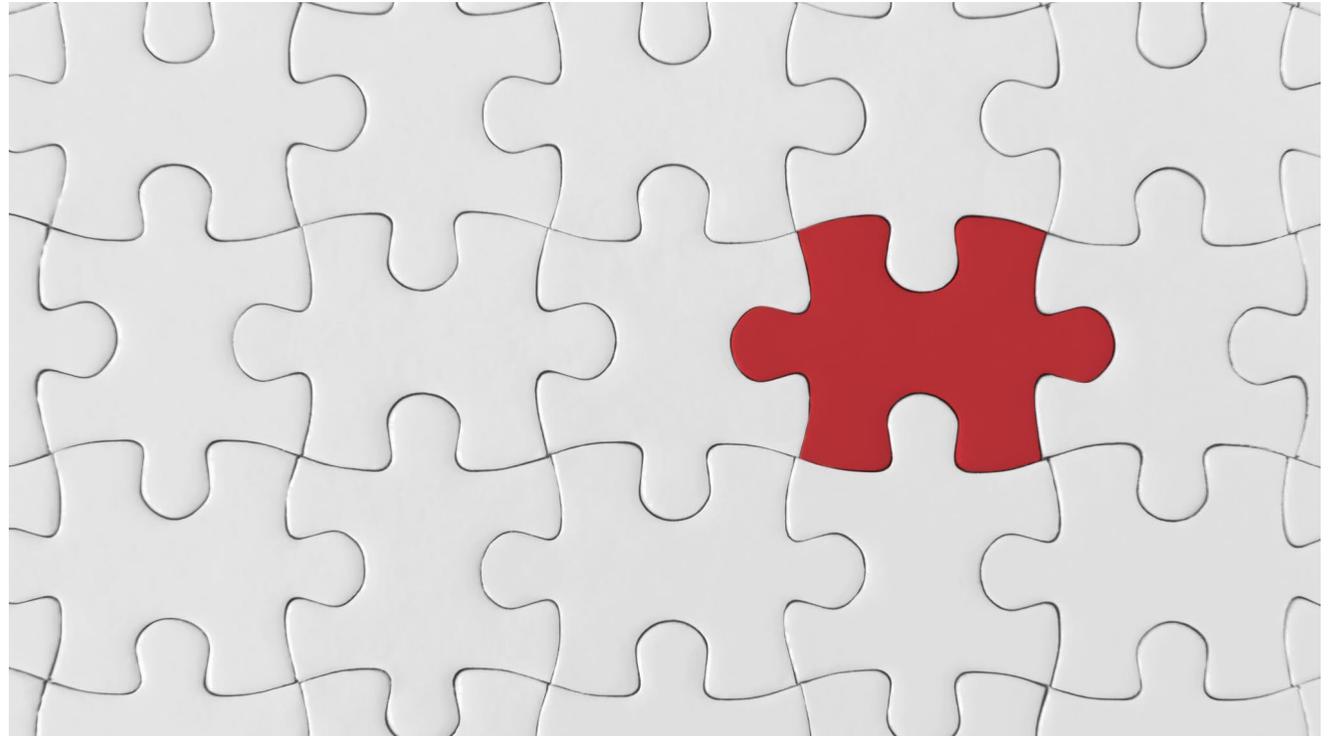


# State of the Economy September 2020

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# State of the U.S. Economy

## Synopsis (Make a Long Story Short)

- One thing is for sure, the U.S. and global economies are hard at work to pull themselves from the trough of Covid-19 induced recession.
- The recovery has begun, but there are regular misfiring and changed trends that consumers and businesses must learn to live with.
- Many economist expect economy to rebound in the 3<sup>rd</sup> quarter of 2020 after GDP fell 9.5%, or 32.5% at an annual rate in the 2<sup>nd</sup> Quarter.
- Expectation for GDP growth in the 3<sup>rd</sup> Quarter is around 23% at an annual rate.
- That still leaves 2020 with a large negative GDP growth rate (around -5%).
- There are plenty of evidence that suggests the economy is trying to find its footing and its going.
- Industrial production rose 2.3% and retail sales advanced by 1.2% in July.
- The economy has added almost 10 million jobs in the last three months.
- Initial jobless claims, a proxy for layoffs, fell below 1 million in August for the first time.
- Still, layoffs remain exceptionally high, employment is down nearly 14 million from February, and the jobless rate stands at a historically high 10.2%.

