



Preliminary Economic Update

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DIRECTOR

*Presented at the AUBER Roundtable
Via Zoom • June 4, 2020*

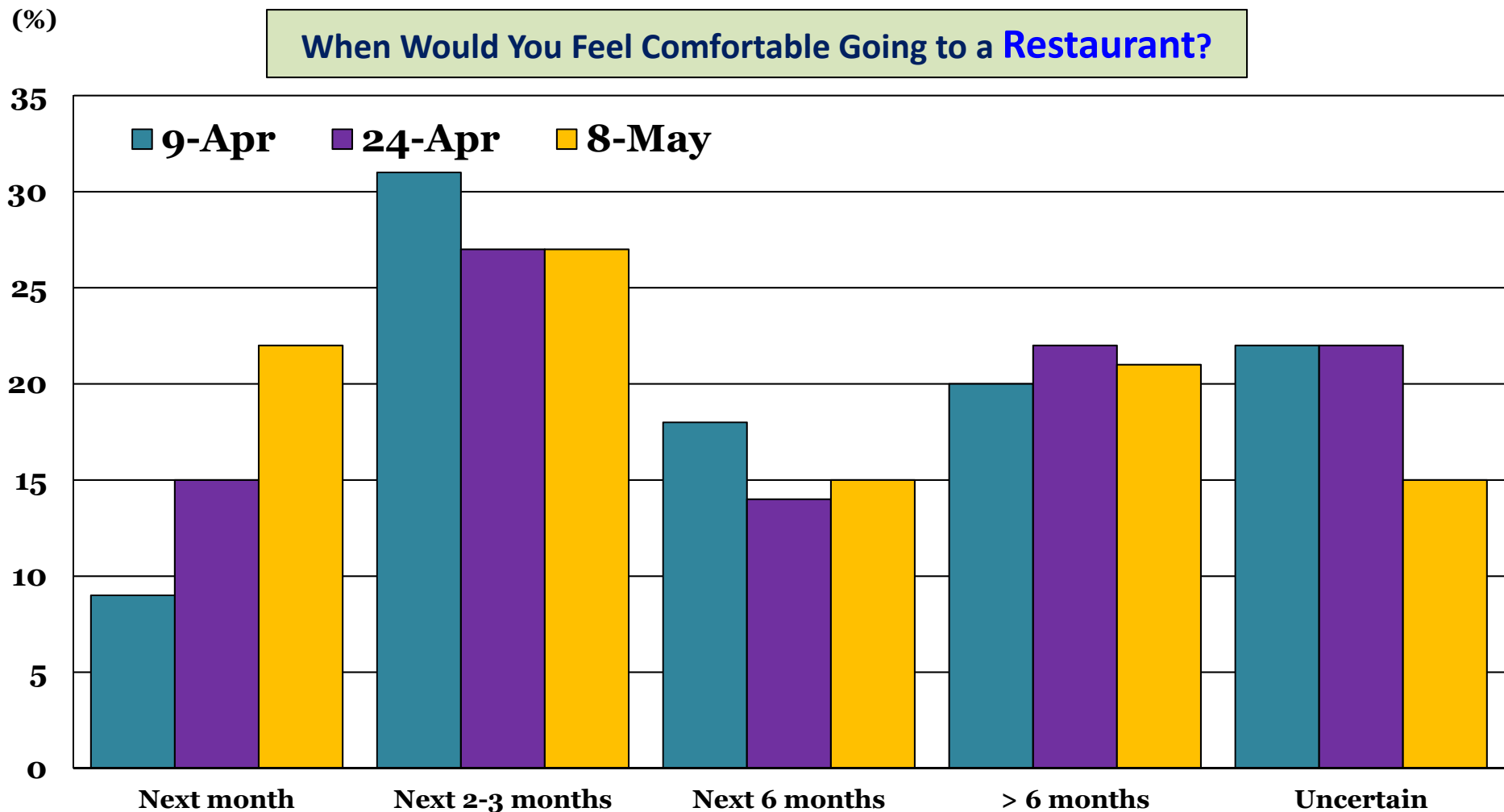
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FOMO (Fear of Missing Out)
Morphs into
FOGO (Fear of Going Out)



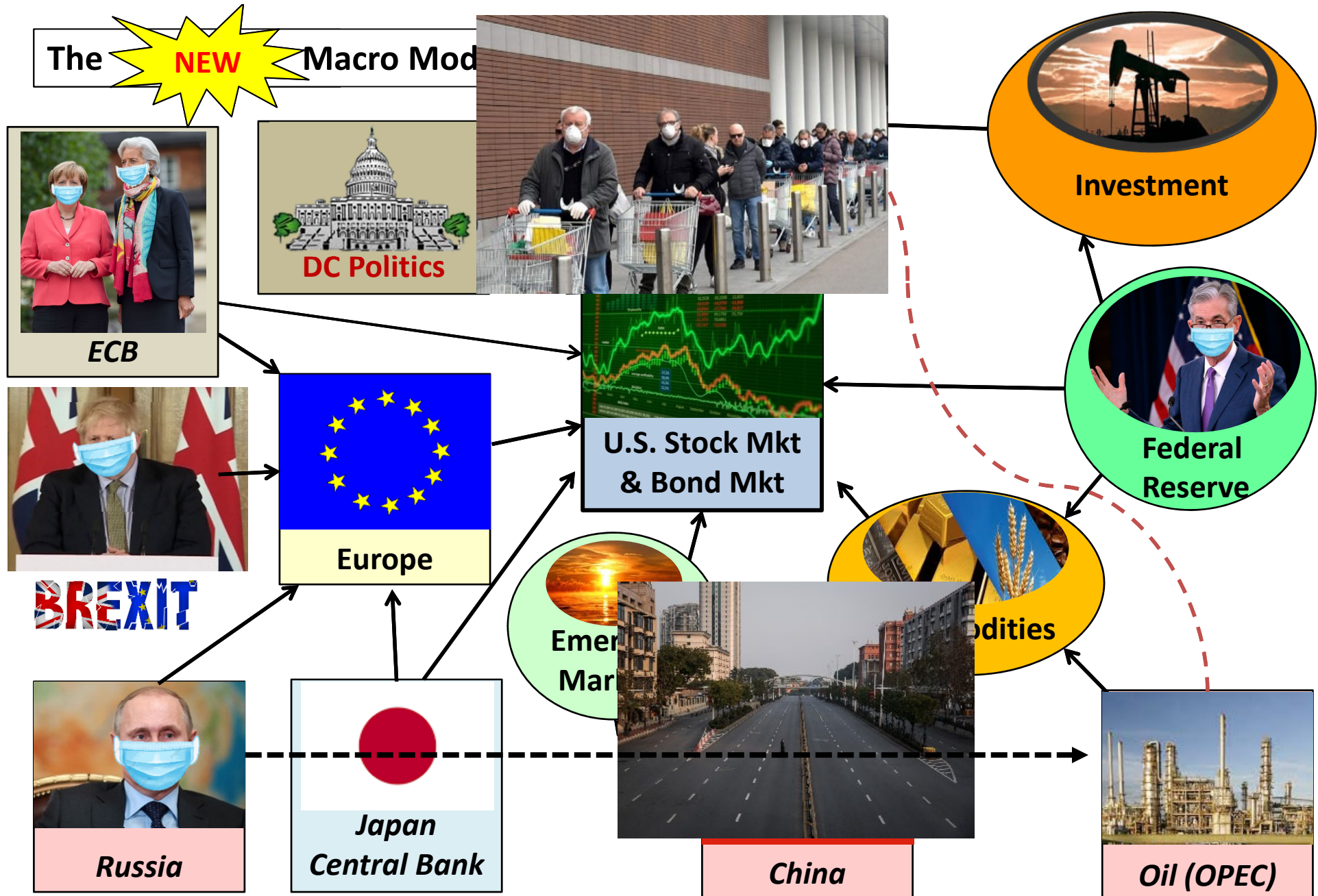
How Risk-Averse Are People?



