THE POWER
OF BEING
UNDERSTOOD
RSM ECONOMIC OUTLOOK

The state of the economy as businesses reopen

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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

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

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.
Cumulative initial jobless claims and continuing estimate
RSM US Manufacturing Index and past recessions

Source: NBER; Bloomberg; RSM US Calculations
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

Source: RSM US, Bloomberg
Retail sales during pandemic

Source: RSM US, Bloomberg
Retail sales

• 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.
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.

**TOTAL**
- Lost revenue: 66%
- Disruptions to operations or production: 63%
- Disruptions to marketing and/or sales operations: 59%
- Delays in your supply chain: 54%
- Lost access to some markets: 48%
- Sought special financing to ensure liquidity: 43%
- Lost key customers or clients: 42%
- Closed one or more of your worksites: 31%
- Lost key suppliers: 26%
- None of the above: 47%

**In the U.S.**
- $10M-$50M: 74%
- $50M-$1B: 60%

**Outside the U.S.**
- $10M-$50M: 70%
- $50M-$1B: 58%

**ARROWS**
- Significantly higher/lower than $10M-$50M at .05 level of significance

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

<table>
<thead>
<tr>
<th>Scenario</th>
<th>In the U.S.</th>
<th>Outside the U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lose revenue</td>
<td>22%</td>
<td>61%</td>
</tr>
<tr>
<td>Disruptions to marketing and/or sales operations</td>
<td>19%</td>
<td>56%</td>
</tr>
<tr>
<td>Disruptions to operations or production</td>
<td>16%</td>
<td>55%</td>
</tr>
<tr>
<td>Delays in your supply chain</td>
<td>27%</td>
<td>54%</td>
</tr>
<tr>
<td>Lose key customers or clients</td>
<td>16%</td>
<td>43%</td>
</tr>
<tr>
<td>Lose access to some markets</td>
<td>17%</td>
<td>39%</td>
</tr>
<tr>
<td>Seek special financing to ensure liquidity</td>
<td>12%</td>
<td>36%</td>
</tr>
<tr>
<td>Lose key suppliers</td>
<td>14%</td>
<td>27%</td>
</tr>
<tr>
<td>Close one or more of your worksites</td>
<td>12%</td>
<td>23%</td>
</tr>
<tr>
<td>None of the above</td>
<td>7%</td>
<td>47%</td>
</tr>
</tbody>
</table>

**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.

ARROWS = Significantly higher/lower than $10M-$50M at .05 level of significance.
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?

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

• 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)

• 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

• 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

• 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?

• **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
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
Stay-home restrictions

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

Economic activity

Public transport ridership

Restaurant dine-in activity

Manhattan subway entries

Retail activity

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).

Source: Bloomberg, OpenTable

Source: Bloomberg, New York City Metropolitan Transportation Authority

Source: Bloomberg, Prodcoc; Note: Data based on sensors mounted on doors at stores in the U.S. and Canada
As states begin opening businesses, restaurant activity is picking up from Texas to Florida, but public transport in most cities is still muted.
Flight departures: China

Source: BloombergNEF, FlightStats, Flightradar24
Polling question

• When will you be comfortable traveling again?
  a) Now
  b) Soon
  c) Not for a while
U.S. Transportation Security Administration checkpoint traffic

Source: TSA, BloombergNEF
US outlook: What could go right?

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!

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