# State of the U.S. Economy

## **Q2 2020 was the worst quarter on record despite fiscal support; waiting for stimulus as rebound loses momentum**

- Real GDP shrank 5% in the first quarter and 32.9% in the second quarter
- Second quarter drop in GDP was the sharpest quarterly decline on record
- All major components of GDP, with exception of Government purchases, plunged
- The unemployment rate, officially measured, reached a peak of 14.7% in April and has been moving lower since.
- The peak in the unemployment rate would have been higher (nearly 20%) were it not for a misclassification of many unemployed persons as employed but absent from work.

# State of the U.S. Economy

## **Q2 worst quarter on record despite fiscal support; waiting for stimulus as rebound loses momentum**

Contraction was widespread...

- Consumption (-5.2%), nonresidential fixed investment (-7.3%), exports (-13.7%), and imports (-14.4%)
- Federal income support was staggering in the second quarter
- Federal subsidies rose \$1 trillion. Of that increase, \$610 billion was forgiven PPP loans, roughly 2/3 of which went to corporate business
- Federal transfer payments to individuals surged \$2.4 trillion fueled by stimulus checks and emergency unemployment benefits
- Federal grants-in-aid to states jumped \$0.8 trillion.
- Personal disposable income grew 42.1%, pushing the personal saving rate to 25.7%

# State of the U.S. Economy

## **Recovery which pursued was robust through June but has started to slow...**

- After reaching a trough in April, down 15.3% from February, monthly GDP rose sharply over May and June, reversing roughly one-half of the prior two-month decline.
- This in part reflected efforts by states, beginning in May, to reopen their economies by lifting restrictions on economic and social activity that had been in place to slow the spread of COVID-19.
- Recovery was also helped along by support from various fiscal measures
  - expanded unemployment insurance benefits,
  - economic stimulus payments,
  - and forgivable loans
  - and perhaps most importantly by a public that had become more sanguine about COVID-19 in light of declining daily rates of new infections through May and into June.

# State of the U.S. Economy

## High Frequency Data

- Credit- and debit card transaction data (from the Opportunity Insights Economic Tracker) showed transaction firming through June but started to level off throughout July
- Other high-frequency indicators that have flattened out in July included seated diners (OpenTable), hotel revenues and air travel (STR and TSA, respectively), small-business revenues (Opportunity Insights, Womply), and gasoline consumption (EIA)
- Monthly GDP is expected to turn up again beginning in October

# State of the U.S. Economy

## Near Term Forecast

- The forecast shows strong (23.4%) GDP growth in Q3 slowing to 4.5% in Q4
- Unemployment rate will stabilize at 8.6% by the end of 2020 and will lower to 7.6% in 2021
- The economy is projected to grow 3.1% in 2021 and 4.1% in 2022.
- GDP surpasses its previous peak in the spring of 2022, and the economy regains full employment late in 2023
- This forecast is predicated on the assumption that vaccine becomes available by mid-2021, allowing the economy to accelerate then.

# Economy of the State – Alabama

- Prior to the current downturn, the Alabama's labor market performance was robust and strong.
- Payroll employment registered positive trends from May 2012 to March 2020.
- The performance of the labor market for 2019 averaged at 41,000 additional jobs per month.
- This figure far exceeded the growth experienced during the earlier years and very close to the steady state growth trend.
- The trend, however, was reversed in April of 2020.
- The State lost 200,000 and 167,000, 126,000 and 109,000 jobs in April, May, June, and July relative to same months in 2019.

