



Economic Outlook

Harrisonburg-Rockingham Chamber of Commerce

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The views and opinions expressed herein are those of the author. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.

What is the story?

Where were we pre-virus?

- Economic growth looked solid and that was expected to continue
 - Strengths: Consumer spending, residential investment, labor
 - Weaker: Business investment, and manufacturing was soft but rebounding

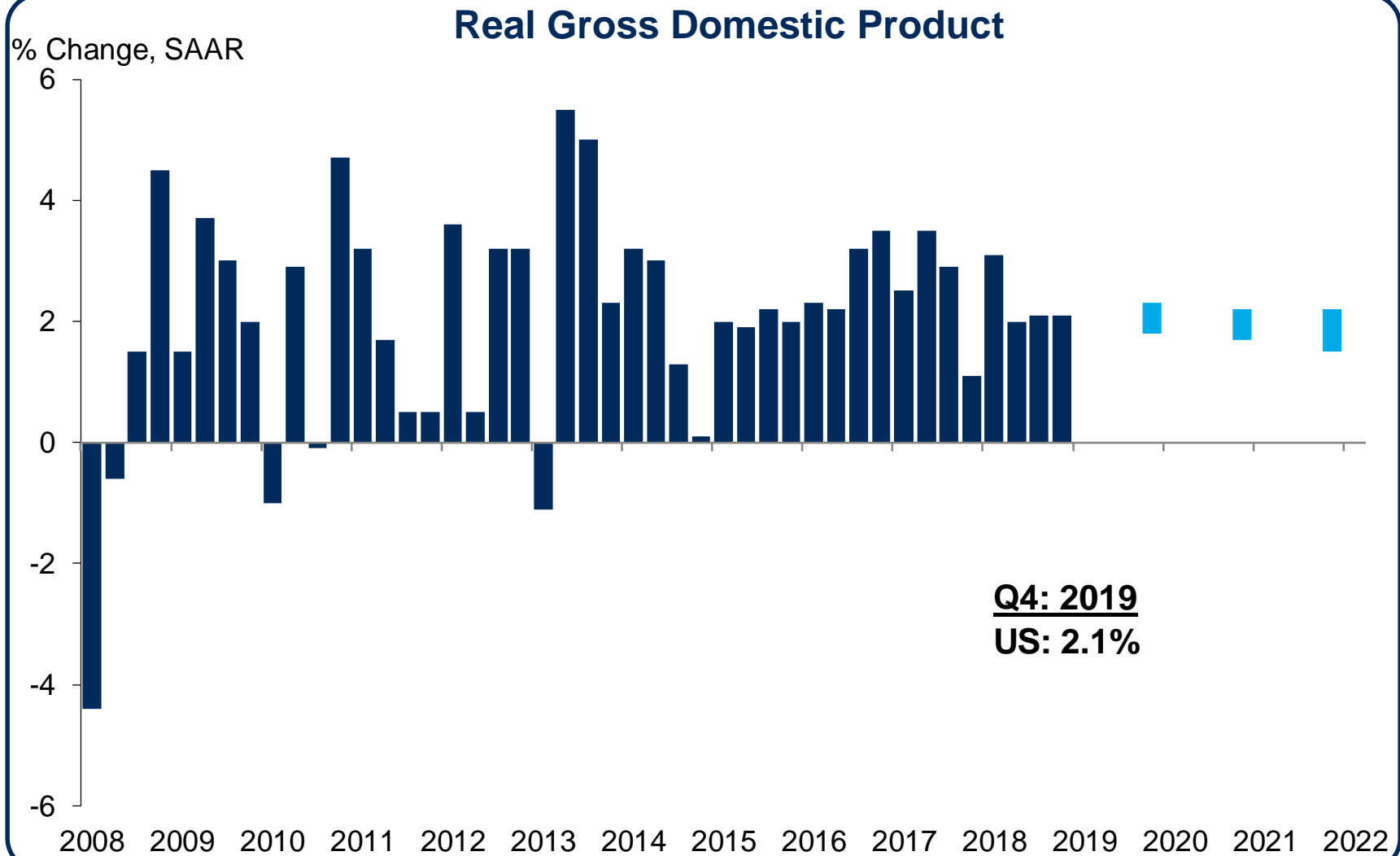
Enter COVID-19. How bad could it get for the economy?

