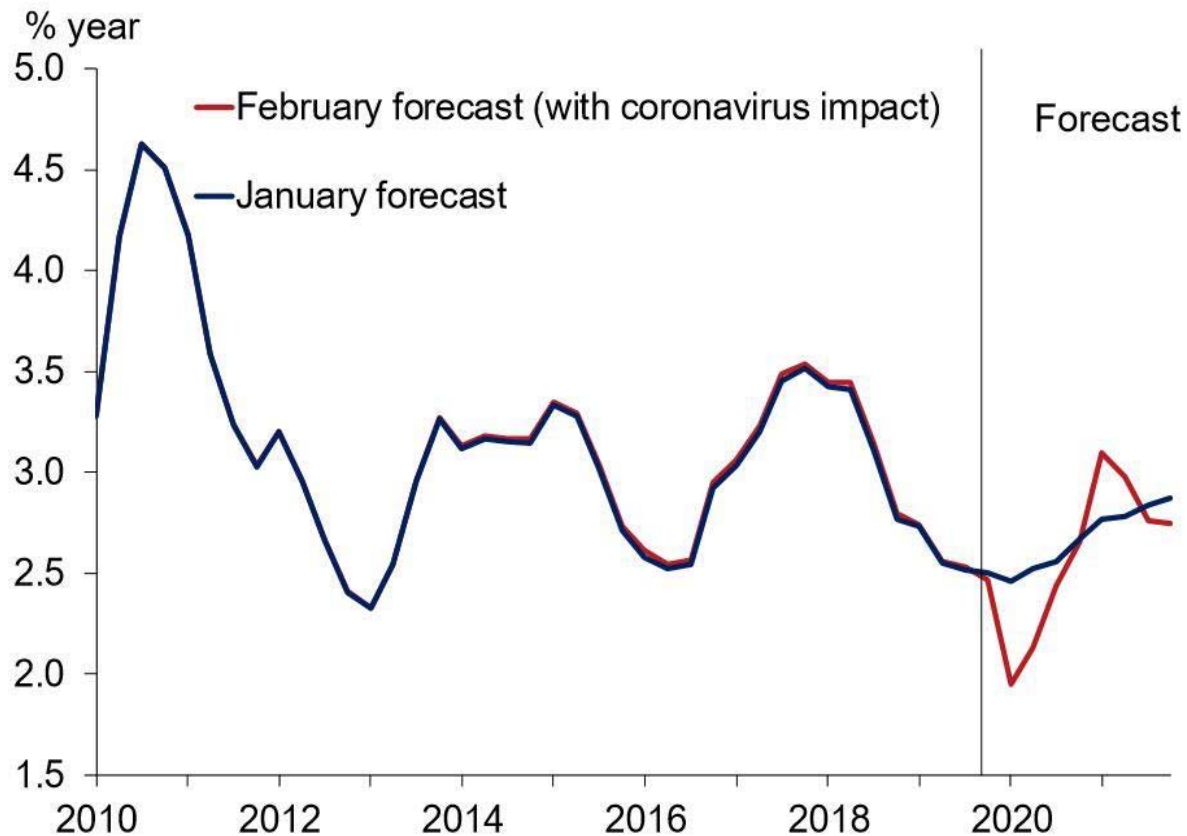
- In a recent news briefing International Monetary Fund (IMF) Managing Director Kristalina Georgieva indicated that global spread of the novel coronavirus has crushed hopes for stronger growth this year and will hold 2020 global output gains to their slowest pace since the 2008-2009 financial crisis.
- The IMF now expects 2020 world growth to be below last year's 2.9% rate. Trade wars pushed global growth last year to the lowest rate since a 0.7% contraction in 2009.
- The downgraded forecast would represent a more than 0.4 percentage-point drop from the 3.3% growth the IMF had estimated for 2020 in January.
- “Global growth in 2020 will dip below last year's levels, but how far it will fall and how long the impact will be is still difficult to predict,” Georgieva said.
- She declined to say whether the escalating health crisis could push the world into a recession.
- IMF's revised forecasts will be issued in coming weeks.

Goldman Sachs: Growing Downside Risks

- In early February, Goldman Sachs economists estimated that the coronavirus would subtract 2 percentage-points (pp) (annualized) from global GDP growth in 2020Q1.
- Now, Goldman Sachs estimates that the impact will be a reduction of 5pp in 2020Q1.
- For the full year, Goldman Sachs expects global growth to slump to around 2%, down from their previous 3% forecast.
- Goldman Sachs now projects that the U.S. will register just 0.9% growth in 2020Q1 and will not grow at all in 2020Q2.
- Goldman Sachs economists said in a recent note that “while the U.S. economy avoids recession in our baseline forecast, the downside risks have clearly grown.”

