



Economic Review - Second Quarter 2020

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Summary

The state of the general economy can help or hinder a business' prospects by influencing the demand for its goods and services. The economy also affects the availability and price of inputs such as capital and labor. The prevailing economic conditions therefore directly affect the value of a business at a specific point in time. The economic expansion that began in June 2009 was the longest since the 1850s.¹ However, the COVID-19 global pandemic has suddenly and severely affected economies and markets around the world.

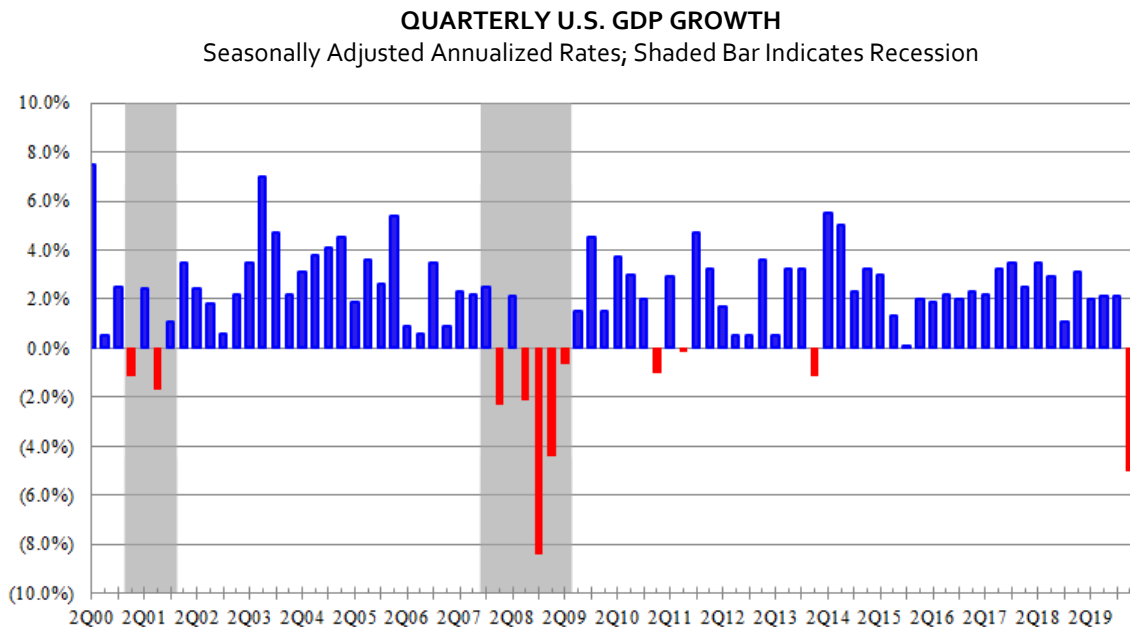
The Federal Open Market Committee (the "Committee") of the Federal Reserve held one meeting each in April and June to discuss the additional measures being taken to support the economy, which include:

- Maintaining the target range for the federal funds rate at zero-to-0.25 percent.
- Increasing its purchase of fixed income and mortgage-backed securities through the second quarter of 2020, increasing the total assets held on its balance sheet to over \$7.0 trillion.
- Directing overnight reverse repurchase agreement operations at zero percent interest, with a \$30 billion per day limit for each party.



Gross Domestic Product

The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP)—the output of goods and services produced by labor and property located in the United States—decreased at an annual rate of 5.0 percent in the first quarter of 2020, as the National Bureau of Economic Research officially declared the U.S. entered a recession in February 2020. Private sector estimates suggest GDP may decrease at an annualized rate of approximately 30 percent in the second quarter of 2020. The Federal Reserve publishes estimates of GDP growth, which it projects to be negative 6.5 percent for full year 2020. The Federal Reserve expects a moderate recovery from the coronavirus pandemic, with GDP growth estimates of 5.0 percent and 3.5 percent in 2021 and 2022, respectively, before settling at 1.8 percent annual growth for the long-run. Quarterly GDP data for the preceding 20 years is shown in the following figure.