Source: *Financial Times*, May 16, 2020



The **NEW** Macro Model



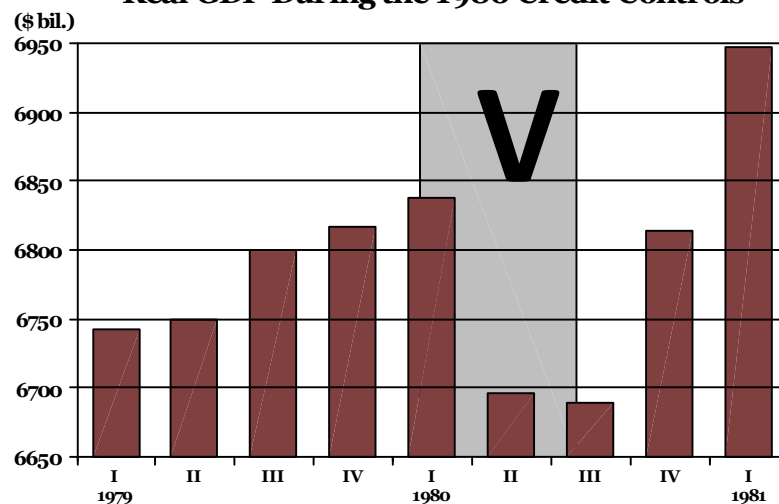
Today's Questions

1. Can the **fall travel season** be salvaged?
 1. How many people can **safely ride an elevator**?
 2. When will **meetings of 100 people** happen?
 3. When will people demand **elective medical** procedures?
 4. When will **international travel** resume w/o quarantines?
2. Will **deflation be followed by inflation** or vice versa?
3. Is the **10-year bond rate heading for 2.0%**? When?
4. What do the above 3 questions mean for the **shape of the recovery**?

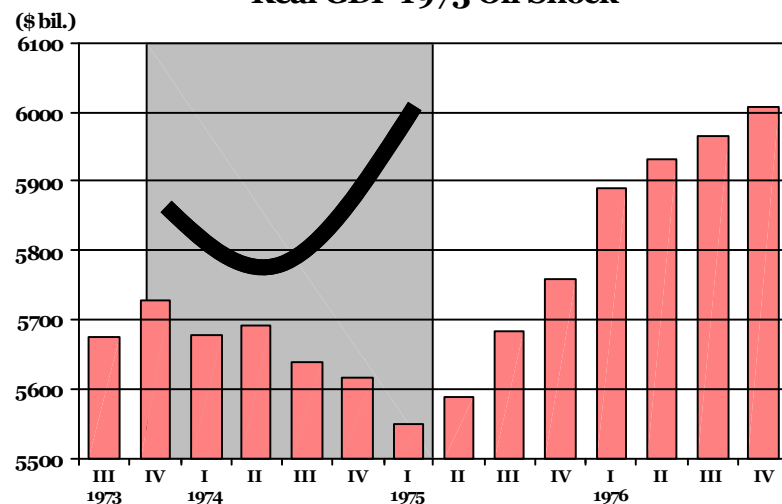


Recovery Shapes: V, U and In-Betweens

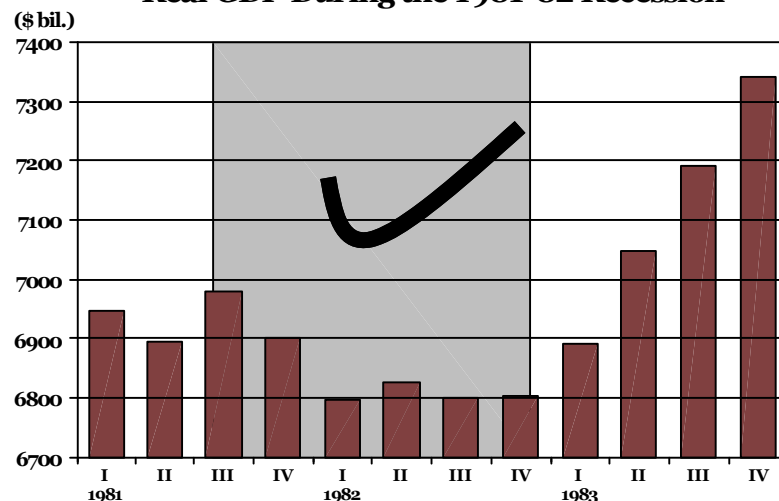
Real GDP During the 1980 Credit Controls



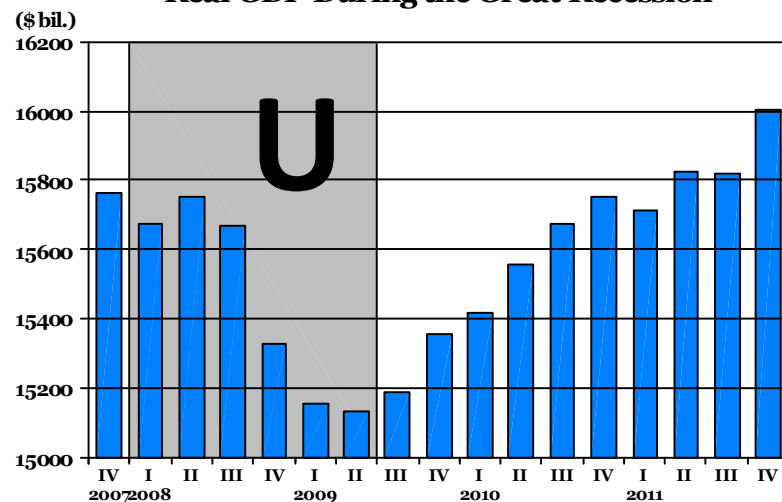
Real GDP 1973 Oil Shock



Real GDP During the 1981-82 Recession



Real GDP During the Great Recession



COVID-19'S Economic Puzzle

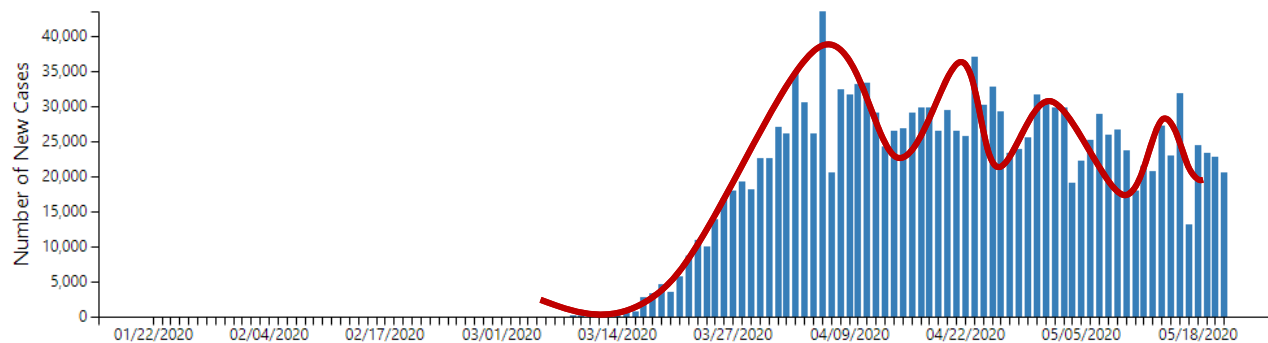
Michael Ryan
Executive Director
of the WHO Health
Emergencies
Programme

Here we have a **disease** for which we *have no vaccine, no treatment...*

We don't fully **understand** *transmission*, we don't fully understand **case mortality**.

New Cases by Day

The following chart shows the number of new cases of COVID-19 reported by day in the U.S. since the beginning of the outbreak.