Oxford Economics Global Outlook: Coronavirus Outbreak to Cut Global Growth to New Lows

World: GDP forecast



Source : Oxford Economics/Haver Analytics

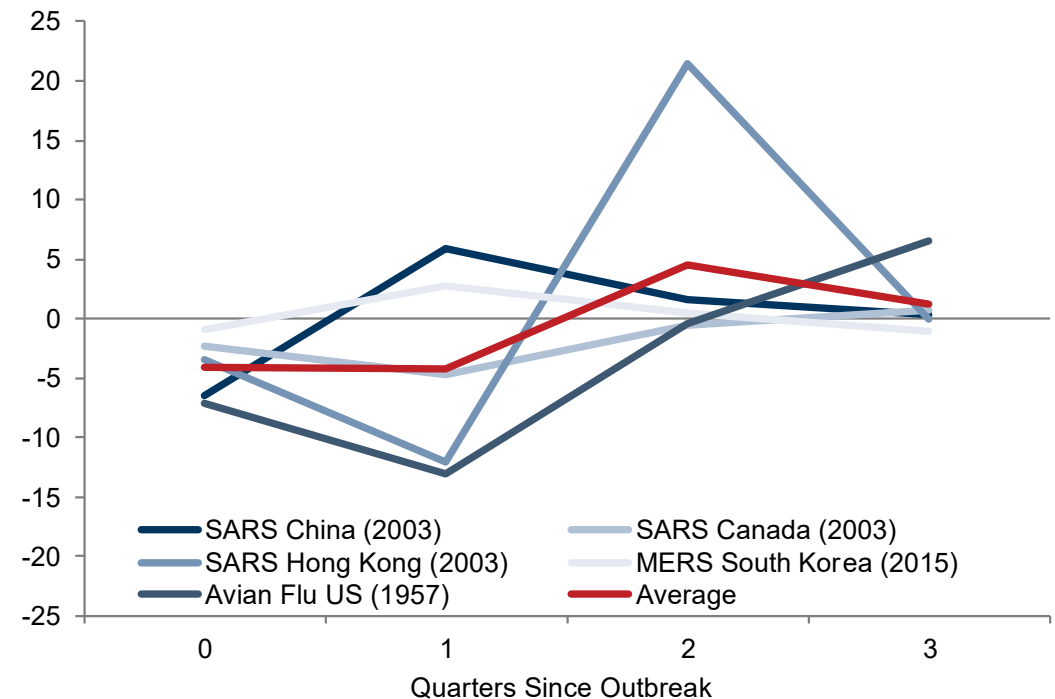
Source: Oxford Economics, Global Outlook, February/March 2020.

- Oxford Economics forecasts GDP growth to slow to just 1.9% YOY in 2020Q1
- They have lowered their forecast for 2020 as a whole from 2.5% to 2.3%, down from 2.6% in 2019.

II. Economic Impact of Past Pandemics – This One Will be Worse

- Goldman Sachs analyzed GDP changes during other pandemics, including the 2003 SARS episodes in China, Hong Kong, and Canada, the 1957 Avian Flu in the U.S., and the 2015 MERS episode in South Korea.
- The average episode saw a GDP hit of 4-5% in the 1-2 quarters after the outbreak, though the variation was substantial.

Real GDP growth minus average growth over year before outbreak, pp



III. The Cure is Just Oh, So Different Policy Options to Address Economic Implications

People	Firms	Macro policy
Increase resources to the health sector	Reduce or delay tax payments for most affected sectors	Expand liquidity to banks
Step up temporary cash transfers to vulnerable households	Expand liquidity and availability of credit to firms	Ensure monetary policy responds to extreme market conditions
Expand short-time work schemes	Reduce public sector arrears to firms	Let automatic stabilisers fully work and boost public investment

My Three Ideas

- Commence massive transfers from federal government's sales of Treasuries to state and local governments –
 - Why? Because these levels of government have to balance their budgets each fiscal year and federal government borrowing costs are ultra-low;
- Allow debtors to make interest only payments – or alternatively, provide a limited holiday for debt service payments with no penalties –
 - Why? If people start losing their homes or businesses, a temporary shock becomes permanent. At the same time, creditors need to remain financially healthy, so this has to be limited in time and scope;
- Adjust rules for testing on humans, emphasizing volunteerism and the presence of certain critical circumstances.

The One



Forecast

- Recession has already begun globally and in United States – I still expect short and vicious;
- Best positioned people work in the public sector – greater job stability – private sector workforce will be hammered – unemployment will soon be greater than 5 percent;
- Our expectations are steadily adjusting to the downside;
- When it commences, recovery from this crisis will be sharp, profound, and most welcome – interest rates low, pent-up demand high, need to rebuild inventories, and people anxious to meet again, go to restaurants, see a movie, watch the Orioles, and engage in other most wonderful of human activities.

Thank You

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