Economic Review - Third Quarter 2020

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 128-month economic expansion from June 2009 to February 2020 was the longest since the 1850s. However, the COVID-19 global pandemic has suddenly and severely affected economies and markets around the world, and the U.S. economy entered a recession in February 2020.

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 128-month economic expansion from June 2009 to February 2020 was the longest since the 1850s.[1] However, the COVID-19 global pandemic has suddenly and severely affected economies and markets around the world, and the U.S. economy entered a recession in February 2020.[2]

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

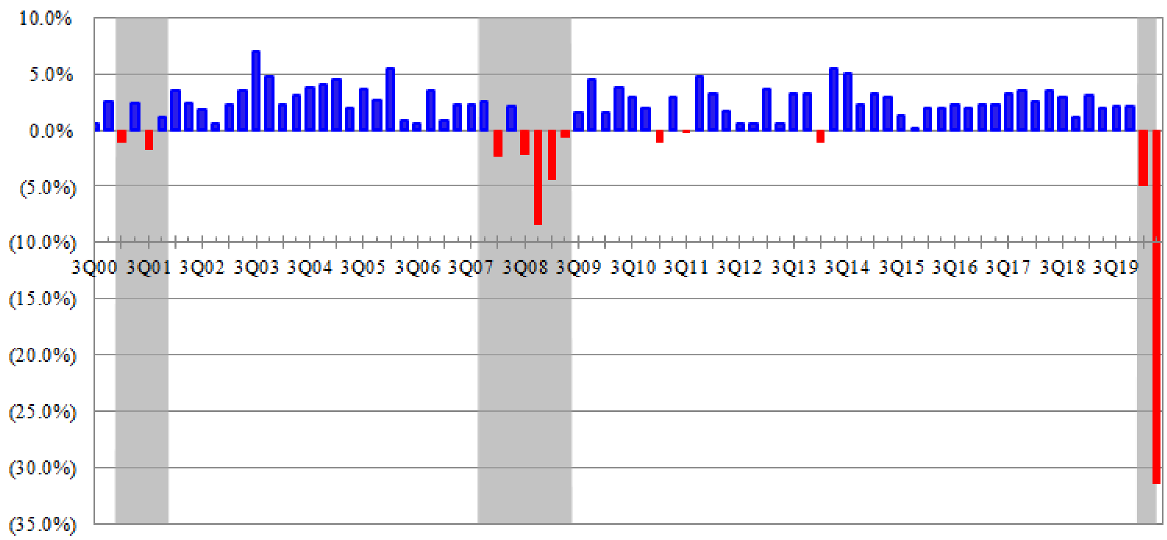
- Maintaining the target range for the federal funds rate at zero-to-0.25 percent.
- Increasing its purchase of fixed income and mortgage-backed securities through the third quarter of 2020, increasing the total assets held on its balance sheet to $7.1 trillion.
- Continue to direct overnight reverse 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 31.4 percent in the second quarter of 2020, as a result of the ongoing effects the COVID-19 pandemic has had on the economy. The Federal Reserve publishes estimates of GDP growth, which it projects to be negative 3.7 percent for full year 2020. The Federal Reserve expects a moderate recovery from the pandemic, with GDP growth of 4.0 percent and 3.0 percent in 2021 and 2022, respectively, before settling at 1.9 percent annual growth for the long-run. Quarterly GDP data for the preceding 20 years is shown in the following figure.

