

# Economic Outlook:

## *Low Rates, Stimulus and Recovery*

November 2020

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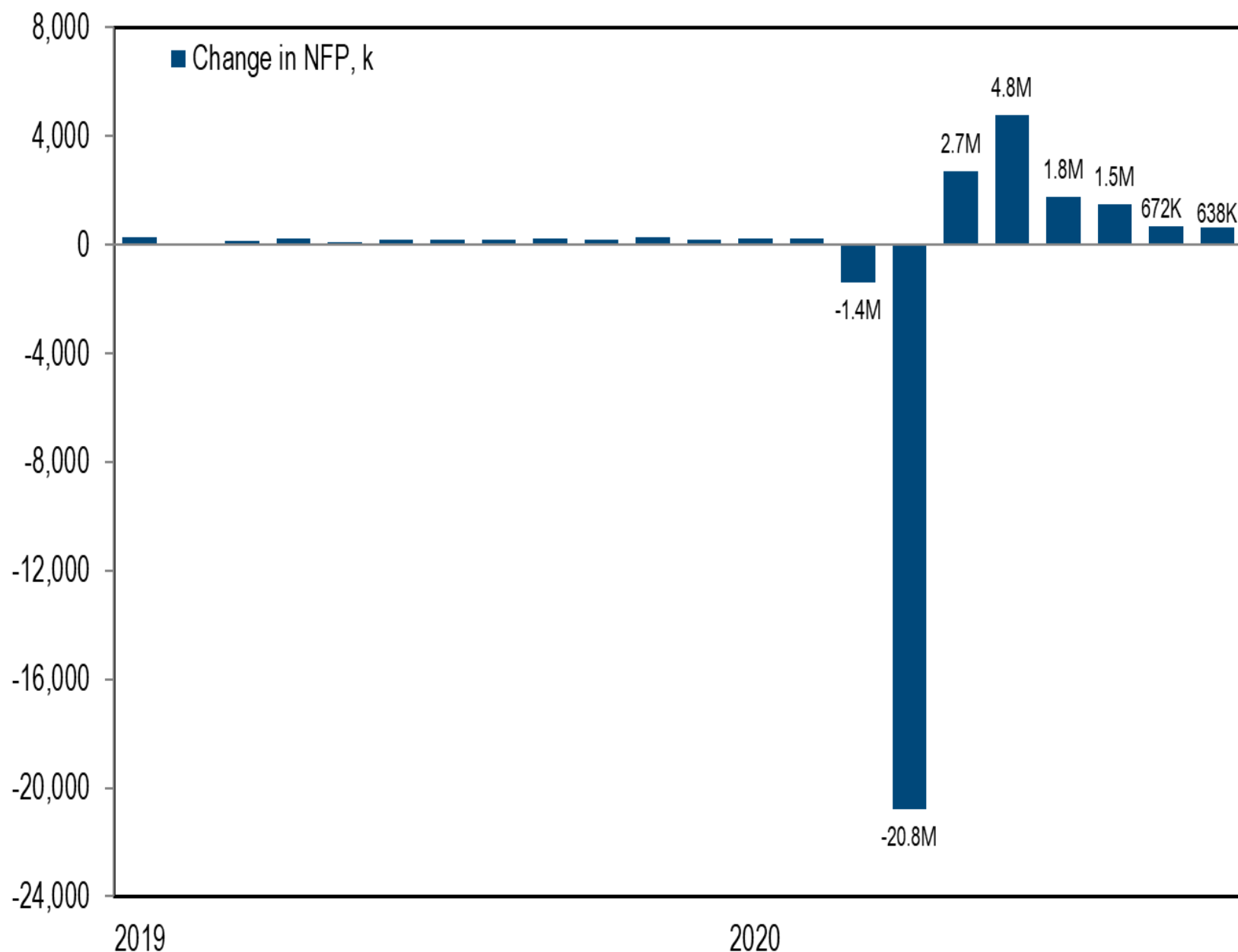


1. Macro-economic trends including the health of the consumer, and manufacturing sector
2. Fed policy effects and initiatives
3. U.S. growth and rate outlook

# Payrolls Rise 638k in October

Nonfarm payrolls fell 1.4M in March and 20.8M in April, the largest monthly decline on record

Nonfarm payrolls rose **638k** in October, marking the sixth consecutive month of positive job gains totaling more than 12M over the past six months