The role for economic policy

We need your help

National Economy, Pre COVID-19

The economy was chugging along

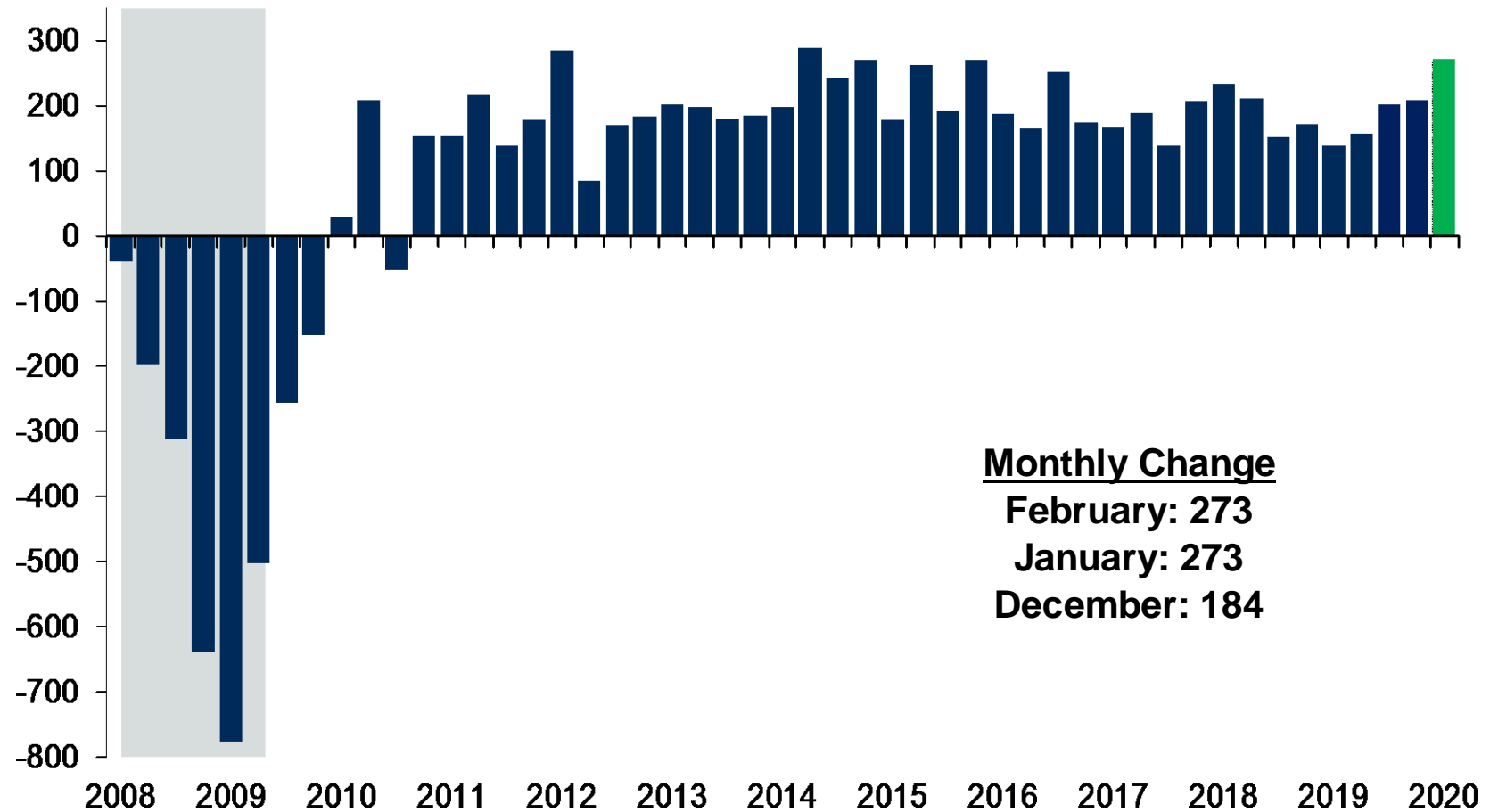


Source: Bureau of Economic Analysis, Federal Reserve Board /Haver Analytics

Economy was adding jobs consistently

Average Monthly
Change, Thous.