QUARTERLY U.S. GDP GROWTH

Seasonally Adjusted Annualized Rates; Shaded Bar Indicates Recession



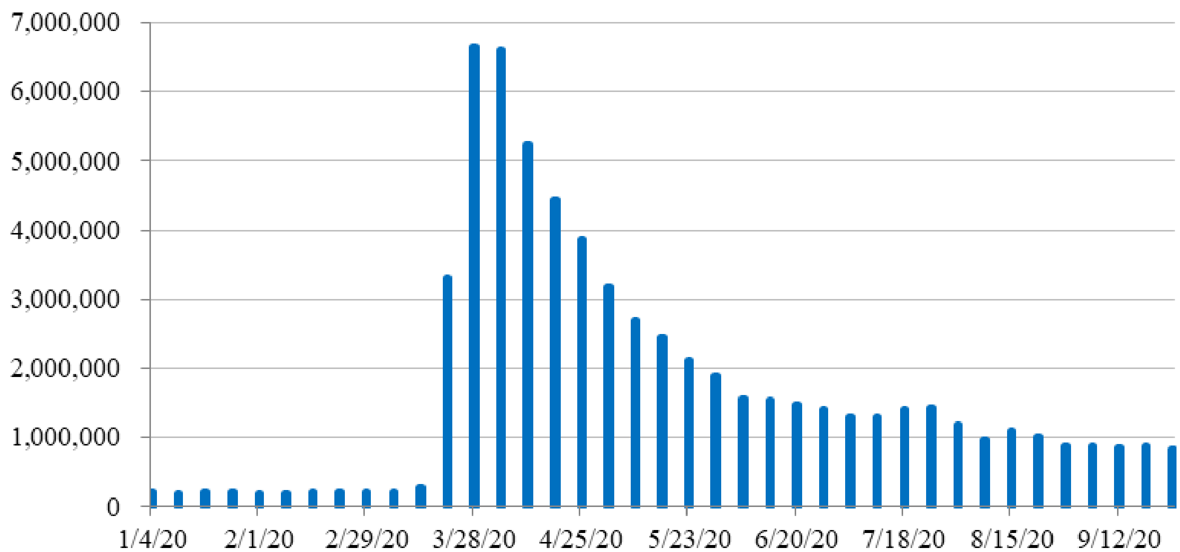
Sources: U.S. Bureau of Economic Analysis and National Bureau of Economic Research. GDP percent change is based on chained 2012 dollars.

Employment

From March 2010 (the end of the 2008–2009 recession) to February 2020, 23.2 million net non-farm jobs were created.[3] As recently as 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.[4]

Beginning in March 2020, national, state, and local governments began instituting lockdowns that forced the closures of many businesses and restricted the free movement of citizens, and 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 849,000 for the week ending September 26, 2020 (the latest available as of September 30, 2020). Although initial claims have continued to trend downward since peaking in late March and early April, they are still significantly above average historical levels. Weekly initial unemployment claims for 2020 are shown in the following figure.