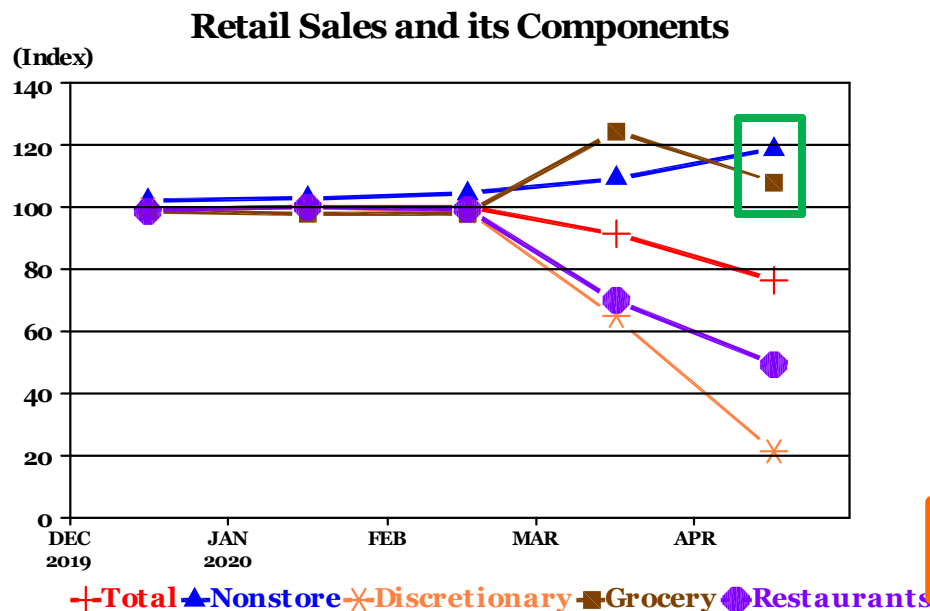


Source: Wall Street Journal, March 7, 2020

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How Have Retail Sales Fared Since February?



Retail Sales (\$ Billions)	Feb '20	Apr '20	Drop
Total	527.2	403.9	-23%
Motor Vehicle	105.4	68.5	-35%
Nonstore	68.9	78.4	+14%
Grocery & Booze	64.4	71.0	+10%
Gasoline	41.3	24.6	-41%
Healthcare	30.0	26.7	-11%
Discretionary			
Food Service	65.4	32.4	-51%
Gen. Merchandise	59.9	50.8	-15%
Bldg. Materials	33.3	32.0	-4%
Clothing etc.	22.1	2.4	-89%
Furniture	10.1	3.3	-68%
Electronics	8.2	2.8	-66%

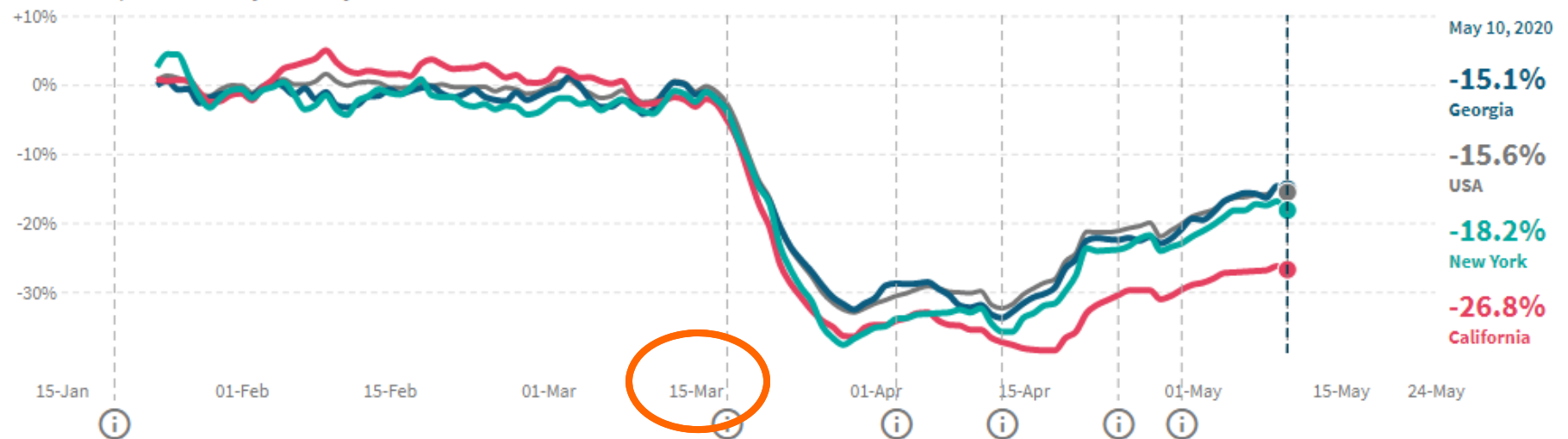


Alternate Data Source



Track the economic impacts of COVID-19 on people, businesses, and communities across the United States in real time.

In **Georgia**, as of May 10 2020, **total spending by all consumers** decreased by **15.1%** compared to early January 2020.

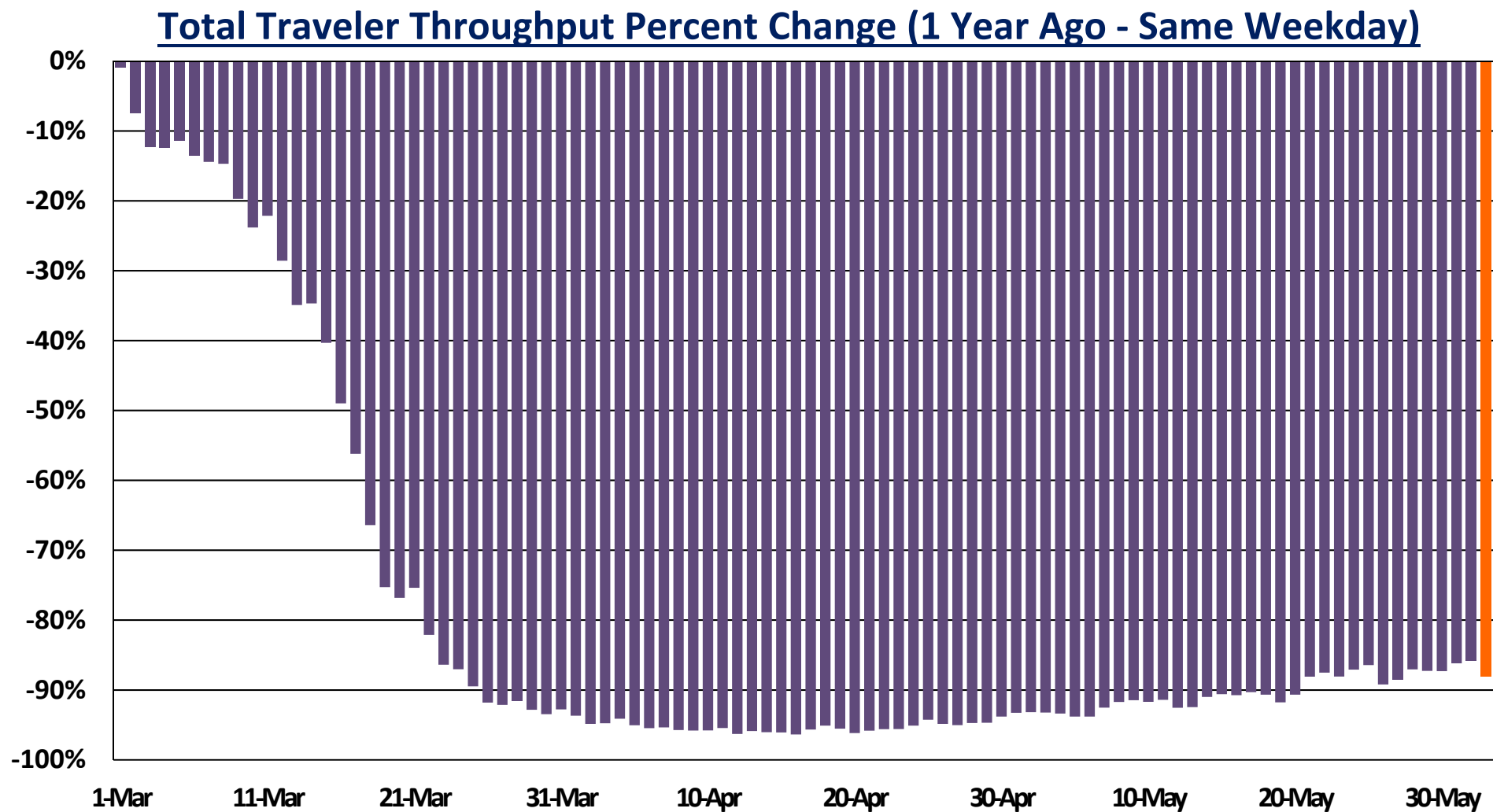


Source: www.tracktherecovery.org

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TSA Checkpoint Travel Numbers