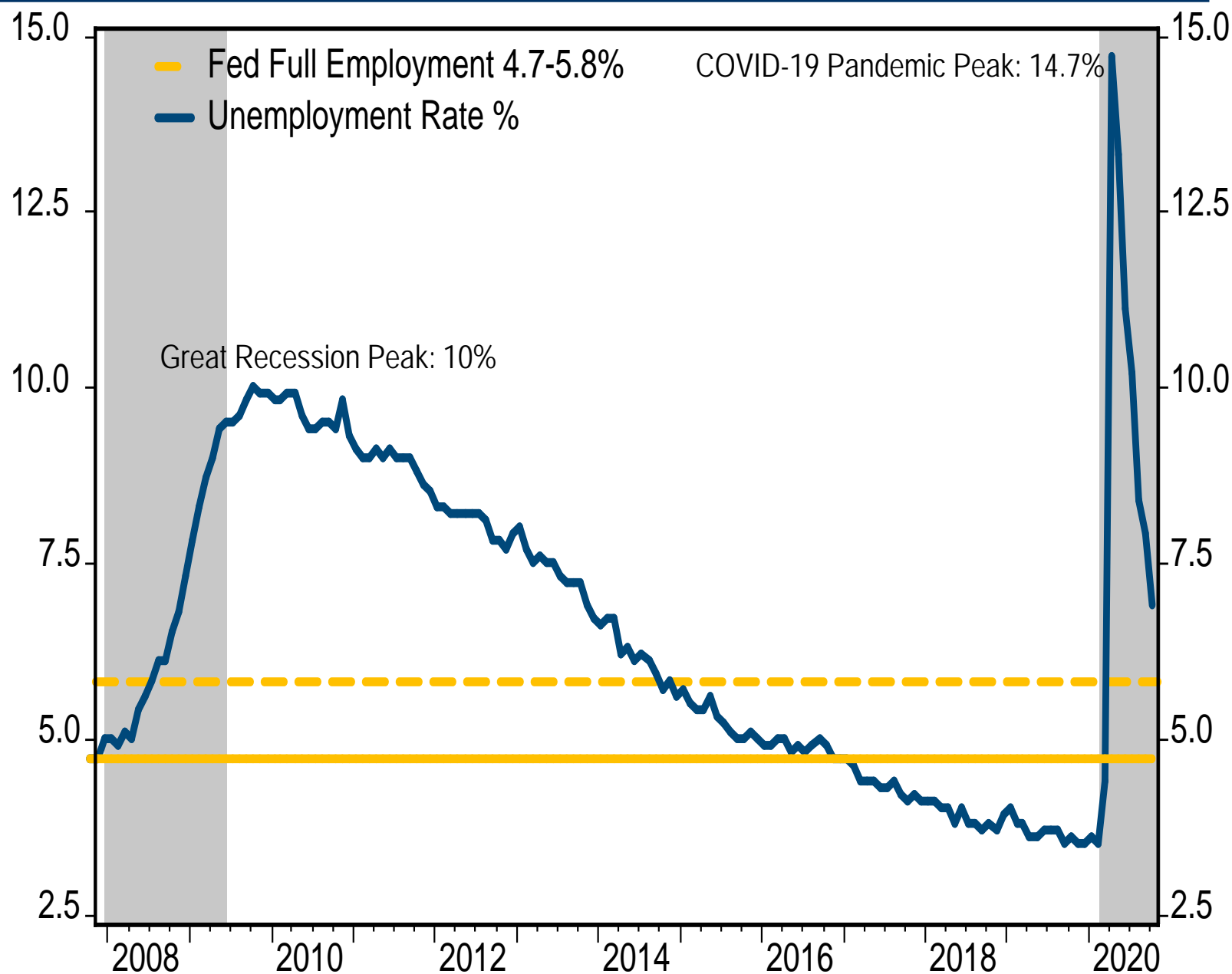


Source: Bureau of Labor Statistics/Haver Analytics

# Unemployment Rate Falls to 6.9%

The unemployment rate continued to drift lower to **6.9%** in October from 7.9% the month prior

While still elevated from the 3.5% jobless rate at the start of 2020, last month's decline stands in stark contrast to a near 15% peak in April