# Economy of the State – Alabama

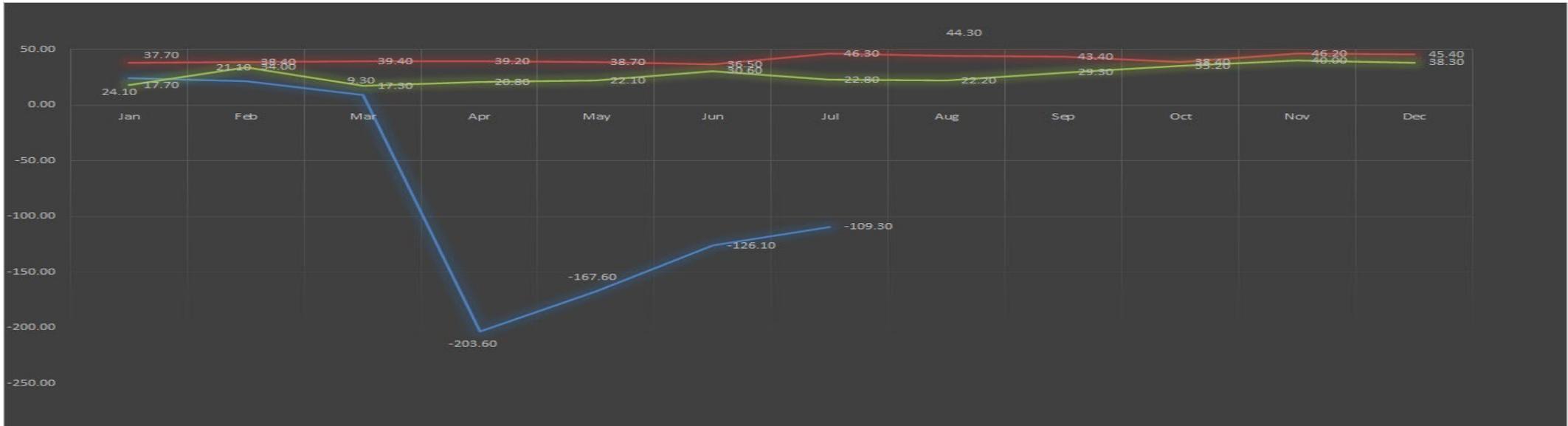
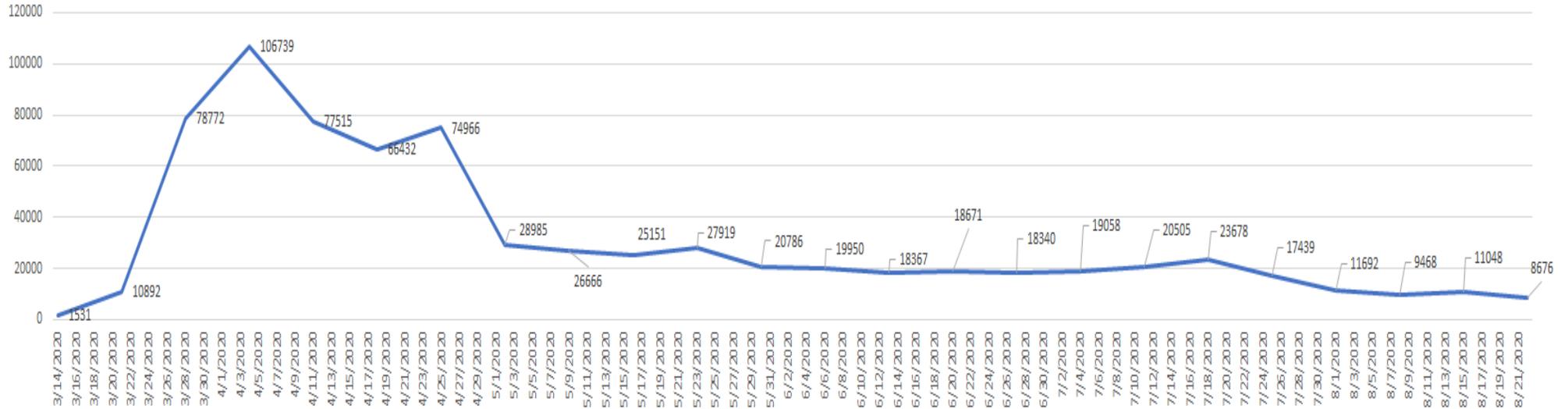
As of August 22, 2020, Alabama Department of Labor reports that a total of 743,246 Alabamians have applied for unemployment benefits.

The peak was reached on week of 4/4/2020 when 106,739 Alabamian filed for benefits.