Source: Transportation Security Administration (TSA), EFC Calculations

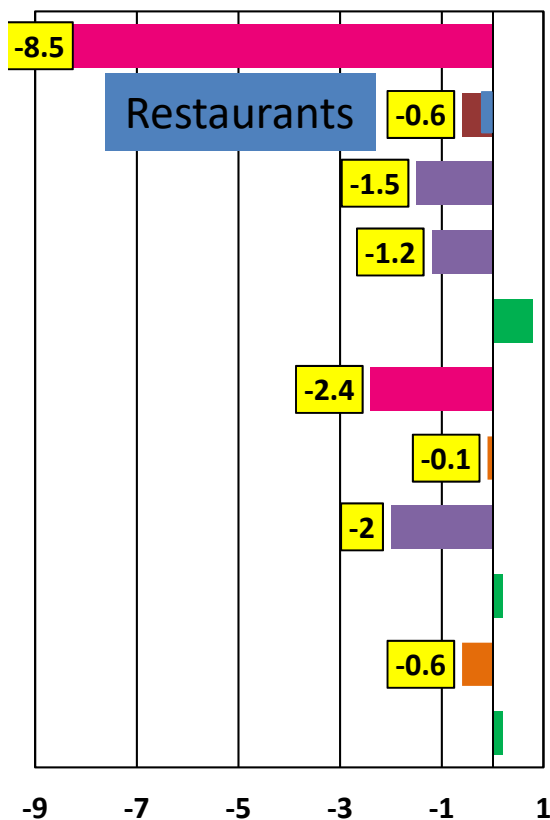


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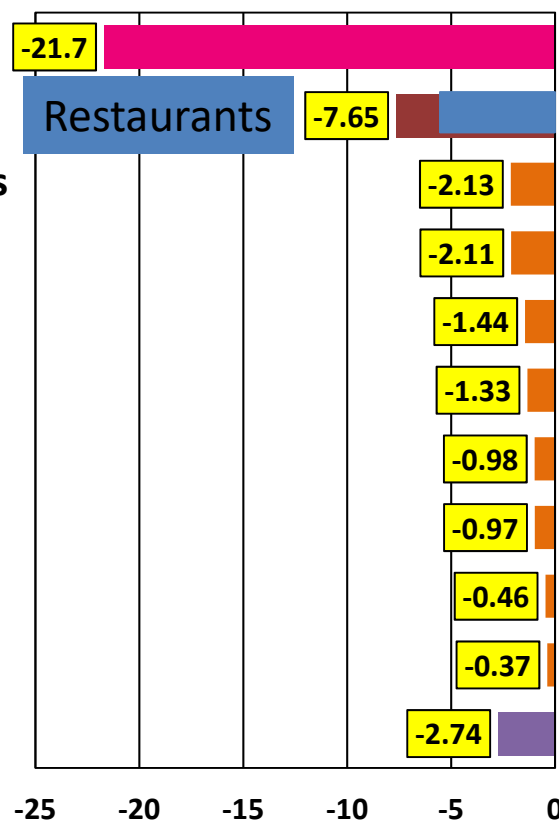
Labor Market Carnage: COVID-19 vs GR

Great Recession (2008-09)



Total
Leisure/Hospitality
Professional Services
Retail
Healthcare
Manufacturing
State/Local Govt.
Construction
Education
Wholesale Trade
Other

COVID-19 Pandemic (April 2020)



Total
Leisure/Hospitality
Professional Services
Retail
Healthcare
Manufacturing
State/Local Govt.
Construction
Education
Wholesale Trade
Other



Consumption Spending by Type

Retail Sales (\$ Billions)	Feb '20	Apr '20	Drop (%)	Drop (\$)
<u>Total</u>	13,488	10,923	-19%	-2,565
<u>Durables (13%)</u>	1,808	1,329	-26%	-479
Furniture & Equip.	416	319	-23%	-97
New Vehicles	540	366	-32%	-174
Recreational Goods	602	512	-15%	-90
<u>Non Durables (23%)</u>	3,032	2,691	-11%	-341
Clothing & Shoes	407	209	-49%	-198
Gasoline	445	298	-33%	-147
Groceries & Alcohol	891	906	+2%	+15
<u>Services Total</u>	8,701	6,947	-20%	-1,754
Accommodations	100	21	-79%	-79
Restaurants	732	385	-47%	-347
Financial Services	516	529	+3%	+13
Education	254	235	-7%	-19
Recreation	518	207	-60%	-311
Transportation	445	228	-49%	-217
Utilities	309	328	+6%	+19
Healthcare	2,297	1,367	-40%	-930



Are Companies Calling Berkshire for Capital?

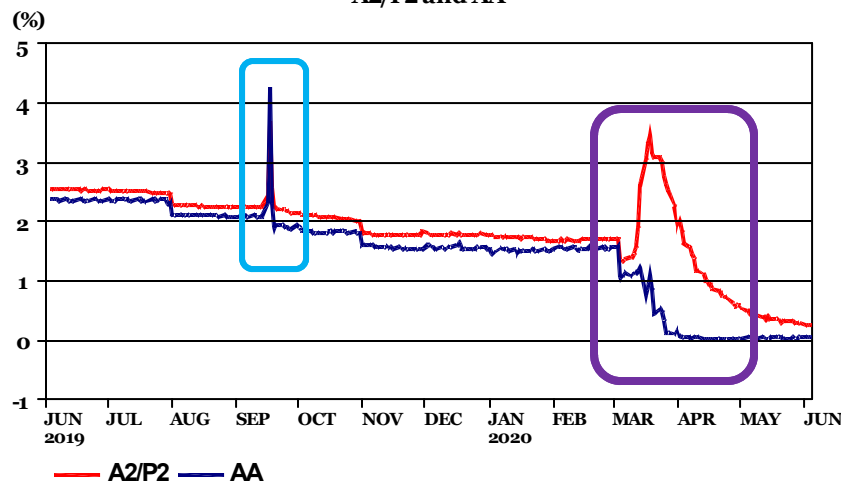
Charlie Munger
Vice Chairman,
Berkshire Hathaway

No, they aren't.

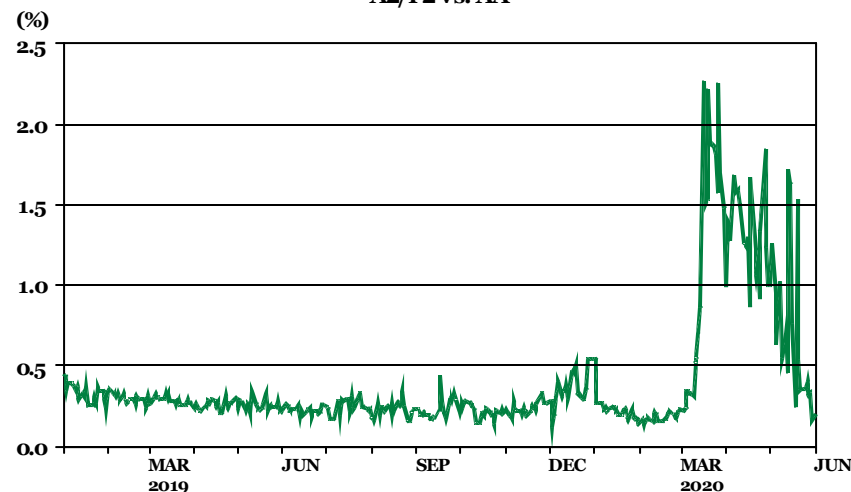
The typical reaction is that people are frozen.

Take the airlines. They don't know what the hell's doing. They're all negotiating with the government, but they're not calling Warren.

