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Q2 2020 ECONOMIC REPORTS

GDP GROWTH: TRENDING IN Q2 2020

The coronavirus pandemic caused the nation's economic output to fall at its fastest pace on record with gross domestic product declining 9.5% in the second quarter. On an annualized basis, the GDP – the broad measurement of goods and services produced – fell at a rate of 32.9%. The Commerce Department's initial estimate showed that personal spending, which accounts for roughly two-thirds of GDP, fell an annualized 34.6%, also the most on record.

The drop in spending on services was measured at 43.5% with travel, tourism, restaurant spending, and medical care being hit the hardest, subtracting nearly 23 percentage points from the GDP. Sales of household goods also declined but the cutbacks were not as severe as purchases fell 11.3%. Although sales of clothing, gasoline, and many other goods fell sharply in the second quarter, consumers bought more autos, groceries, and household staples as many Americans shifted to working from home.

Overall business investment in facilities, equipment, and intellectual property fell to a 27% annualized pace, the steepest decline since 1952. Infrastructure outlays dropped 35%, led by cuts in the energy sector. Equipment spending was down 37.7%. The level of inventories shank by a $235.6 billion annual rate compared to an $80 billion drop in the first quarter.

GDP GROWTH
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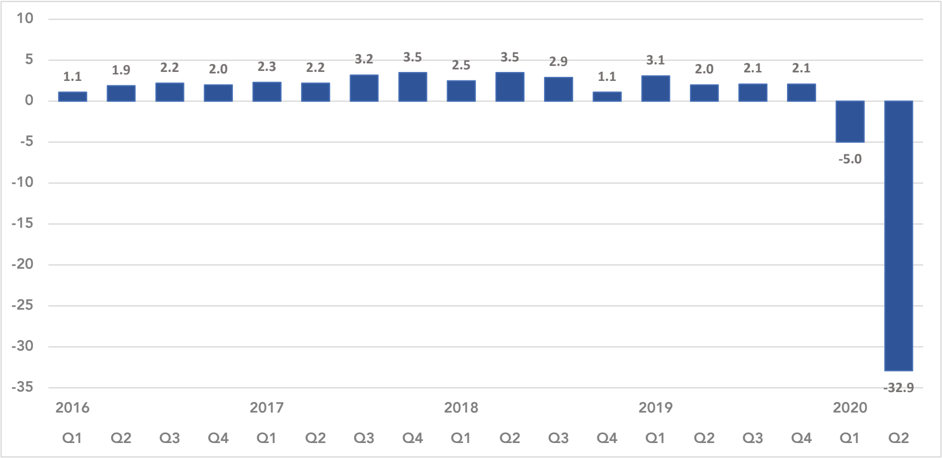
Real GDP: Percent Change from Prior Quarter

U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates



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Residential investment dropped at a 28.7% rate, the most since 1980. More recent figures are showing gains in home sales as buyers seek to take advantage of record-low mortgage rates. Spending on new housing also contracted by 38.7% but there were signs it was springing back quickly as builders began stepping up construction toward the end of the quarter.

International trade also was a drag on the economy as the global pandemic caused sharp declines in demand. Exports tumbled by 64% in the second quarter and imports fell 53%. Government spending was mixed. Although the federal government rushed in with huge infusions of relief for businesses, households and the unemployed, state and local governments saw large drops in tax revenue while their expenses on emergency services soared.

Meanwhile, the inflation rate fell at a 1.9% pace in the second quarter after increasing early in the year. The costs of many goods and services have slipped as companies cut prices in an effort to boost sales. The Commerce Department left the originally reported Q1 drop in GDP unchanged at 5%. Economists widely predicted Q2's steep economic collapse, which, unlike previous downturns, came following purposeful decisions to shutdown economic activity in an effort to slow the spread of the Covid-19 virus.

The speed and scope of the contraction is without comparison except for the Great Depression and the quarterly records dating from 1947 with demobilization following World War II.

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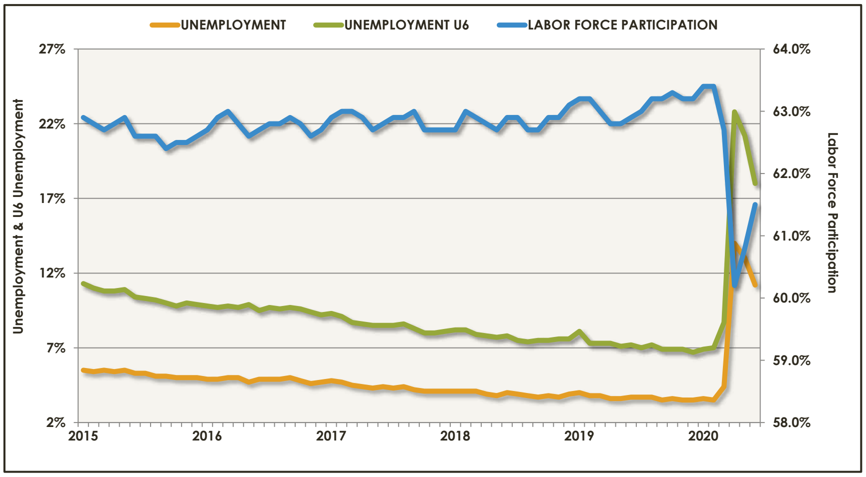
EMPLOYMENT: TRENDING IN Q2 2020