Sources: U.S. Bureau of Economic Analysis and National Bureau of Economic Research. GDP percent change is based on chained 2012 dollars.

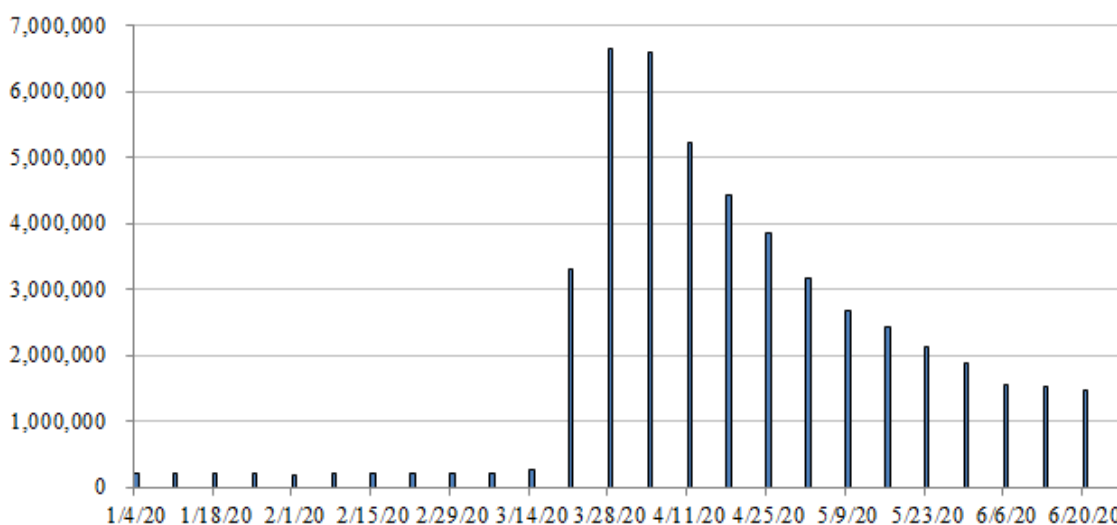
Employment

From March 2010 (the end of the 2008–2009 recession) to February 2020, 23.2 million net non-farm jobs were created.² As of February 2020, the unemployment rate of 3.5 percent was near an all-time low. A more expansive measure of labor underutilization, including discouraged workers who have left the workforce and part-time workers who would prefer full-time work, was at a 20-year low of 6.7 percent in December 2019.³



In March 2020, however, as national, state, and local governments began instituting lockdowns that forced the closures of many businesses and restricted the free movement of citizens, a wave of layoffs and furloughs began. Initial unemployment claims that had averaged 218,000 per week prior to the COVID-19 pandemic, spiked to a high of 6,648,000 for the week ending March 28, 2020, and were 1,408,000 for the week ending June 27, 2020 (the latest available as of June 30, 2020). While initial claims have continued to trend downward since peaking in late March and early April, they are still well above the average historical levels. Weekly initial unemployment claims for the second quarter of 2020 are shown in the following figure.