1-Day Non-Financial Commercial Paper Rate
A2/P2 and AA



30-Day Commercial Paper Spread
A2/P2 vs. AA



Source: *Wall Street Journal*, April 18, 2020



Fed Policy Support During COVID-19

Program/Facility	Targeted Sector	P, DL, or SPV *	Treasury Support (\$, Bil.)	Capacity (\$, Bil.)	Date(s)	Current Balance (\$, Bil.)
CPFF	Commercial Paper	SPV	\$10	NA	03/17	\$12
PDCF	Primary Dealers/Liquidity	DL	\$0	NA	03/17	\$7
MMLF	Money Market Mutual Funds	SPV	\$10	NA	03/18	\$33
TALF	Asset-Backed Securities	SPV	\$10	≤ \$100	03/23	-
PMCCF, SMCCF	Corporate Debt	SPV	\$75	≤ \$750	03/23	-
MSELF, MSNLF	Small & Mid-Sized Businesses	SPV	\$75	≤ \$600	03/23, 04/9	-
PPPLF	Small Business Bank Loan - PPP	DL	\$0	NA	04/6	\$49
MLF	Municipal Debt	SPV	\$35	≤ \$500	04/9	-
Discount Window	Banks	DL	\$0	NA	03/15	\$18
CB Swap Lines	Central Banks/Dollar Liquidity	DL	\$0	NA	03/15, 03/19	\$449
FIMA REPO Facility	Foreign Monet./Treasury Liquidity	DL	\$0	NA	03/31	-
Asset Purchases	Treasuries, Agency MBS	P	\$0	NA	Several	\$2,099
REPO Agreements	s/t Loans to Finance Intermediary	DL	\$0	NA	Several	\$181
TOTALS			\$215	>\$1,950		\$2,848

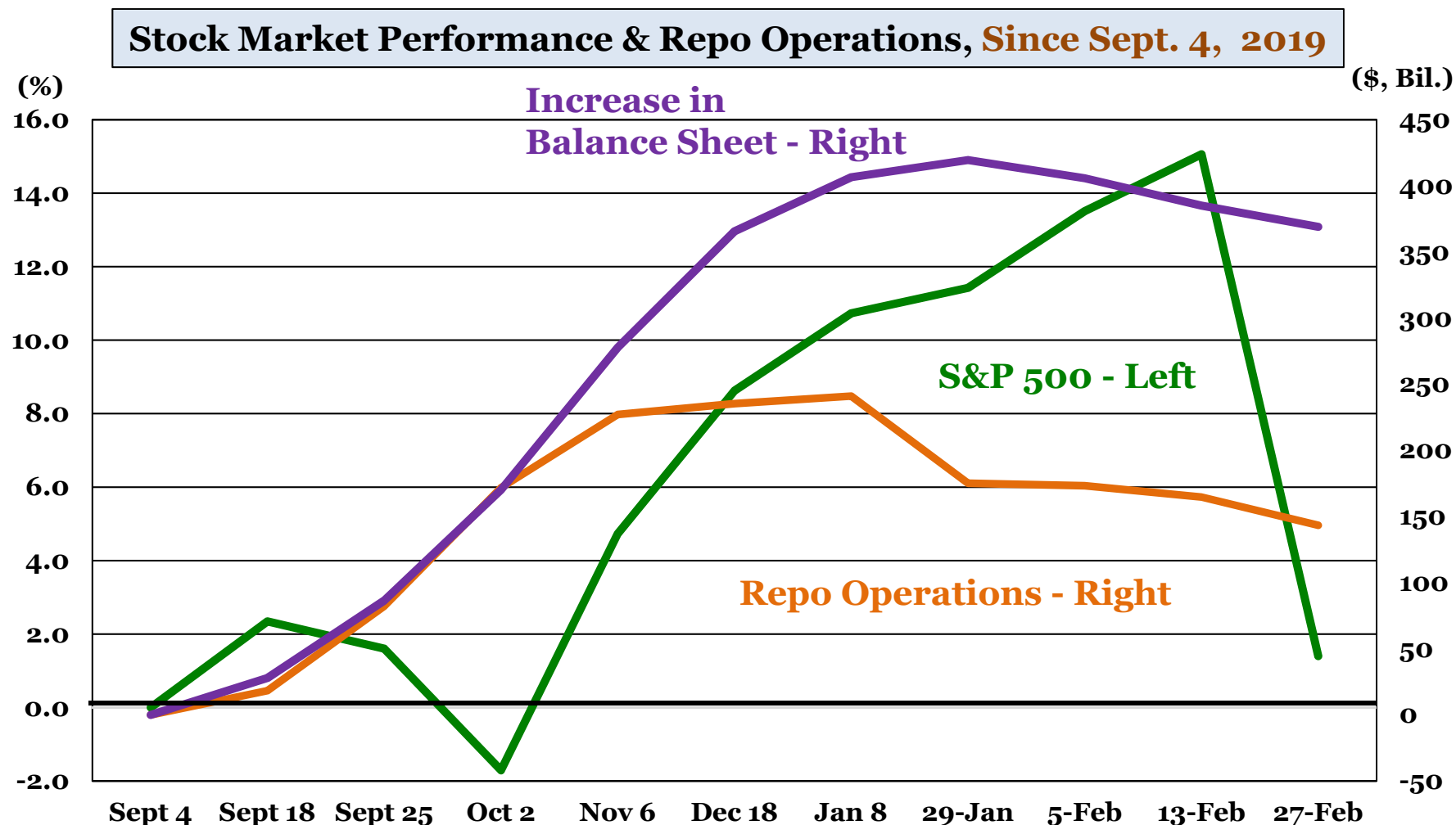
Source: Federal Reserve, April 2020

* P: Purchases, DL: Direct Lending, SPV: Special Purpose Vehicle

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Liquidity Pumping by the Fed – Phase I