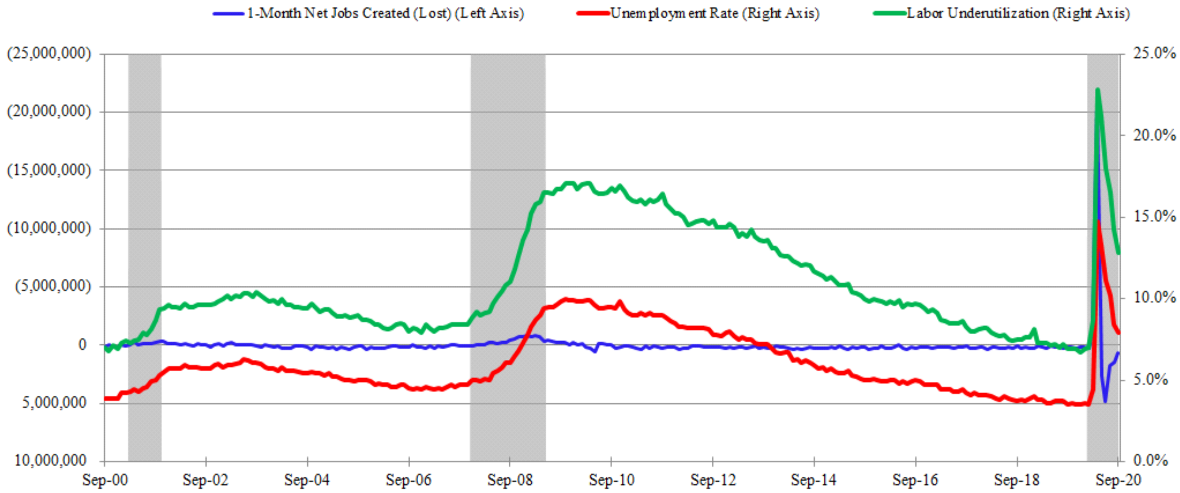
WEEKLY INITIAL UNEMPLOYMENT CLAIMS



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

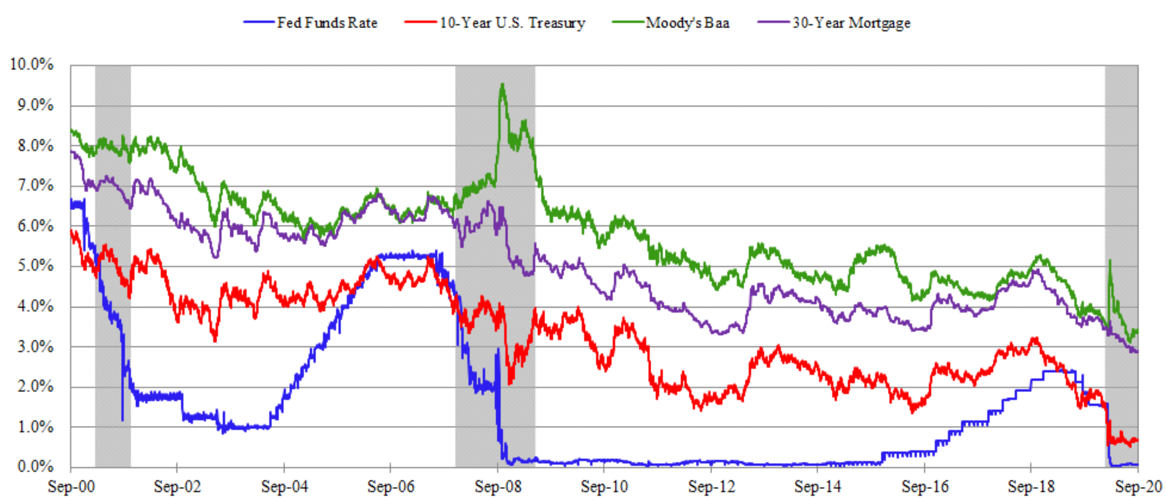


Sources: Department of Labor, Bureau of Labor Statistics, and National Bureau of Economic Research. Data represents non-farm payrolls.

Interest Rates

Interest rates remained near historic lows in the third quarter, after dropping sharply in the second quarter as investors fled to safe haven assets and as the Federal Reserve expanded its purchase of bonds and mortgage-backed securities. 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

Despite a sharp drop in the beginning of the year, by the end of the third quarter of 2020, the S&P 500 regained all of its losses and was positive for the first nine months of 2020. Volatility remained relatively high in the third quarter, but continued to subside from the extremely turbulent first quarter levels. All the major indices ended the third quarter with strong gains, while the NASDAQ Composite Index was again the best performing index due to the continued 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	Third Quarter 2020	Year to Date
S&P 500	8.9%	5.6%
Dow Jones Industrial Average	8.2%	(0.9%)
NASDAQ Composite (1)	11.0%	24.5%
S&P MidCap 400	4.8%	(8.6%)
Russell 2000	4.9%	(8.7%)

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.
- Towards the end of the third quarter of 2020, many countries began to experience a "second wave" of new coronavirus cases. Scientists have been expecting that, as the temperatures decrease and people begin to gather indoors more frequently, the coronavirus will spread more rapidly.
- As of September 27, 2020, COVID-19 confirmed cases have surpassed over 32 million people and caused nearly 1 million deaths globally.[5]
- Much of Europe has reinstated restrictive policies to help prevent the rise of new cases, including curfews, mask policies, and limits on gatherings.
- In the United States alone, confirmed cases were approximately 7 million and over 200,000 deaths were attributed to the pandemic.[6]
- New COVID-19 cases in the United States have begun to increase from the relatively lower levels experienced in the summer months. While new cases were already relatively high

by the end of the third quarter (approximately 42,000 on September 30, 2020), the fourth quarter is expected to see a spike in COVID-19 cases as the "second wave" unfolds.

