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# Economic Outlook

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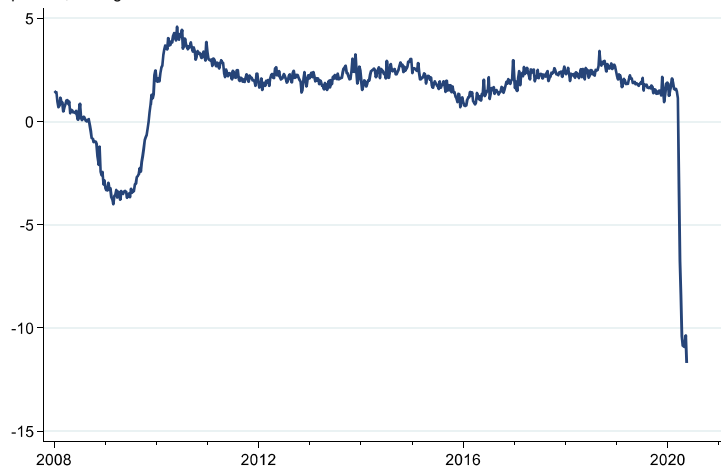
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## We are in the midst of an unprecedented economic shock

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**NY Fed Weekly Economic Index**  
percent, GDP growth units



Source: Bureau of Labor Statistics from Haver Analytics

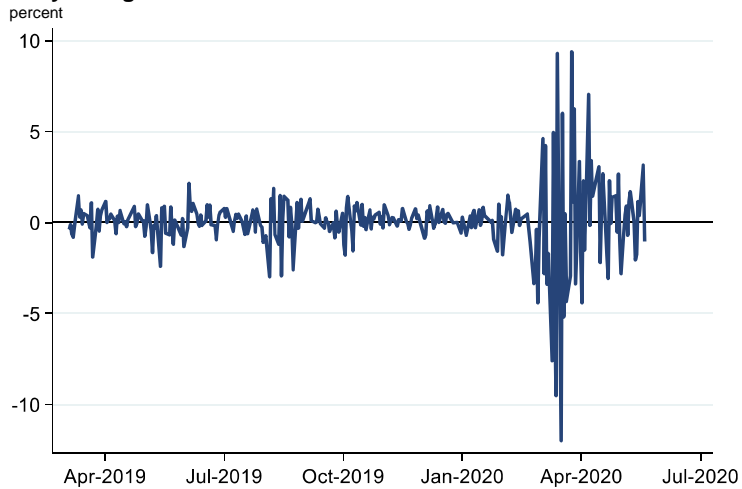
- Simultaneously a supply and demand shock
  - Demand shock probably the stronger of the two
- Size of shared shock dwarfs regional differences

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## There is substantial uncertainty about what the future holds

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### Daily change in S&P 500 index



Source: S&P from Haver Analytics

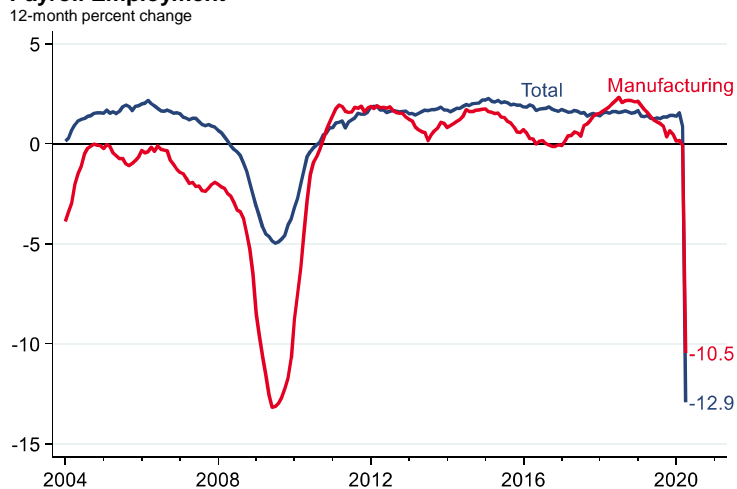
- Volatility in the financial markets remains very high.
- Big drop in consumption and high level of uncertainty creating massive demand for cash

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## Unlike usual, manufacturing not the hardest hit—so far

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### Payroll Employment



Source: Bureau of Labor Statistics from Haver Analytics

- The coronavirus shock is first a negative shock to consumption
- But there's been a negative investment shock too, which may take longer to play out
  - Example: oil and gas extraction

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## What has the Federal government done?

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- The Fed
  - Set policy rate at “effective lower bound”
  - Providing liquidity to a wide range of financial markets through purchases of US, corporate, and consumer debt
- Congress
  - Around \$2.7 trillion in relief spending
    - Cash for individuals
    - Expanded unemployment benefits
    - Grants and lending for small businesses
    - Many additional provisions
  - Further support on the way?