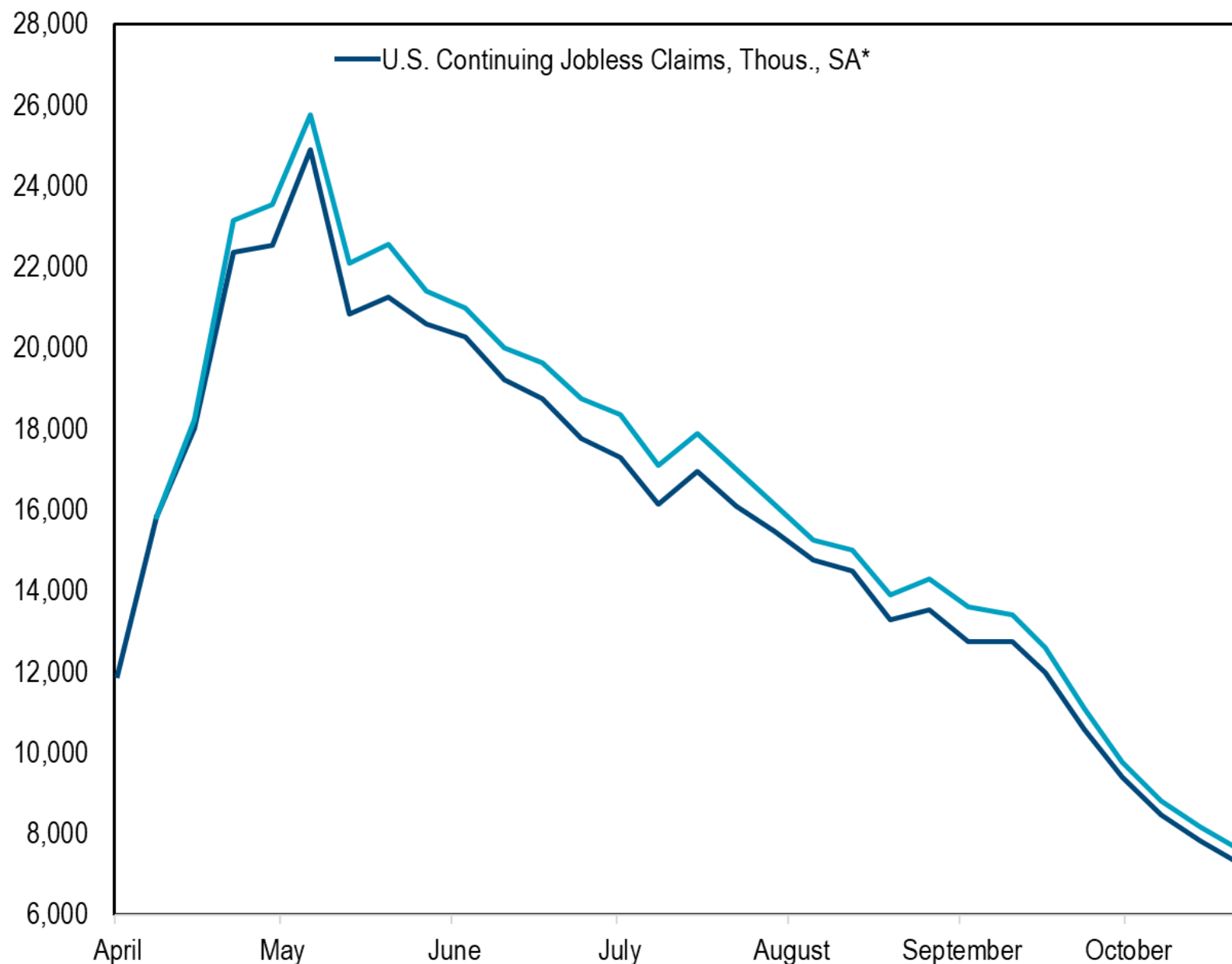


Source: Bureau of Labor Statistics/Haver Analytics

# Continuing Claims Remain Elevated

More than 66M applications for unemployment insurance have been filed over the past eight months

Continuing claims, or the total number of Americans receiving ongoing unemployment benefits, remains elevated at 7.3M with 359k eligible under the PUA program