Total Nonfarm Employment



Monthly Change

February: 273

January: 273

December: 184

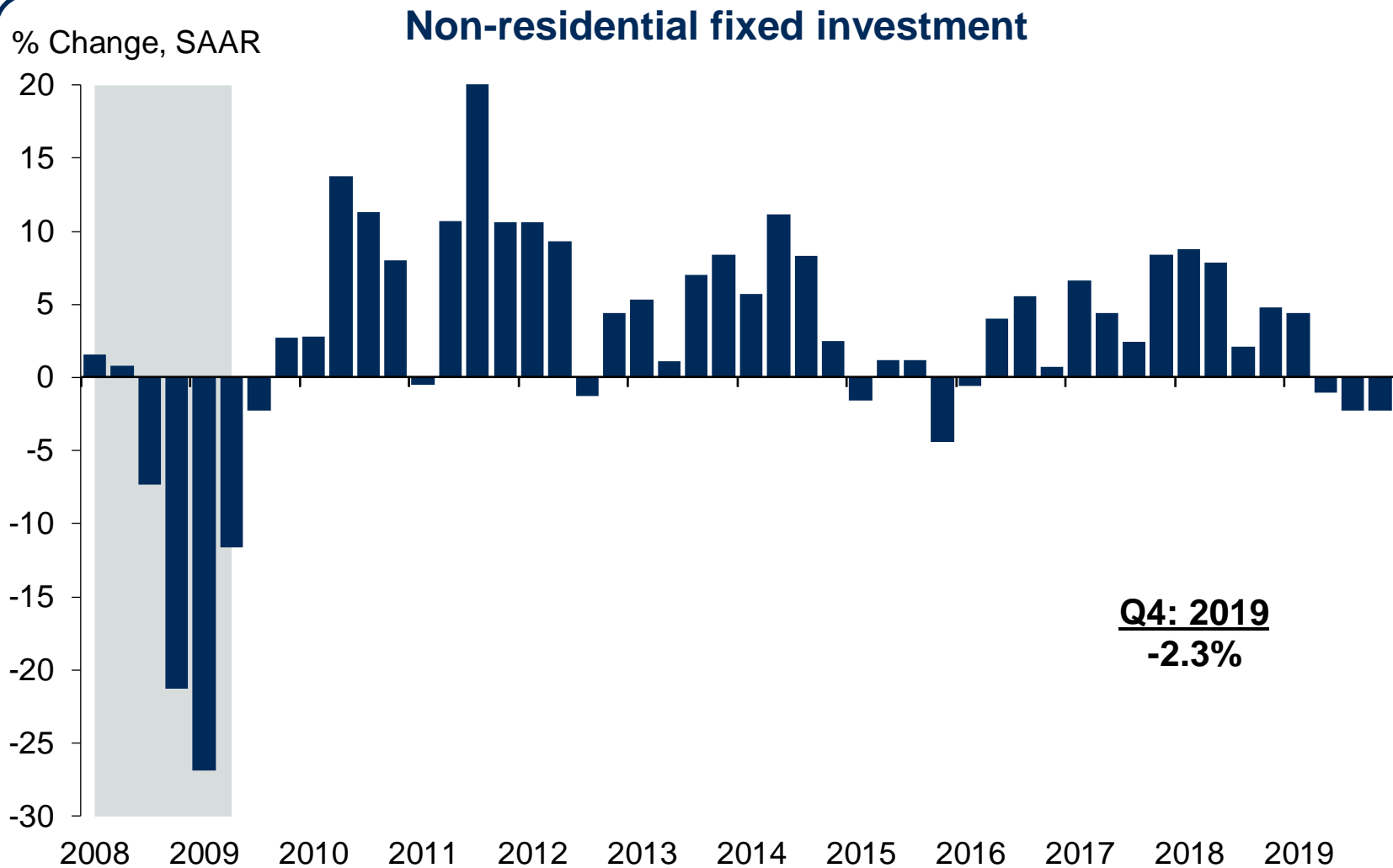
Source: Bureau of Labor Statistics/Haver Analytics