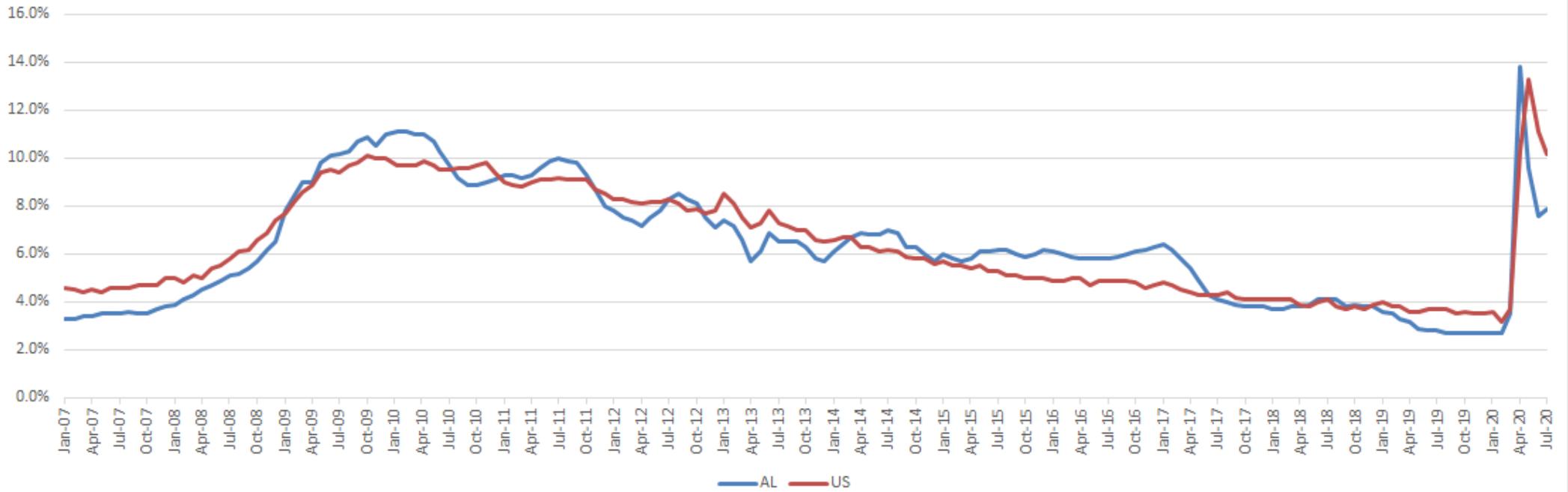
The number of new additional claims seems to be leveling-off.

The 743,246 figure is far exceeding (ten times) the number registered at the height of 2009 recession. The claims in December of 2008 reached a high of 66,249.