Source: Bloomberg

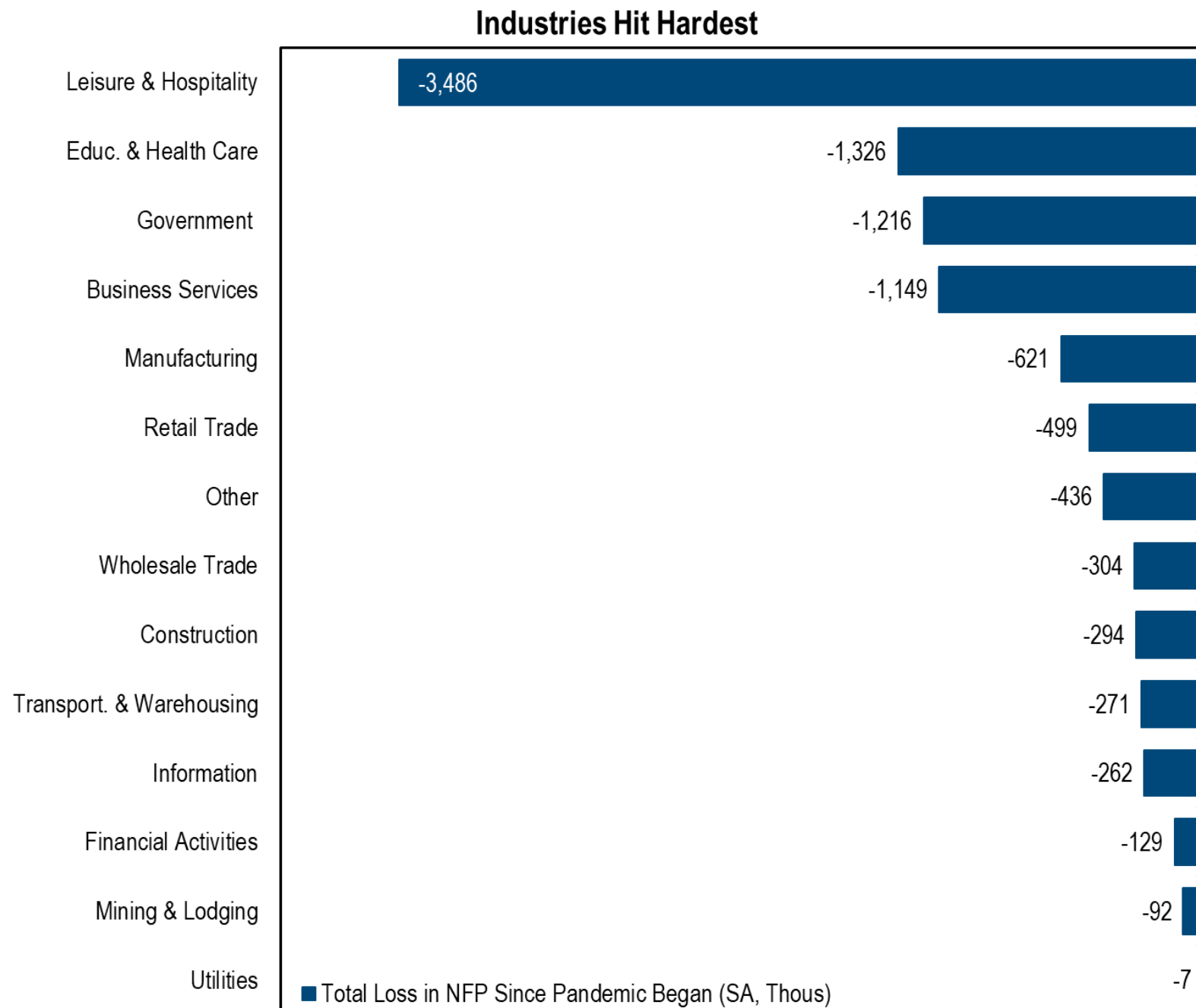
\*Note: The total of about 7.6M people receiving assistance from state and federal programs, which isn't seasonally adjusted and lags one week behind new state claims figures, includes temporary pandemic programs for self-employed and gig workers in addition to those receiving regular state

# Hardest Hit Industries

While many jobs have been created since May, the recent gain is around half of the total jobs lost since the onset of the COVID-19 pandemic

With more than 10M Americans still out of work, job destruction has been widespread across a variety of sectors