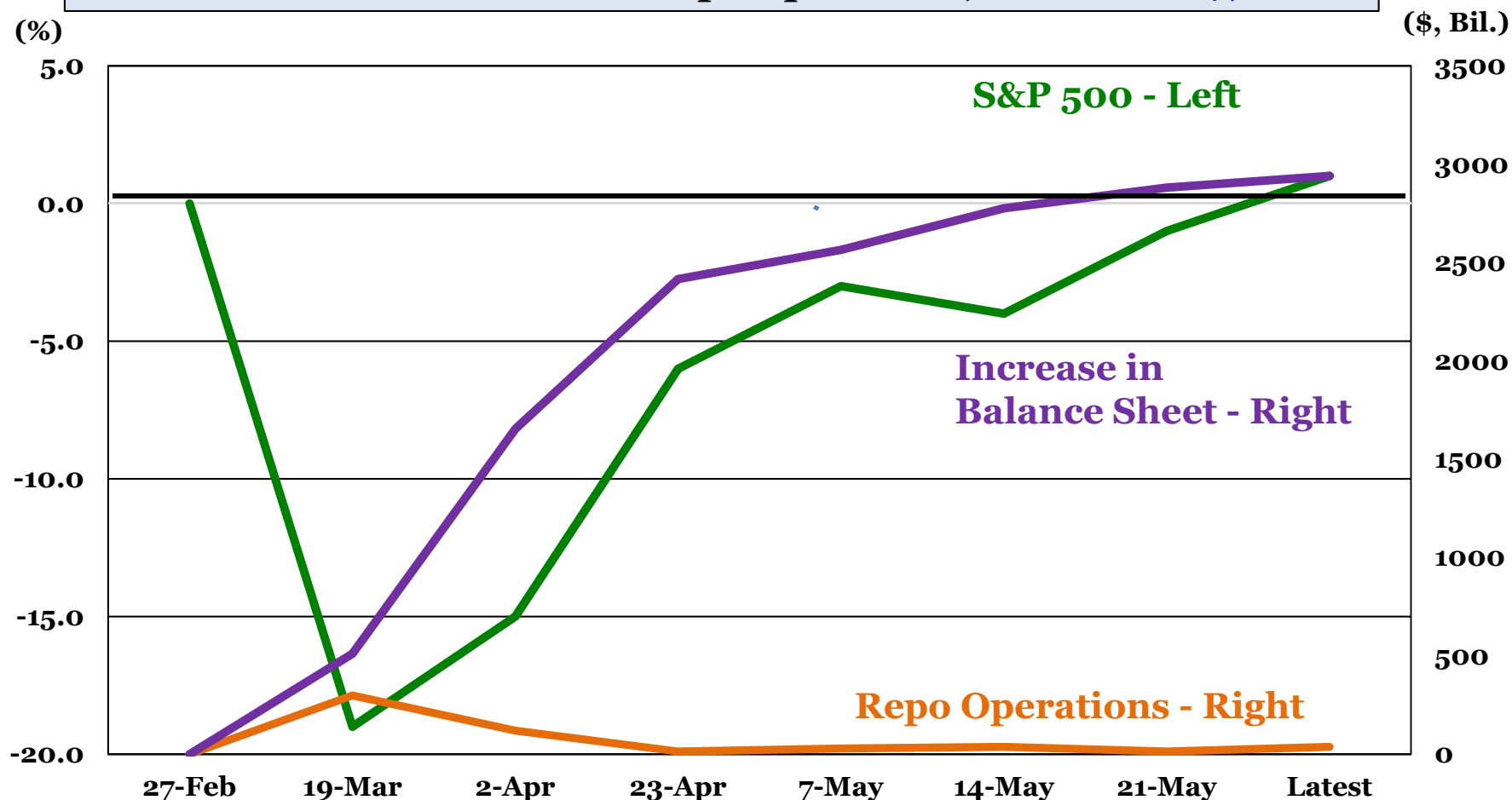


Source: EFC calculations based on data from *Bloomberg*



Liquidity Pumping by the Fed – Phase II

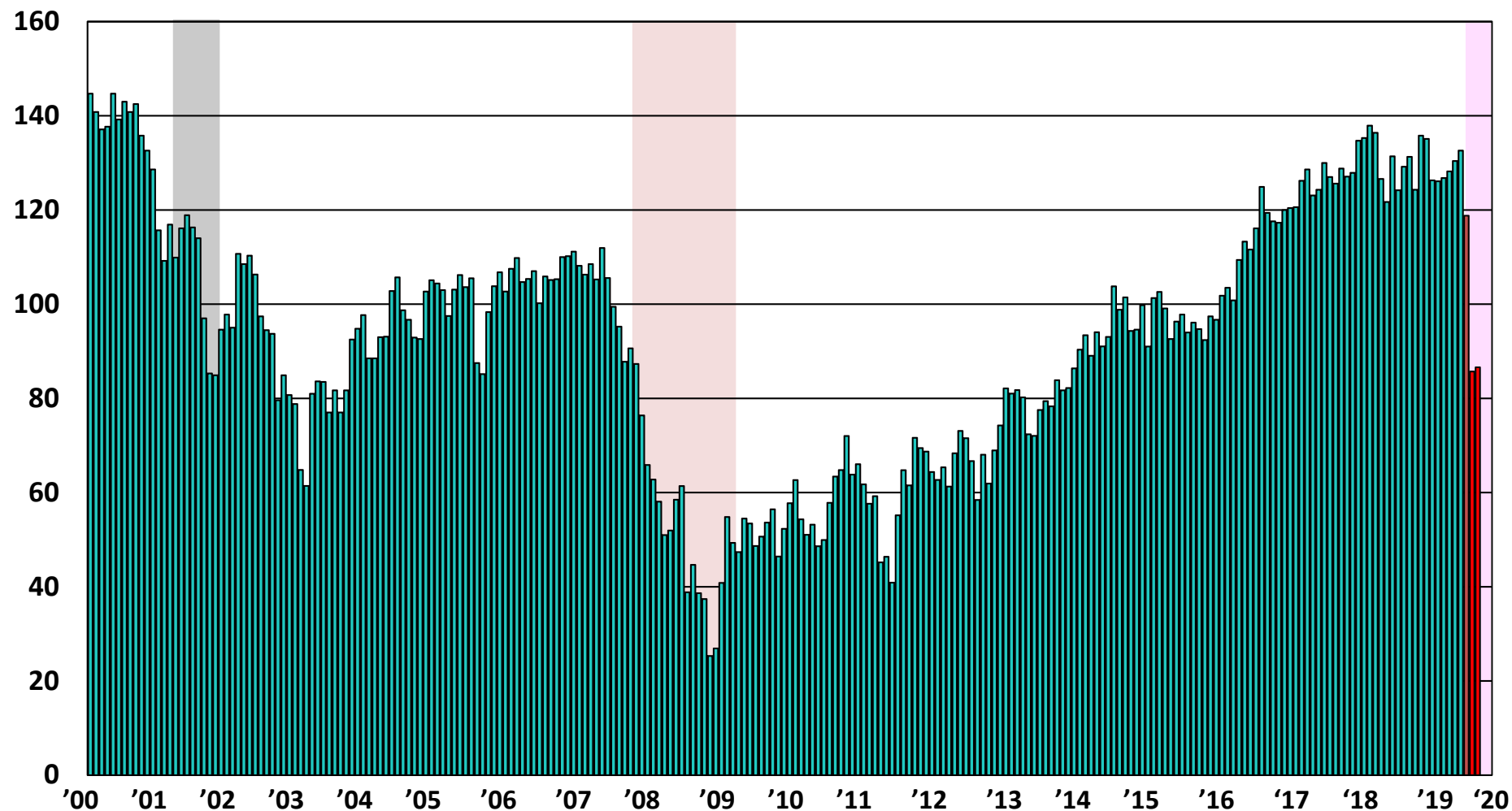
Stock Market Performance & Repo Operations, Since Feb. 27, 2020



Source: EFC calculations based on data from *Bloomberg*



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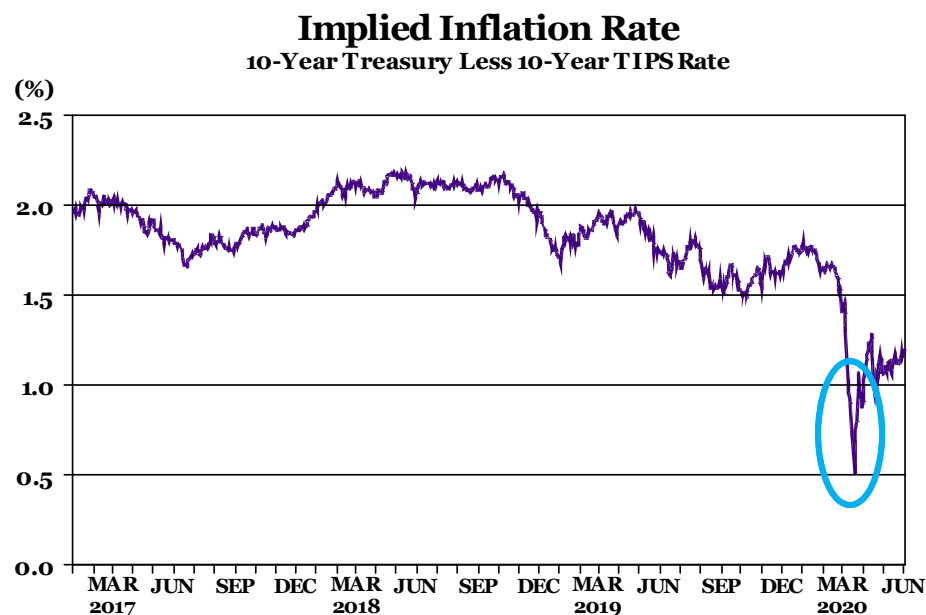
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Powell Greenlights Additional Fiscal Actions