So not surprisingly, unemployment falling



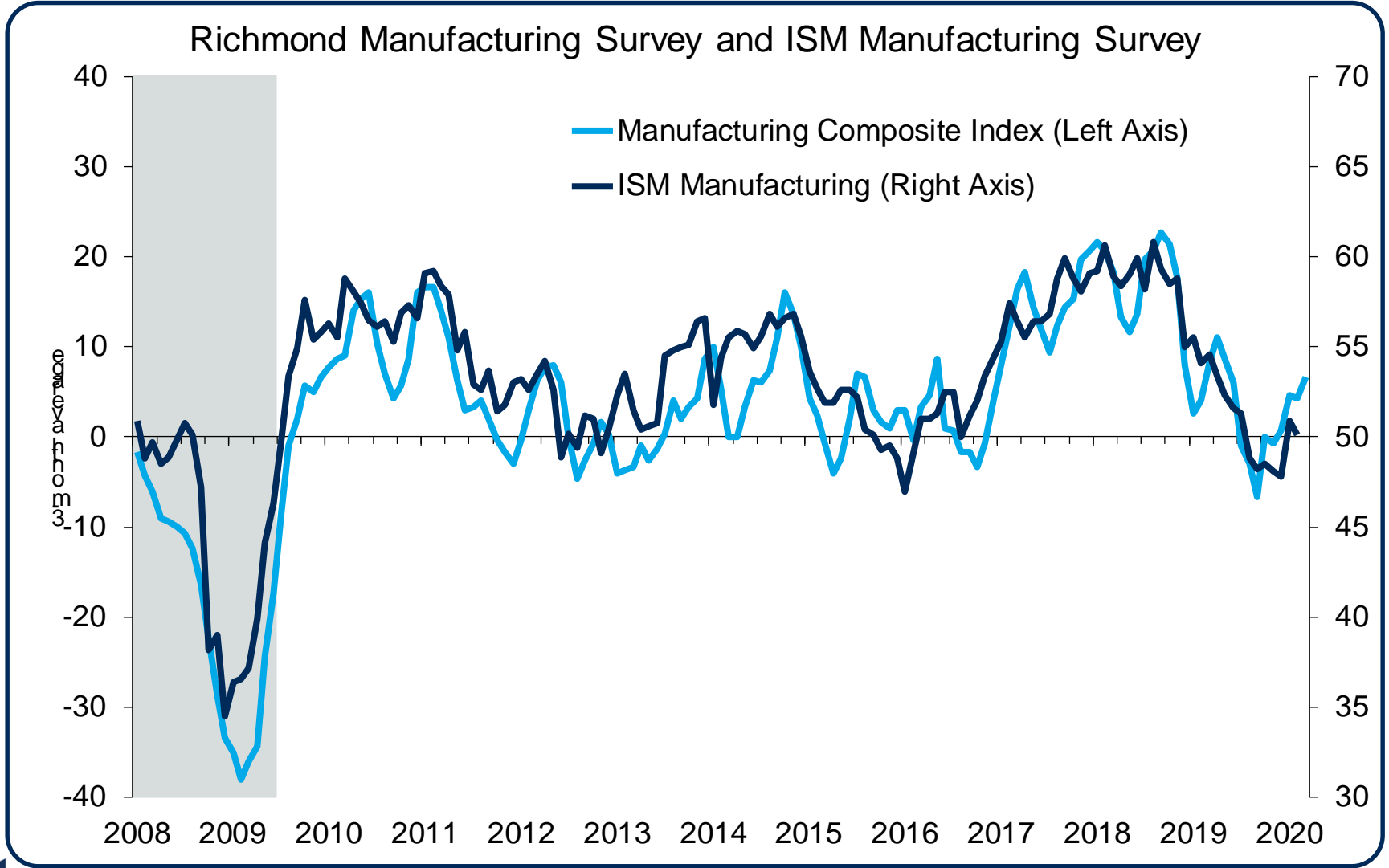
Source: Bureau of Labor Statistics, Federal Reserve Board of Governors/Haver Analytics