The leisure and hospitality industry has lost nearly 4M jobs in eight months

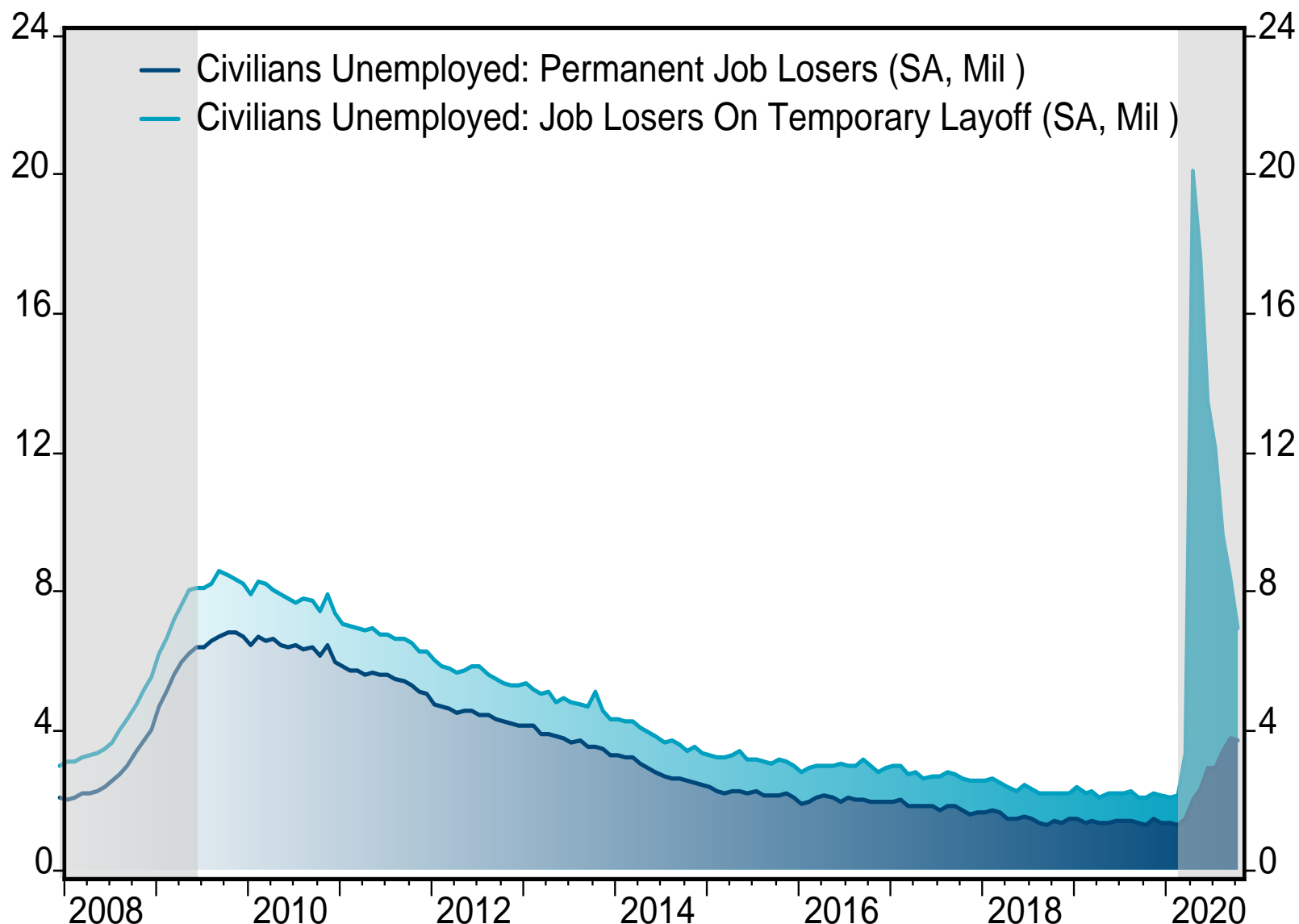


Source: Bureau of Labor Statistics

# Permanent Layoffs On the Rise

According to the Bureau of Labor Statistics, the number of permanent job losses declined by 72k to 3.7M in October, still near the highest level in more than seven years

Temporary layoffs decreased by 1.4M to 3.2M in October



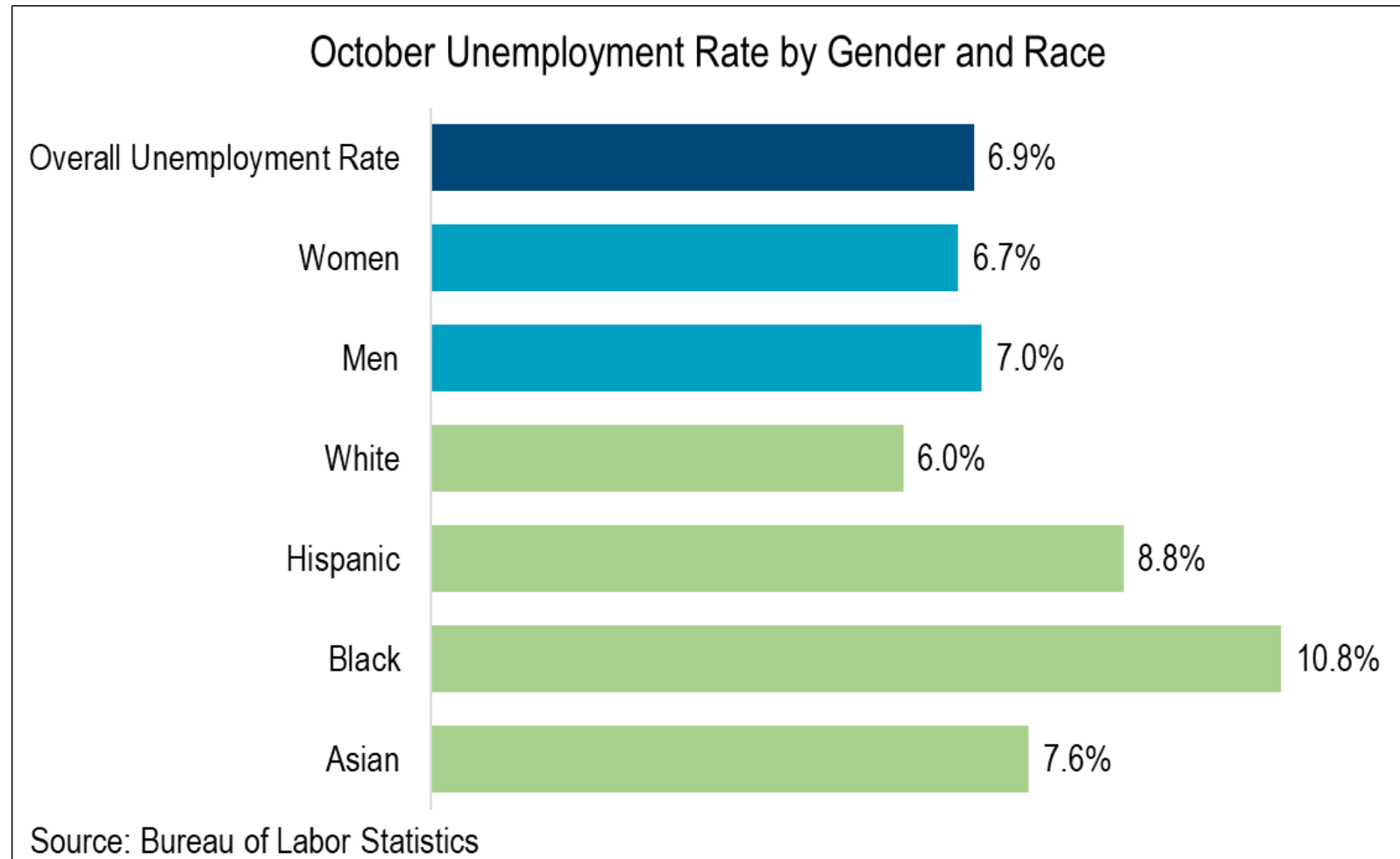
Source: Bureau of Labor Statistics/Haver Analytics