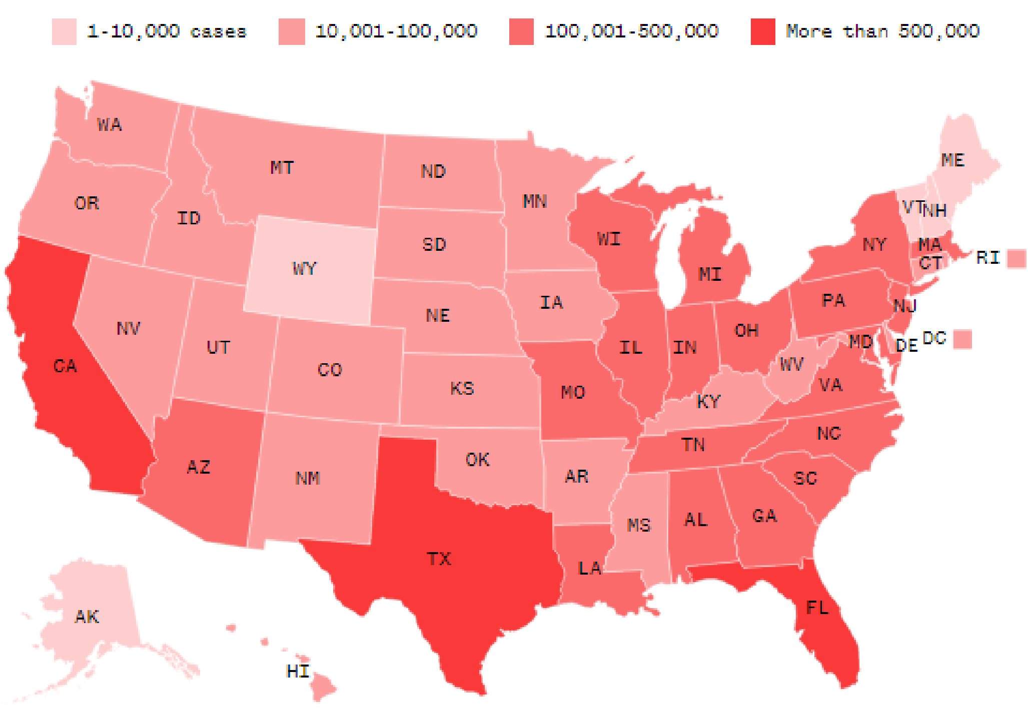
- The sports leagues that resumed play in the United States have been predominantly successful. The National Basketball Association was able to compile its teams into a "bubble" and complete its season with very little COVID-19 related disruption.

- Major League Baseball made it through its regular season with only modest cancellations and is on track to complete its playoffs.

- The National Football League has just begun its season and has already experienced some issues with COVID-19 cases sprouting throughout the league, but the season appears likely to be completed.

- The number of COVID-19 cases across each state in the United States as of September 30, 2020, is shown in the following figure.

CONFIRMED COVID-19 CASES IN THE UNITED STATES



Source: NBC News.

Endnotes:

1. National Bureau of Economic Research. <https://www.nber.org/cycles.html>.

2. Ibid.

3. Bureau of Labor Statistics. "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)." <http://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth>.

4. "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.

5. World Health Organization, "Coronavirus disease (COVID-19)," September 27, 2020. <https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200928-weekly-epi-update.pdf?sfvrsn=9e354665_6>.

6. Ibid.