But business investment had been soft



Source: Bureau of Economic Analysis via Haver Analytics

Manufacturing had been soft but rebounding



Source: Federal Reserve Bank of Richmond/Institute of Supply Management/Haver Analytics

Enter COVID-19

COVID-19: Economic effects

Direct impact

- It's a direct supply shock: Temporary reduction in labor
- It's a direct demand shock: For nondurables (e.g. travel, tourism, restaurants)
- Knock-on demand effects: Still highly uncertain
 - Drops in some cases: Furloughed workers may consume less; certain businesses need fewer supplies; sentiment causes people to hold back big purchases
 - To what extent will this demand come back later?
 - Clunky shifts in others: Some declines “cancel out”, but maybe imperfectly
 - Restaurant supply chains not easily convertible to grocery
 - Larger online retailers struggling to staff warehouses and find transportation
- Conditions continue to change rapidly

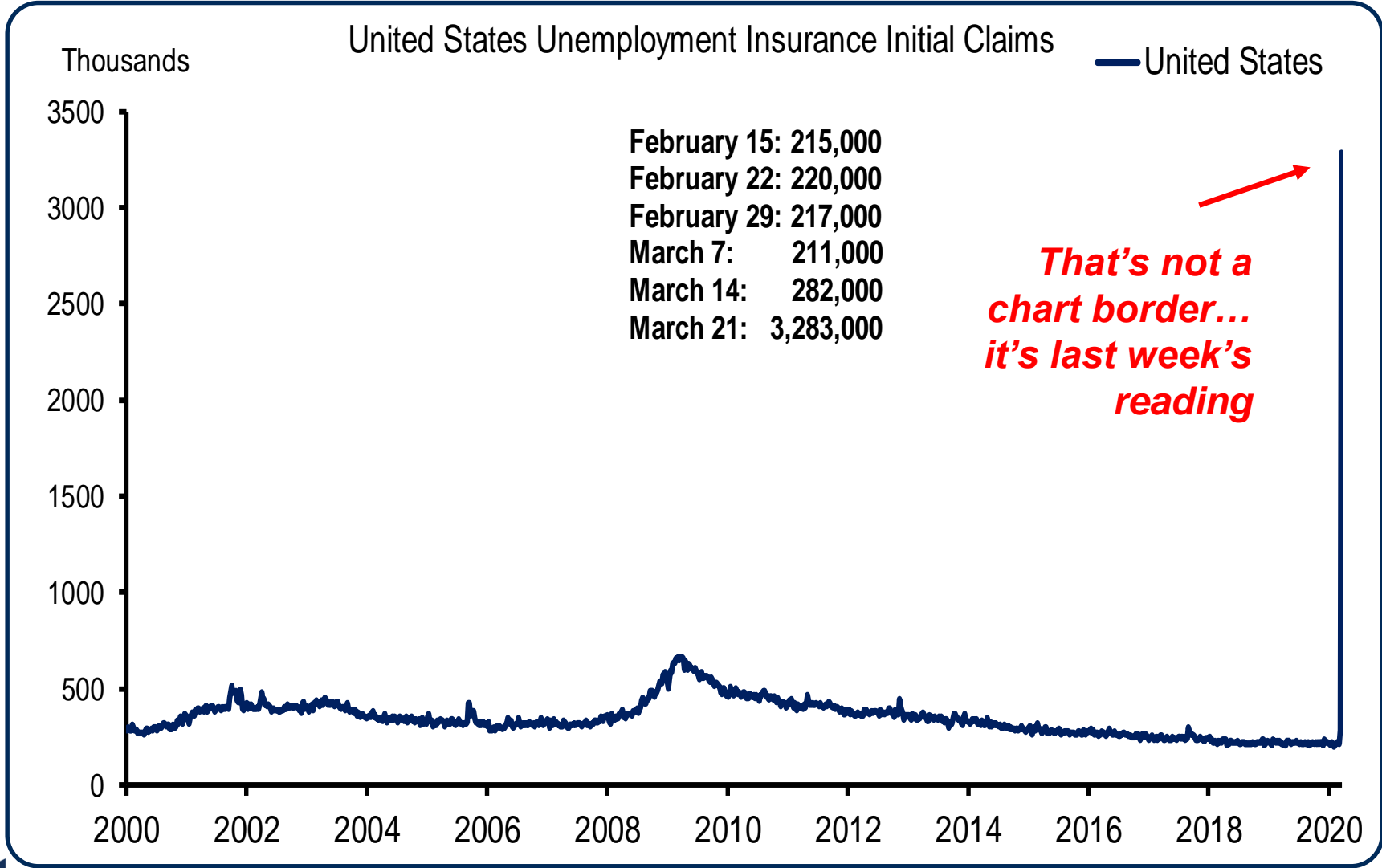
How bad could it get?