After suffering a swift and withering downturn from the onset of the coronavirus pandemic that emerged in late March, the nation's labor market started a partial rebound late in the second quarter. But the recovery was sidelined by a surge in Covid-19 infections that began in June and heightened employer uncertainty.

After skyrocketing from 3.8% in February to a 14.7% high in April the nation's unemployment rate fell to 11.1% in June with 4.8 million more workers collecting paychecks than in May. Nevertheless, there still were nearly 15 million fewer jobs in June than in February. The Department of Labor's Bureau of Labor Statistics also said a misclassification error could have undercounted the jobless rate when 88.6% of job losses were classified in April and May as "temporary." Additonally, persistent data-collection problems may have reduced the unemployment rate by 1%, the Labor Department said.

But because of the spiking Covid cases at the end of the second quarter, the tenuous economic recovery is in jeopardy of stalling. With infections hitting record numbers in most states, particularly in California, Florida, Texas and Arizona, governors were pulling back from their reopening plans. Teachers unions and a majority of parents are opposing resumption of in-class instruction unless more is done to provide a safe environment in schools. This, in turn, threatens to delay a recovery.

United States Unemployment



> ***"In three months, more workers were furloughed than in two years during the 2008-09 recession when the unemployment rate peaked at 10.6%.***

The current unemployment crisis and recession still is worse than at any time since the Great Depression. In three months more workers were furloughed than in two years during the 2008-09 recession, when the unemployment rate peaked at 10.6%. Through mid July, there have been 17 straight weeks with more than 1 million new applications for jobless benefits.

Economists fear that layoffs could accelerate now that states have begun to order some businesses to close down again and that many more furloughs may turn into permanent job losses.

Another looming danger is the coming expiration of government assistance, namely the enhanced unemployment relief that now provides an extra $600 per week to some 25 million laid-off workers. Without congressional action, these benefits were due to stop at the end of July. This would end a major source of income for workers and as well as fuel for the economy.

The jobless rate varies by gender and race. The unemployment rate for women in May was 14.3% compared to 11.9% for men. Joblessness for Black men was 15.8%, which was substantially less than the 21.2% rate faced by this cohort in the 2008-09 recession. In May the unemployment rate among male Hispanic workers was 15.5% , 13.3% for Asian men and 9.7% for white men. The jobless rate for Hispanic women was 19.5%, the most compared with other men and women in all major racial and ethnic groups.

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MONETARY POLICY: TRENDING IN Q2 2020

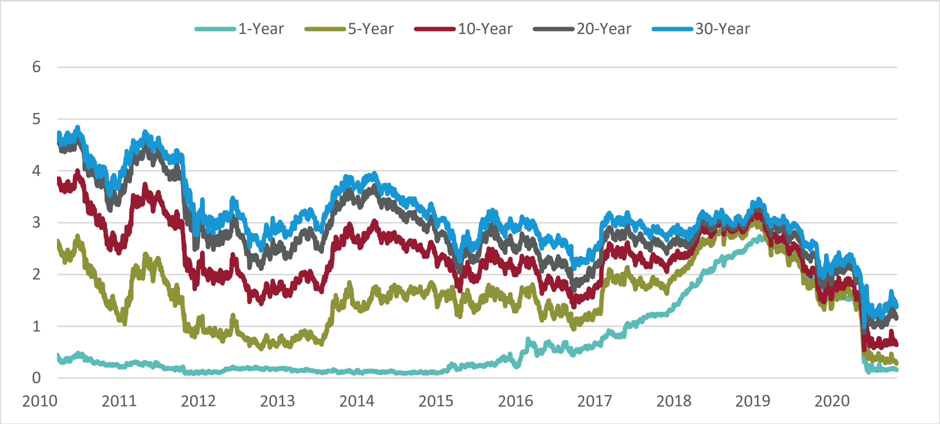
Inside the Federal Reserve the outlook was split at the close of the second quarter about how the economy is likely to perform as the nation struggles against the persistent coronavirus pandemic. Either way, however, there is a consensus that continued fiscal support is imperative.