### Unemployment Claims



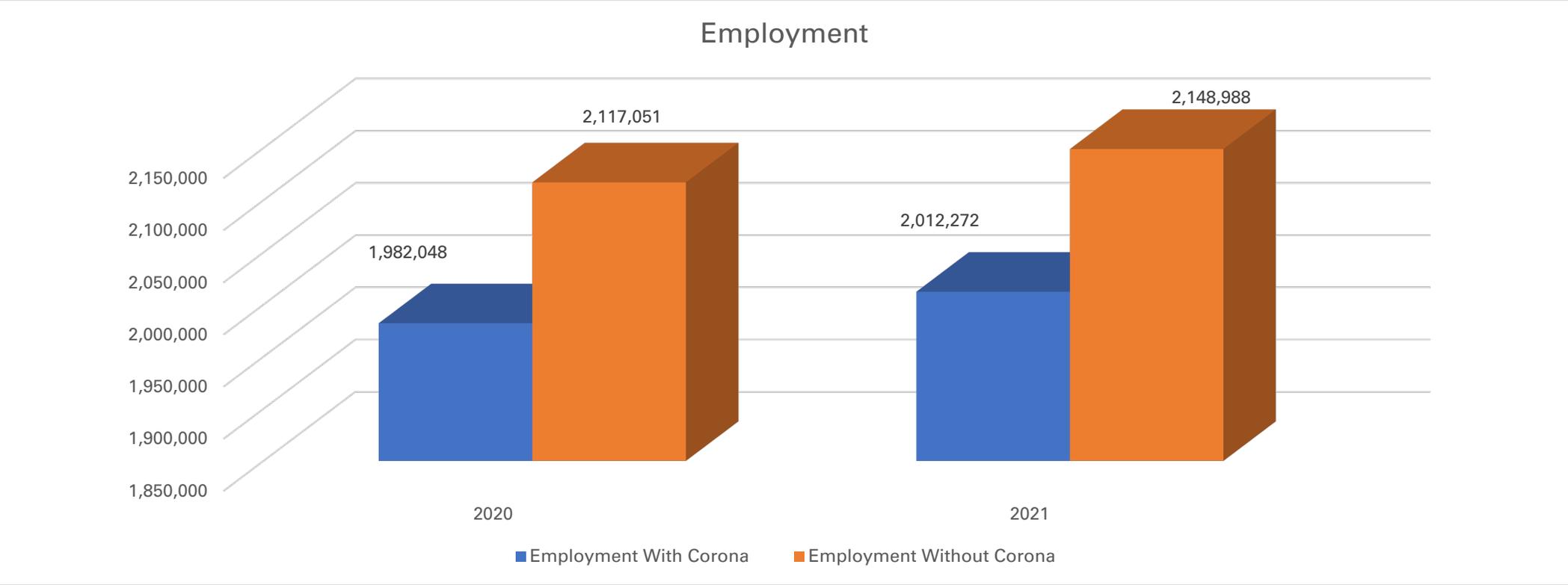
Unemployment Rate



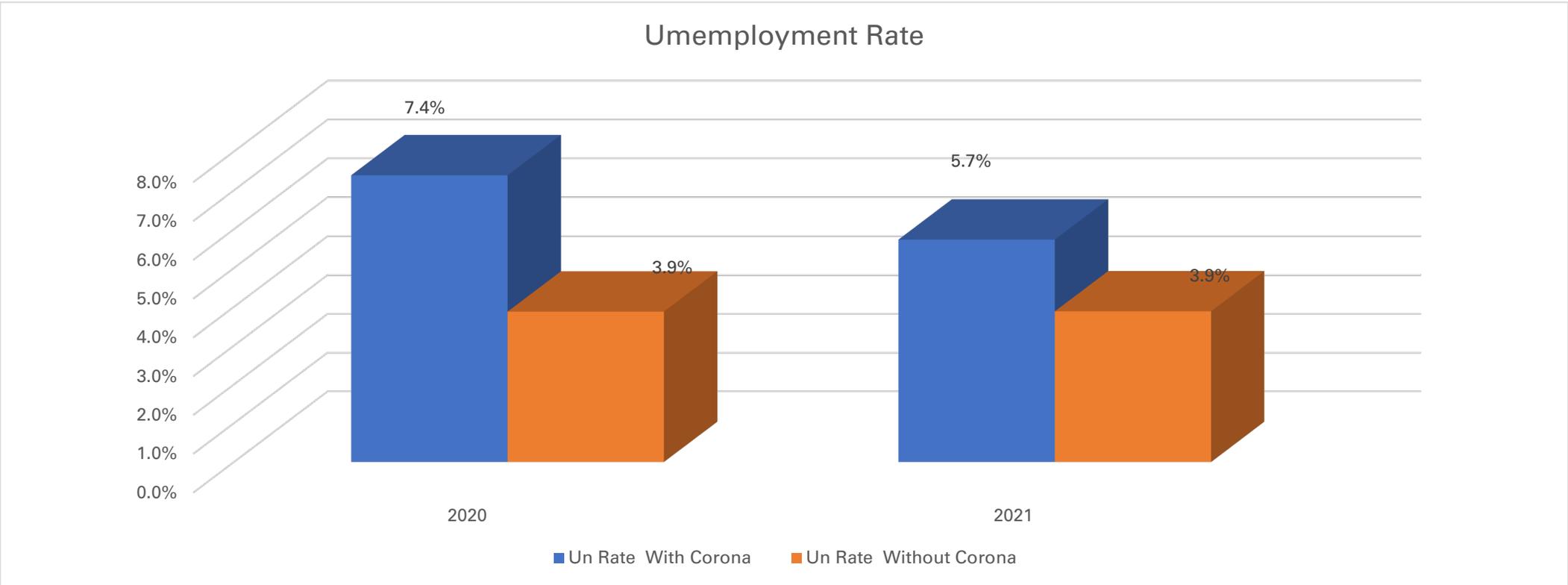
# Economy of the State – Alabama

- Our model produced the following post-Covid 19 economic forecast for Alabama's economy:
- **Alabama GDP Loss: \$16 billion in 2020 (-5% decrease)**
  - greatest loss will be realized in the following sectors:
    - Services (24%)
    - Manufacturing (17%)
    - Real Estate (10%)
    - Wholesale (8%)
    - Retail (8%)
    - Construction Industries (8%)
- **Income Loss: \$13 Billion in 2020**
- **Job Losses: 135,000 in 2020** (this is equivalent to the number of jobs lost in entire 2009 and 2010).
- **Unemployment rate: 7% in 2020** (the rate will be substantially higher during the second quarter of 2020)

# Pre and Post Covid-19 Forecast – Employment



# Pre and Post Covid-19 Forecast - UNR



# Economy of the State – Alabama

We believe while the economy in 2021 is projected to grow by 2.2%, the overall size of the Alabama economy will shrink by 7% relative to the forecast generated earlier in January of 2020.