Let's try to scale things. For employment:

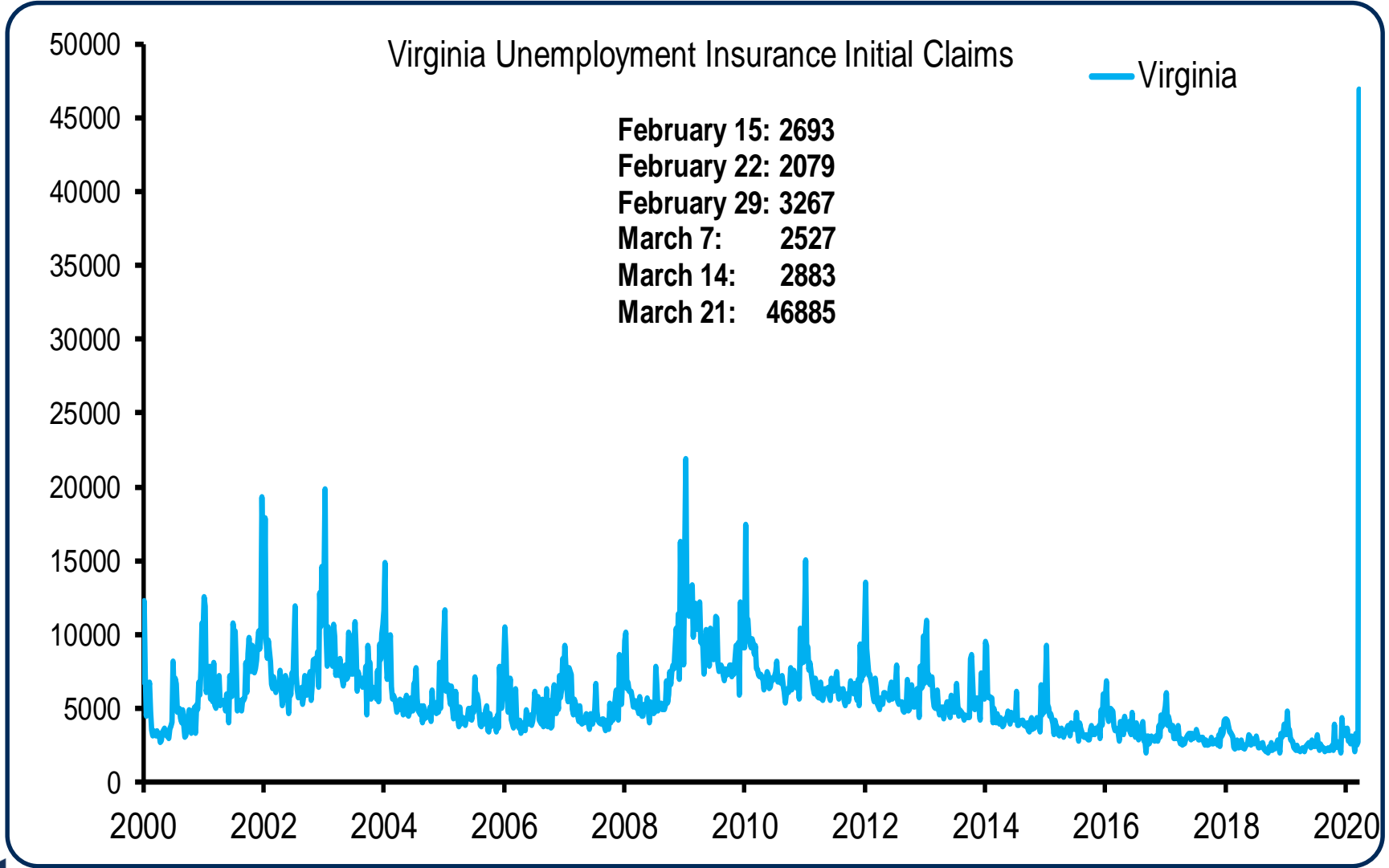
- There are 150m workers in the economy. 1/5 of them are in sectors that are pretty directly hit:
 - 12m retail workers outside grocery stores (8% of total)
 - 12m food services – e.g. restaurants (8% of total)
 - 2m accommodation services – e.g. hotels (1.3% of total)
 - 2.5m arts, entertainment, recreation – (1.6% of total)