WEEKLY INITIAL UNEMPLOYMENT CLAIMS



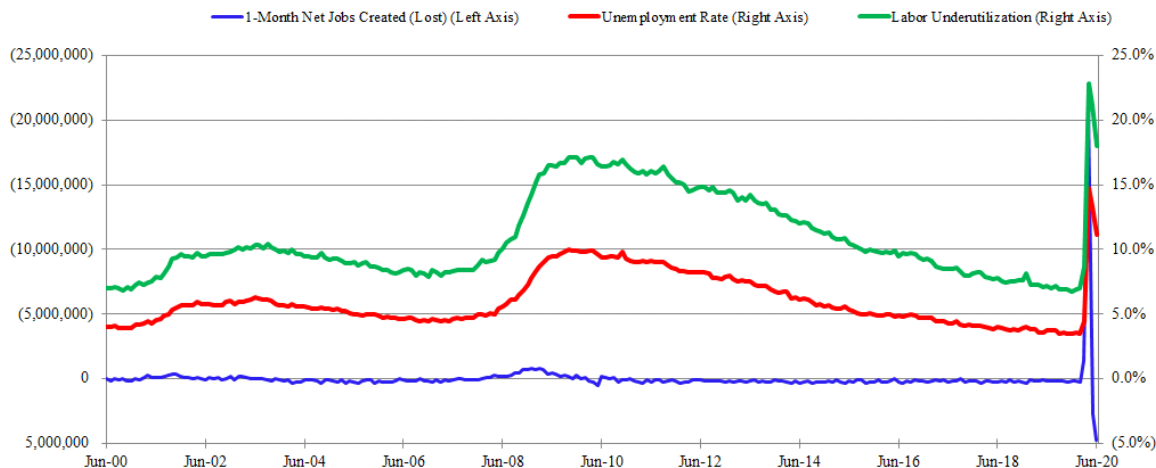
Source: Federal Reserve Bank of St. Louis.

Unemployment and underemployment restrain economic growth as consumers are unable or hesitant to spend. The past 20 years of job creation, employment, and underemployment data are presented in the following figure.



MEASURES OF STRESS IN THE LABOR MARKET

Shaded Bar Indicates Recession



Sources: Department of Labor, Bureau of Labor Statistics, and National Bureau of Economic Research. Data represents non-farm payrolls.

Interest Rates

Notable recent events in bond markets include:

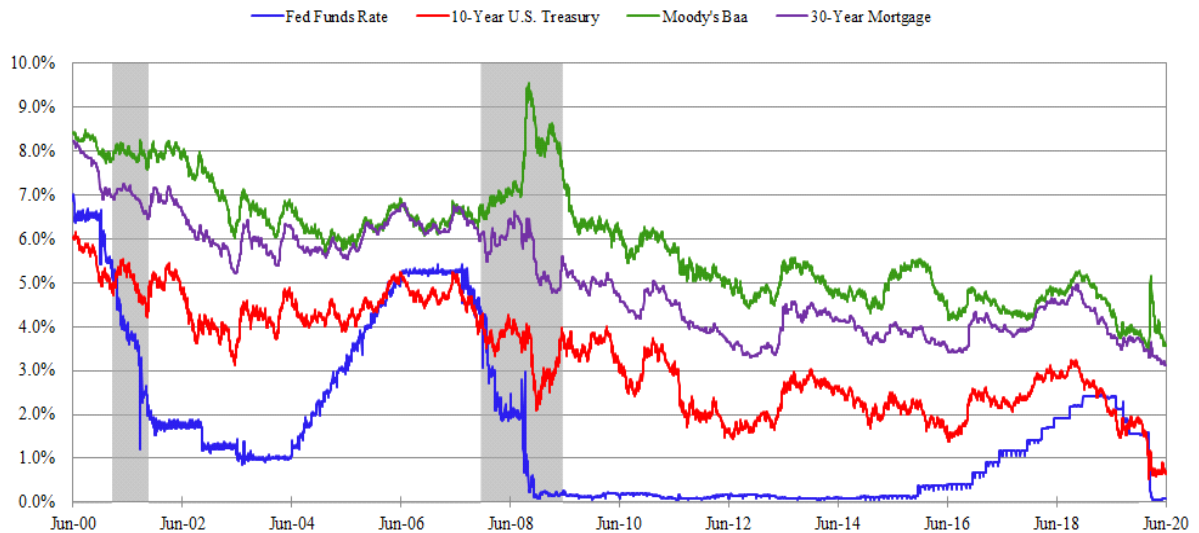
- Interest rates have declined, as investors continue to flee to safe haven assets and as the Federal Reserve expands its purchase of bonds and mortgage-backed securities.
- The yields on the 10-year and 30-year U.S. Treasury remained near their historically low levels throughout the second quarter of 2020.
- The Moody's Baa yield on corporate bonds decreased over 100 basis points in the second quarter of 2020, and continues to trend towards its all-time low.