\*The U.S. Census Bureau conducts the household survey for BLS. Census Bureau interviewers contact households by telephone and in person and ask questions regarding the labor market activity of household members during the previous calendar week. Reasons for unemployment include: on temporary leave, job leavers, reentrants, and new entrants

# Unemployment by Gender and Race

Women have faced a relatively higher unemployment rate throughout the pandemic compared to men, an average of 1.3% higher

The black unemployment rate (11%) is nearly double the white unemployment rate (6%), down, however, from a recent peak of 16.8% in May



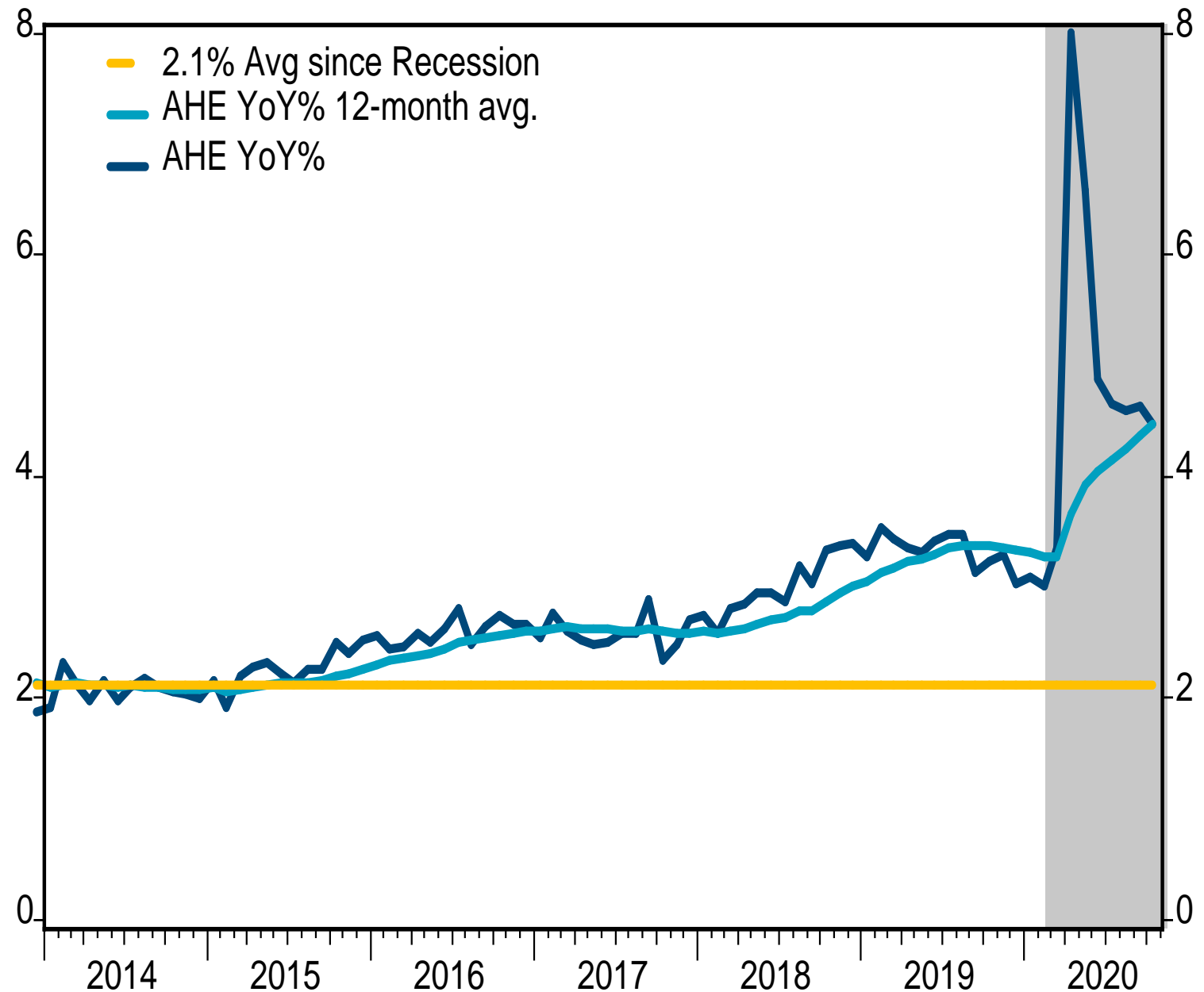