Jerome Powell
Chairman
Federal Reserve

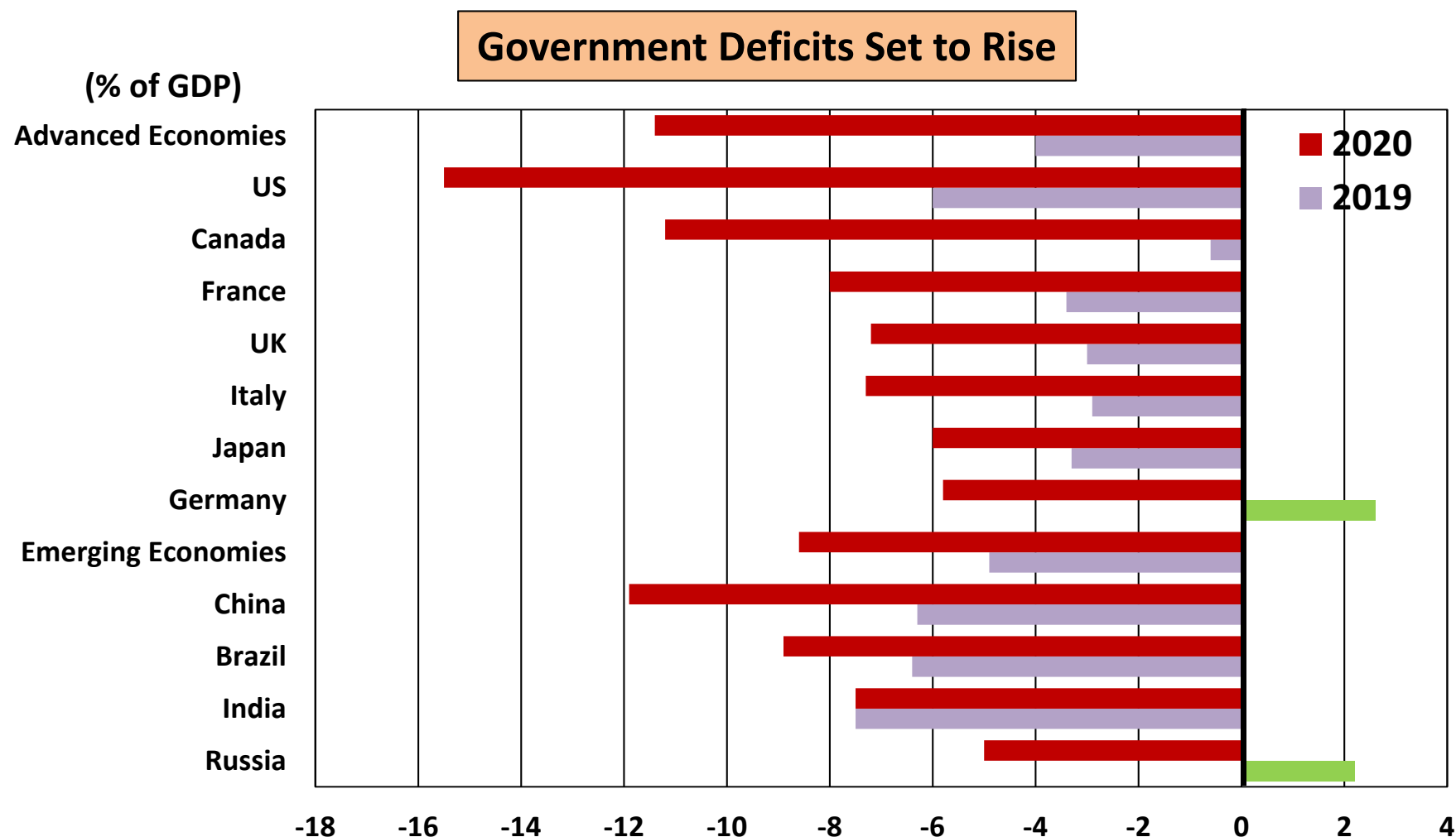
But the **recovery may take some time to gather momentum,** and the **passage of time can turn liquidity problems into solvency problems.** Additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery.



Source: Speech by Chair Powell, May 13, 2020



IMF Warns of Global Rise in Public Debt

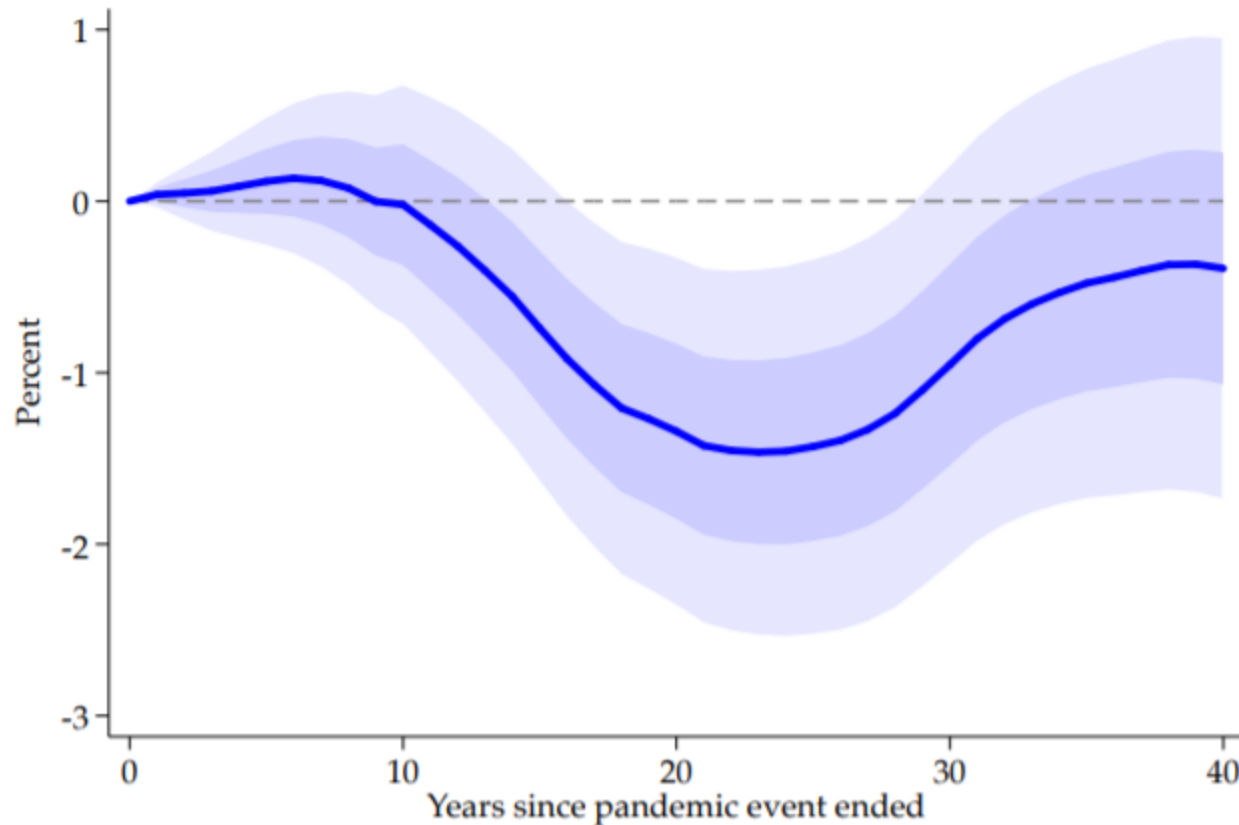


Source: Data from IMF



What Will Happen to Interest Rates?

Figure 2: Response of the European real natural rate of interest following pandemics



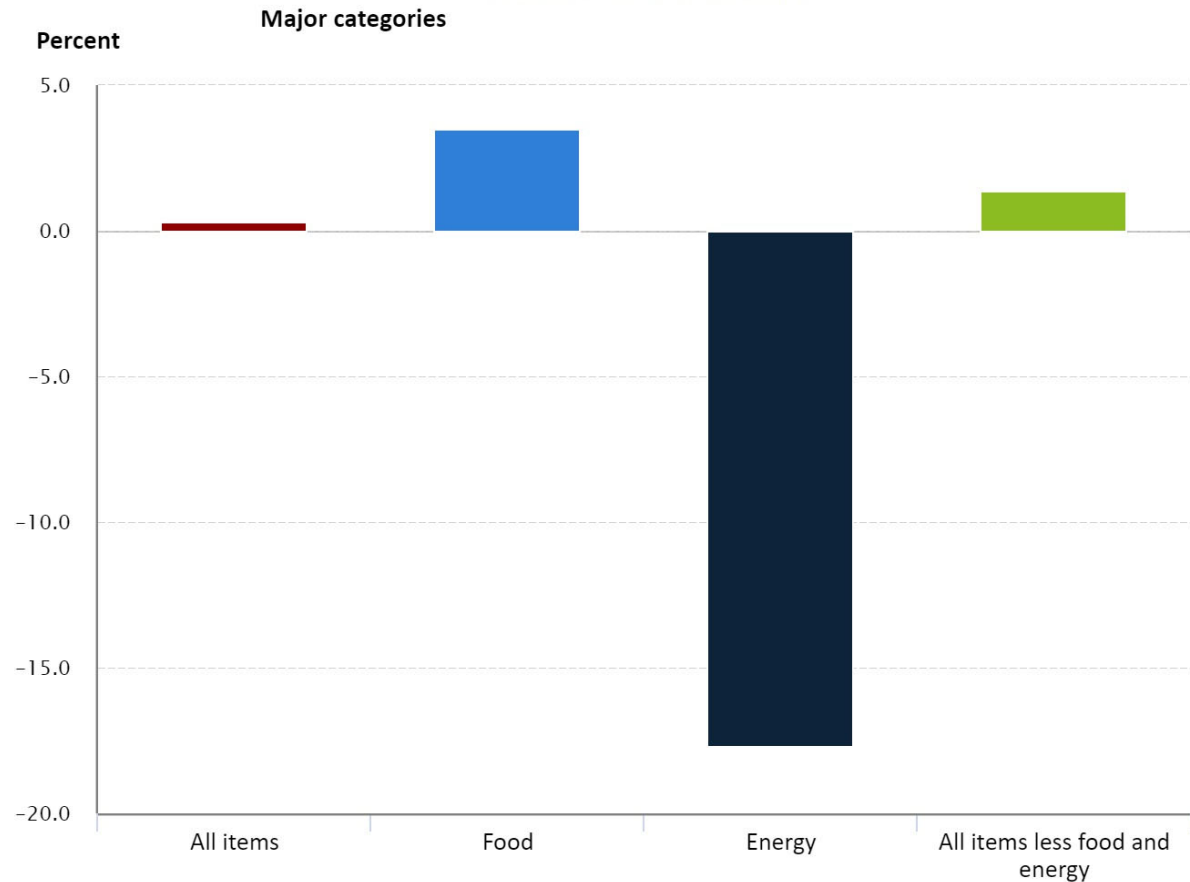
Source: Longer-Run Economic Consequences of Pandemics, FRBSF Working paper 2020-29