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## The coming months are going to be tough

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**CFSBC: Share of respondents "very concerned" about different financial health indicators over the next 3 months**

Industry	Adequate Cash Balance	Too Much Debt	Maintain Solvency	Collect Payables	Get Credit from Suppliers	Get Credit from Lenders
Entertainment, Tourism, and Recreation	80	71	64	30	34	35
Restaurant	77	68	73	27	37	39
Retail	71	61	60	42	31	39
Manufacturing	58	45	34	56	28	27
Construction	57	50	43	64	21	29
Nonprofit	53	30	36	57	15	22
Professional Services	52	41	33	37	11	17
Transportation and Wholesale	50	42	32	45	23	14
Real Estate	43	35	27	48	15	29
Agriculture	38	38	27	31	13	19
Technology	33	50	33	55	18	18
Finance	17	14	9	41	6	0

Note: CFSBC is the *Chicago Fed Survey of Business Conditions*.  
Source: Federal Reserve Bank of Chicago

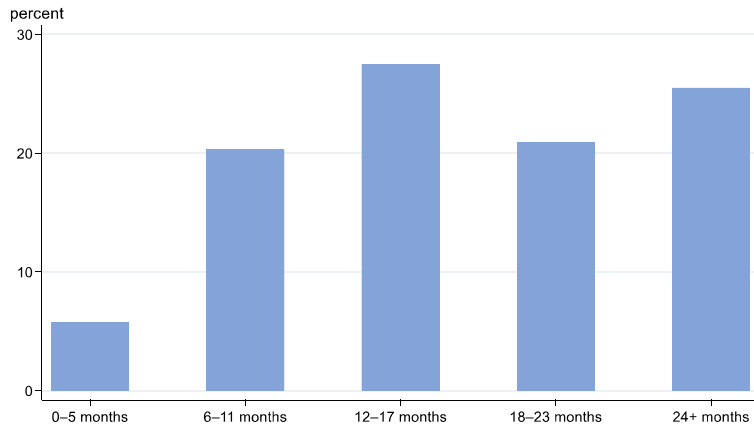
- Reopening likely to be slow
  - Risk of a second wave
- Businesses face
  - Extra costs in protecting employees and customers
  - Capacity limits
  - Weak demand

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## When will things get back to normal?

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### CFSBC: Expected number of months until US economy returns to pre-coronavirus level



Note: CFSBC is the *Chicago Fed Survey of Business Conditions*  
Source: Federal Reserve Bank of Chicago

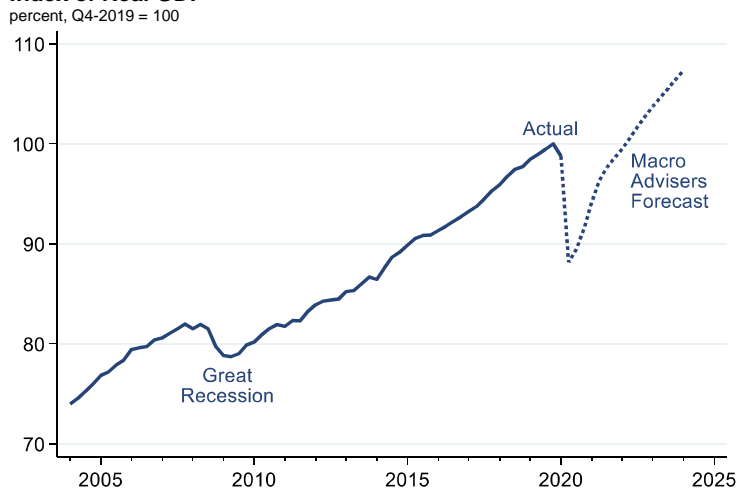
- Again, lots of uncertainty:
  - When will we have a vaccine or effective treatment?
  - How much worse will business and household balance sheets get?
  - How many businesses will shut down permanently?

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## This recession likely shorter but deeper than Great Recession

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### Index of Real GDP



Source: BEA and Macroeconomic Advisers from Haver Analytics

- Macro Advisers Forecast
  - 12% drop in GDP from Q4-2019 peak
  - Growth returns 2 quarters later
  - Back to previous peak 10 quarters later (Q2-2022)
- Comparison with Great Recession
  - 4% drop in GDP from Q4-2007 peak
  - Growth returns 7 quarters later
  - Back to previous peak 14 quarters later (Q2-2011)
- Productivity growth means unemployment takes longer to come back than GDP

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## Conclusions

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- We are going through a very challenging public health and economic shock
- There is a lot of uncertainty about what the future holds
- The coming months will continue to be tough
- There's hope that the recovery will be faster than that of the Great Recession