The past 20 years of historical interest rate data are shown in the following figure.



SELECTED INTEREST RATES

Shaded Bar Indicates Recession



Source: Federal Reserve Statistical Release H.15 (519) Selected Interest Rates.

Stock Market Activity

Following a tumultuous first quarter, the S&P 500 regained most of its losses during the second quarter of 2020. Volatility remained high, but has subsided from its first quarter levels. While all major indices ended the second quarter with substantial gains, the NASDAQ Composite Index is the only index with positive returns year-to-date due to the strong performance in the technology sector. Total returns for U.S. stock indices are shown in the following figure.

TOTAL RETURNS OF MAJOR U.S. STOCK INDICES

Index	Second Quarter 2020	Year to Date
S&P 500	20.5%	(3.1%)
Dow Jones Industrial Average	18.5%	(8.4%)
NASDAQ Composite (1)	30.6%	12.1%
S&P MidCap 400	24.1%	(12.8%)
Russell 2000	25.4%	(13.0%)

Note:

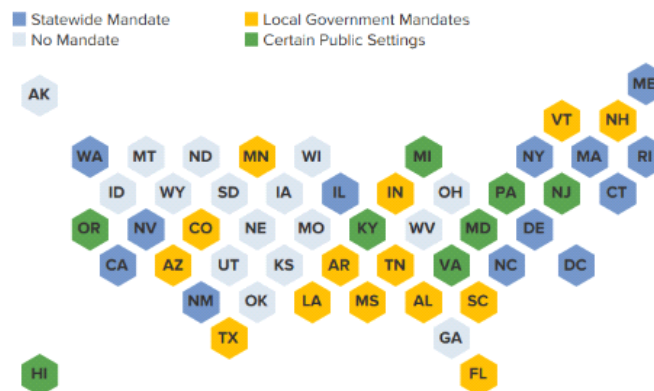
(1) Return represents principal only.



Coronavirus Pandemic and Government Response

- The coronavirus continued to impact the United States and the global economy throughout the second quarter of 2020.
- As of June 30, 2020, COVID-19 cases have surpassed 1 million people and caused more than 500,000 deaths globally.⁴
- In recent months, the coronavirus started to rapidly spread in initially unharmed regions of Africa, the Middle East, and southern Asia.⁵
- The United Kingdom, China, and Brazil, are among the countries to bar any travelers from the United States due to the continued rise of cases throughout the country.
- The United States accounts for approximately one-quarter of all coronavirus cases worldwide. In June, a number of states set single-day records for new cases for consecutive days in a row.⁶
- Some sporting events around the world and the United States have resumed competition with either limited capacity or with no fans in attendance. In addition, some businesses have been allowed to reopen on a limited capacity basis.
- Many countries have restricted travel into, and within, their borders.
- A number of states have implemented statewide mandates requiring people to wear face coverings when in public, while other states have set mandates regarding face coverings only in certain situations. In addition, a number of cities and local municipalities have implemented similar rules, which is summarized in the following figure.

FACE COVERING MANDATES BY STATE



Source: CNBC.



Disclaimer: this article has content that is general and informational in nature. This document is not intended to be accounting, tax, legal, or investment advice. Data from third parties is believed to be reliable, but no assurance is made as to the accuracy or completeness.

Endnotes:

1. National Bureau of Economic Research. <<https://www.nber.org/cycles.html>>.
2. Bureau of Labor Statistics. "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)." <http://data.bls.gov/timeseries/CE5000000001?output_view=net_1mth>.
3. "U-6 total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force." Reported on a seasonally adjusted basis.
4. The New York Times, "A Timeline of the Coronavirus Pandemic," July 21, 2020. <<https://www.nytimes.com/article/coronavirus-timeline.html>>.
5. Ibid.
6. Ibid.