The State of **Current** Inflation

12-month percentage change, Consumer Price Index, selected categories, April 2020, not seasonally adjusted

[Click on columns to drill down](#)



Source: U.S. Bureau of Labor Statistics.

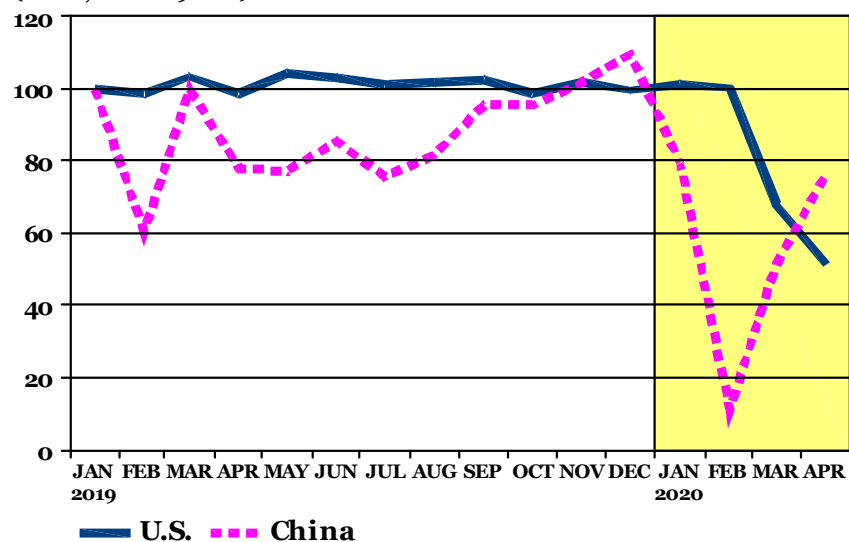




How Does Covid-19 Recovery Looks?

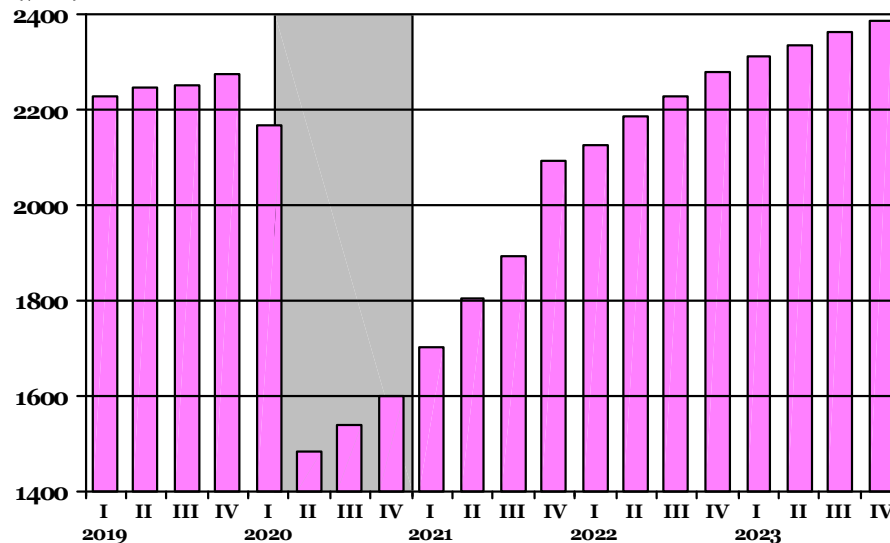
Auto Sales Dropoff: US versus China

(Index, Jan 2019=100)



Medical Spending (COVID-19 Episode)

(\$ bil.)

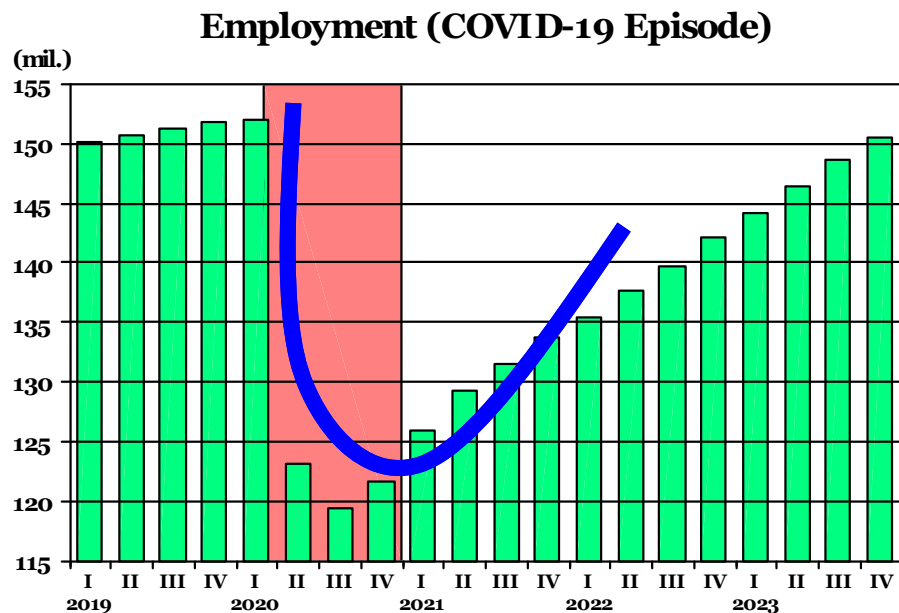


US Forecast Summary, May 2020

	Quarterly								Annual		
	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	2020	2021	2022
Real GDP (%)	-41.8	3.4	1.0	5.7	4.6	4.0	9.8	3.4	-9.5	0.4	6.1
Consumption (%)	-48.8	13.1	7.4	3.7	3.8	5.5	13.9	4.4	-10.7	1.6	7.0
Investment (%)	-33.1	-25.9	-3.8	-2.4	-1.7	-1.2	0.0	8.0	-13.1	-6.6	5.8
Auto Sales (mil.)	10.9	11.9	12.0	12.2	12.4	12.6	12.7	13.7	12.5	12.5	14.1
Housing Starts (mil.)	0.815	0.865	0.876	0.818	0.837	0.876	0.886	0.942	1.006	0.854	1.121
Job Gains ('000)	-28,900	-3,712	2,255	4,232	3,244	2,287	2,306	1,583	-21,828	994	8,588
Crude Oil (\$/bbl)	26.8	33.4	35.0	39.6	34.3	40.4	42.6	48.9	35.2	39.2	54.2
CPI	-3.3	2.3	2.2	1.9	2.1	1.9	2.0	3.0	0.9	1.7	2.8
Core - CPI	1.2	1.9	0.9	1.0	1.1	0.9	1.1	1.4	1.9	1.1	1.5
Real U.S. Dollar (%)	23.3	4.0	7.7	4.5	-7.3	-5.8	-7.7	-7.0	7.3	1.6	-6.6
10-year T-Bonds	0.7	0.7	0.9	1.2	1.4	1.7	1.8	2.1	0.9	1.5	2.2
Fiscal Deficit (bil. \$)/% of GDP	-4,110	-4,645	-3,434	-2,953	-2,823	-2,751	-2,528	-2,503	-17.3%	-13.9%	-11.1%



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