We are seeing this in initial claims for unemployment insurance

United States initial claims for UI



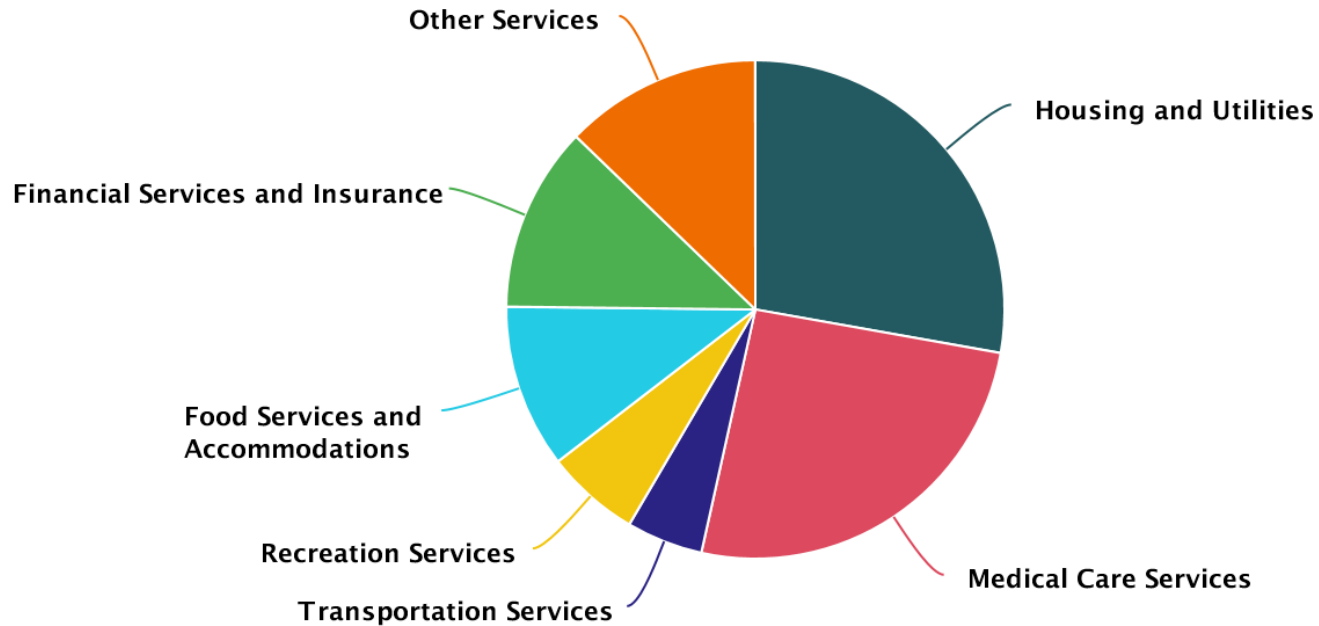
Virginia initial claims for UI



How bad could it get?

Let's try to scale things. For consumption:

Composition of Household Consumption Expenditures
in 2019



Source: Bureau of Economic Analysis

How bad could it get?

Let's try to scale things. For consumption:

- Why focus on consumption? It's 70% of GDP
- 55% of consumption (housing and utilities, medical services) might see more limited impact
 - Spending may even shift toward here (e.g. households spend more time at home, use more electricity, do home renovations, etc.)
- 25% of consumption will suffer more direct hits
 - Transportation
 - Recreation and food services
 - Food services and accommodations
- If that 25% falls by 2/3, total consumption will fall by 15% → hit to GDP in the neighborhood of 10%

What should economic policy do?

3 guiding ideas:

- Shock is blunt (affects everybody) and fairly uncomplicated.
- Pandemic timing broadly known: initial spike then slow recede.
- Economy's ability to produce has not fundamentally changed.

That said, three caveats could change that:

- “Organizational capital” (business-specific know-how) has become more important in our economy. Longer shock → potentially more of that lost
- Workers may lose attachment to previous place of employment
- Workers need something to return to → businesses need to stay open or re-open

Those three caveats suggest places for economic policy to focus.

Three policy “lanes” open now

Health policy (most important by far)

- Goal: bend the curve and get beyond the inflection point
- Economic policies are then left to address economic effects of health response (e.g. social distancing)

Fiscal policy: can be targeted

- Prevent needless bankruptcies/breaks in economic relationships
- Support directly to households

Monetary policy: supports economy more broadly

- Reduced interest rates to effectively zero
- Help keep financial markets functioning by providing liquidity (i.e. lending)

A note on small businesses

Helping small businesses has been a huge focus of this crisis

