Economic Outlook: A Historic Recovery to Follow a Historic Decline?

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MD Chamber of Commerce
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A Historic Recovery?

- First quarter real GDP growth -5.1%; largest decline since Q4-2008
  - Consumption -6.7%; I-Equipment -16.7%; I-Structures: -3.9%
- Second quarter decline will be historic (30-40% decline)
- Tremendous impact on the labor market
  - 45 million have applied for unemployment insurance over last 13 weeks
- Economy bottomed in April; steady increase since
- Firms struggling with persistent shock to revenue
  - Some have a limited “runway”
- Key issue: as economy opens back up how do consumers respond?
- Recovery like to be slow
Historic impact on Maryland labor market

Unemployment Insurance: Initial Claims, State Programs, Maryland

752k since week ending March 21
13 weeks above 20k
Previous weekly high 9,555

Unemployment Rate, Maryland

Mar: 3.3
Apr: 10.1
May: 9.9

All Employees: Total Nonagricultural, Maryland

Monthly Change:
Mar: -30.8
Apr: -357.5
May: 29.8

Labor Force Participation Rate, Maryland

Mar: 68.9
Apr: 65.2
May: 65.2
Activity increasing over past two months

- May data indicate stabilization in manufacturing; rebound in retail spending
  - Manufacturing activity +3.8%
  - ISM Manufacturing index up 1.6 pts to 43.1
  - Retail sales +17.7%
- High frequency data indicate steady improvement over past 9 weeks
  - Store openings & hours worked
  - Credit card spending
  - Hotel occupancy
  - Restaurant activity
  - Housing market – mortgage applications
Businesses are reopening but great uncertainty as to revenue recovery and longer term viability

Source: Richmond Fed calculations using data from Homebase
Businesses are reopening but great uncertainty as to revenue recovery and longer term viability

Source: Richmond Fed calculations using data from Homebase
Hours worked in food & drink establishments increasing notably in recent weeks

Labor Market Activity:
Hours Worked by Hourly Employees – By State and Industry

Source: Richmond Fed calculations using data from Homebase
Leisure and entertainment continues to lag

Source: Richmond Fed calculations using data from Homebase
Improvement in retail varies considerably by state

Source: Richmond Fed calculations using data from Homebase
FRB Richmond & MD Chamber Survey

Is your business still operating?

- No
- Yes, but not at full operation
- Yes, fully operating

Percent of Responses

- Arts, Entertainment, and Recreation
- Accommodation and Food Services
- Educational Services
- Retail Trade
- Health Care
- Transportation and Warehousing
- Other
- Wholesale Trade
- Manufacturing
- Professional Business Services
- Real Estate
- Construction
- Utilities
- Information
- Finance and Insurance
- Agriculture or Natural Resource Extraction
A leaner post COVID-19 world…

After returning to "normal" operations, are you:

- Anticipating a return to pre-COVID-19 staff level
- Running a leaner operation (i.e. fewer staff)

Percent of Responses

Source: FRB Richmond & MD Chamber of Commerce Survey (May 2020)
A leaner post-COVID19 world...

How Much Leaner?

Source: FRB Richmond & MD Chamber of Commerce Survey (May 2020)
How long until a return to pre-COVID19?

When do you expect to return to a pre-COVID level of activity?

- 1-2 months
- 3-5 months
- 6 months to one year
- Longer than one year
- Never
- Unknown

Source: FRB Richmond & MD Chamber of Commerce Survey (May 2020)
Likely going to be a slow recovery

- Clearly, health policy & extent of virus will greatly dictate path of growth in the second half of 2020, 2021
- Lots of uncertainty; firms & consumers more cautious
  - Some firms deciding to pause; hold off on new projects
    - Impacting pipeline of firms in construction, manufacturing, IT
  - Surveys indicate heightened fear by consumers—how many will not feel safe & will curtail activity until a therapy/vaccine
    - Consumer spending rebounded in May, however, autos sales at 12.2m units in May—still down from considerably 16.7 in February
- For many firms – how quickly does revenue return & how quickly to break even (if at all)?
  - Will impact future spending/investment/hiring/restructuring
- Lost revenue/debt considerations
Outlook primarily determined by health policy

• Key question: will consumers be hesitant in the future about going to public places?
  • Going to a crowded restaurant or bar, staying at a hotel, flying, attending a sporting event or going to the theater…

• Are there policies that could be adopted to provide standards and a sense of security? (think TSA post 9/11)

• Could be very important in determining how the economy recovers from this downturn – a sharp rebound or a slow, measured return to normal activity or something in between
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