# Average Hourly Earnings Slowing

Average hourly earnings increased **0.1%** in October, a two-month high

Year-over-year, wages rose **4.5%** in October, a seven-month low, and down from a recent peak of 8.0% in April

Average earnings increased early on during the pandemic as lower-wage workers dropped out of the workforce

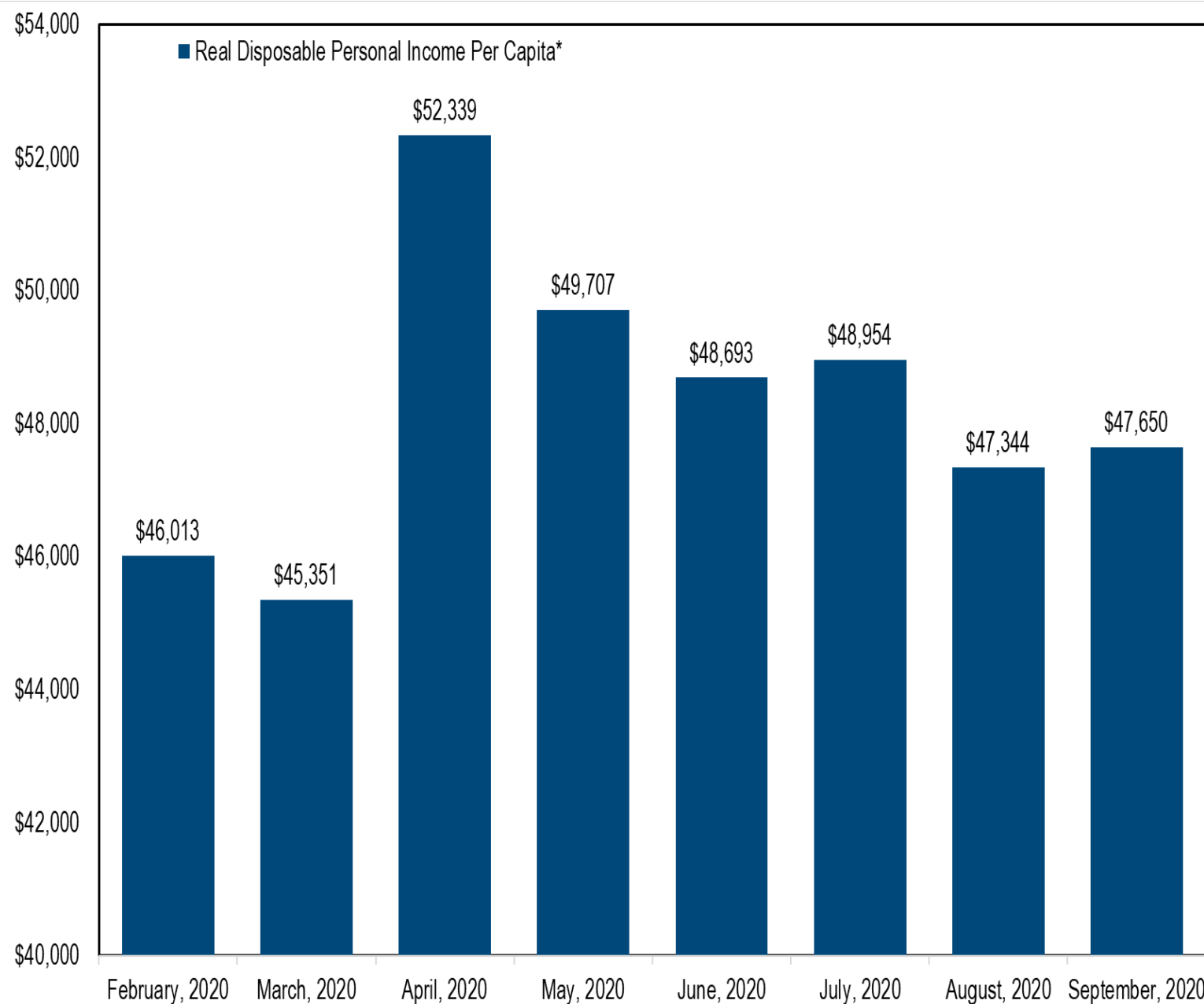


Source: Bureau of Labor Statistics/Haver Analytics

\*Does not include government assistance

Disposable income per capita rose substantially in April with the passage of the first-round aid package in March which included an additional \$600 a week in unemployment benefits and \$1,200 in direct payment (if eligible)