There were no signs that the central bank will change course on its commitment in March to do all it deems necessary to prevent a liquidity shortage, including buying Treasury bonds and mortgage-related securities as required to maintain well-functioning financial markets.

There is wide agreement that the second quarter's improvement in hiring and consumer spending was due chiefly to the rapid and sizable fiscal support that came in the form of government relief checks and extra unemployment insurance payments that are set to expire in the coming weeks.

Because of this fiscal support there is a view that the economy will adjust to the pandemic leading to a solid recovery later this year along with a decline in the jobless rate, which is being voiced by James Bullard, president of the Federal Reserve Bank of St. Louis. "The macroeconomic news for May and June, reported with a lag, seems to suggest that April will prove to be the lowest point of the crisis," Bullard said at a July meeting of the Economic Club of New York.

Daily Treasury Yield Curve Rates (Decade Trend)



"If all those unemployed identifying as on temporary layoff are simply recalled ...the official unemployment rate would decline to a shocking 4.5%,"

- James Bullard, president of the Federal Reserve Bank of St. Louis

"A back-of-the-envelope calculation suggests that there is room for a substantial decline in the unemployment rate in the months ahead. If all those unemployed identifying as 'on temporary layoff' are simply recalled in the next six months and nothing else changes, the official unemployment rate would decline to a shocking 4.5%," Bullard said.

But he hedged his outlook with the caveat that "the downside risk remains substantial and better execution of a granular, risk-based health policy will be critical to keep the economy out of depression."

Other Fed officials with a more pessimistic view that the surprising second-quarter improvements may be reversed by the recent spread of the disease in southern and western states.

"The recent resurgence in Covid cases is a sober reminder that the pandemic remains the key driver of the economy's course. A thick fog of uncertainty still surrounds us, and downside risks predominate," said Lael Brainard, one of five members of the Fed's board of governors and an ally of Chairman Jerome Powell.

The best way for the central bank to provide additional stimulus, Brainard said, would be for the Fed to keep rates near zero and the abandonment of its decades-long policies to withdraw support to avoid rising inflation.

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GLOBAL ECONOMY: TRENDING IN Q2 2020

Global growth is forecast to fall to minus 4.9% this year – 1.9 percentage points less than April's outlook by the International Monetary Fund. The IMF blamed a worse economic impact of the Covid-19 pandemic than originally anticipated. Additionally, the IMF's latest World Economic Outlook projects a slower recovery than previously forecast, showing global growth in 2021 at 5.4%. The IMF cautioned there was a "higher-than-usual degree of uncertainty" around its latest forecast but said the acute, adverse impact on low-income households imperils the progress in reducing extreme poverty in the world since the 1990s.

More than two-thirds of governments around the world have scaled up their fiscal support since April to mitigate the economic fallout from the pandemic and the stringent lockdowns as growth is revised further down relative to the April 2020 World Economic Outlook. Announced fiscal measures are now estimated at near $11 trillion globally, up from $8 trillion estimated in the April 2020. Nevertheless, of the approximately 2 billion workers worldwide, the International Labor Organization estimates nearly 80% have been adversely affected.

The synchronized nature of the downturn has accelerated domestic disruptions globally. Trade retreated by nearly -3.5% year over year in the first quarter, reflecting weakened demand, sharply

European Union GDP Annual Growth Rate

As lockdowns ease, economists say the second quarter should reflect the nadir of the downturn, but that the outlook is tenuous and fragile.

reduced cross-border tourism and supply disruptions. Among other reports, early second-quarter data from Asia and Europe confirm the IMF's projections that the recovery could take longer than hoped. As lockdowns ease, economists say the second quarter should reflect the nadir of the downturn, but that the outlook is tenuous and fragile.

Manufacturing expanded as factories resumed operations and construction also picked up. Meanwhile, the services sector only grew slightly with most shops, restaurants, bars, hotels and movie houses remaining shuttered for much of the second quarter. But from poorer countries such as India to the rich U.S., economic pressure on households was one of the main factors that led authorities to lift restrictions despite still-high contagion.

Advanced economies saw weakened inflation averages which declined some 1.3 percentage points overall since the end of 2019 to 0.4% year over year in April. In emerging market economies inflation fell 1.2 percentage points since last year. Downward price pressure from declining demand along with lower fuel prices so far have more than offset upward cost pressure from supply disruptions.

"Lockdowns hurt," said Kallum Pickering, senior economist at Berenberg Bank in London. The U.K. economy grew only 1.8% in May compared to April, which was the nation's deepest contraction on record. The Organization for Economic Cooperation and Development estimates the country's economy is on track to decline 11.5% in 2020, the most among advanced economies. Singapore, punished by a collapse in global trade, estimated its economy retreated by an annualized 41.2% in its early second-quarter report.

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