- There are some 31m of them and they are 47% of employment
- Many in the sectors hit hardest
- Many are probably on this call

Policy support

- The big policy is the just-passed CARE Act, which (among many things) provides \$349b to cover 8 weeks' cash flow for a small business, which can be forgiven to the extent they keep employees and don't cut salaries
 - Banks extend these funds, which the SBA guarantees
- By comparison, in FY2019 the SBA guaranteed \$28b in lending through 63k loans. So this is big.

Parting thoughts

- Luckily, we came into this with a solid economy and a very healthy banking system
- What's next depends largely on health policy
 - When will it be safe to come back?
 - How do we come back? Phased approach, protocols?

What I'm watching – where I need to hear from you:

- Are economic policies hitting as intended? Where are gaps?
- How are businesses like you planning – how do you bring back customers? To what extent can you make up revenue?
- What unexpected things will gum up the recovery?

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804-697-8702

View our survey data and reports online:

https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions



Questions?

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... and thank you!

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Addendum

Summary of fiscal policy response

3/6: \$8.3b to strengthen healthcare response

3/13: \$100b for expanded sick pay

3/27: \$2t CARE Act

- Relief for individual, families, and businesses
- Small business support
- Assistance to severely distressed sectors
- Health sector support

Summary of monetary policy response

- Cut interest rates to effectively zero
- Encouraged banks to lend
- Extended 2008-era credit facilities to improve liquidity and functioning in certain asset markets
 - Including two new facilities to support credit to large firms and improve liquidity for secondary corporate bonds – with Treasury covering losses
 - And extending existing facilities to include municipalities
- Purchases of treasuries and MBS that are open ended in size
- Coming soon: Credit facility aimed toward small businesses