Compared to February levels (\$46k), the average American is still better off at \$48k as of September



Source: FRED

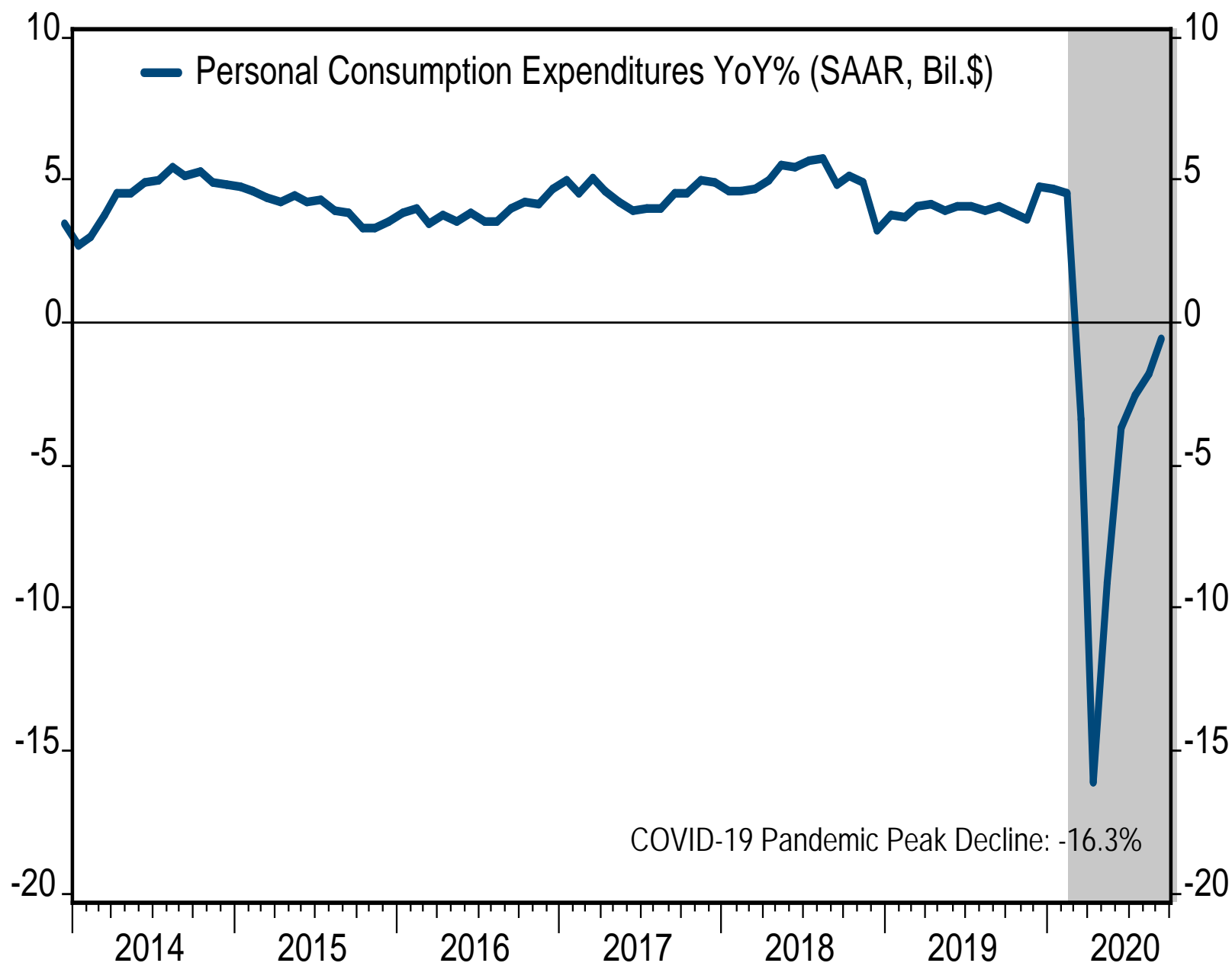
\*Includes wages & salaries as well as transfer payments

# Consumption Slowly Improving

Personal consumption fell 12.9% in April, down 16.3% year-over-year

After two months of decline, consumption rose 8.7% in May, but has since slowed to a 1.4% pace as of September

Year-over-year, consumption improved from -1.9% to a smaller decline of 0.7% in September



Source: Bureau of Economic Analysis/Haver Analytics

# Consumer Remains Fragile

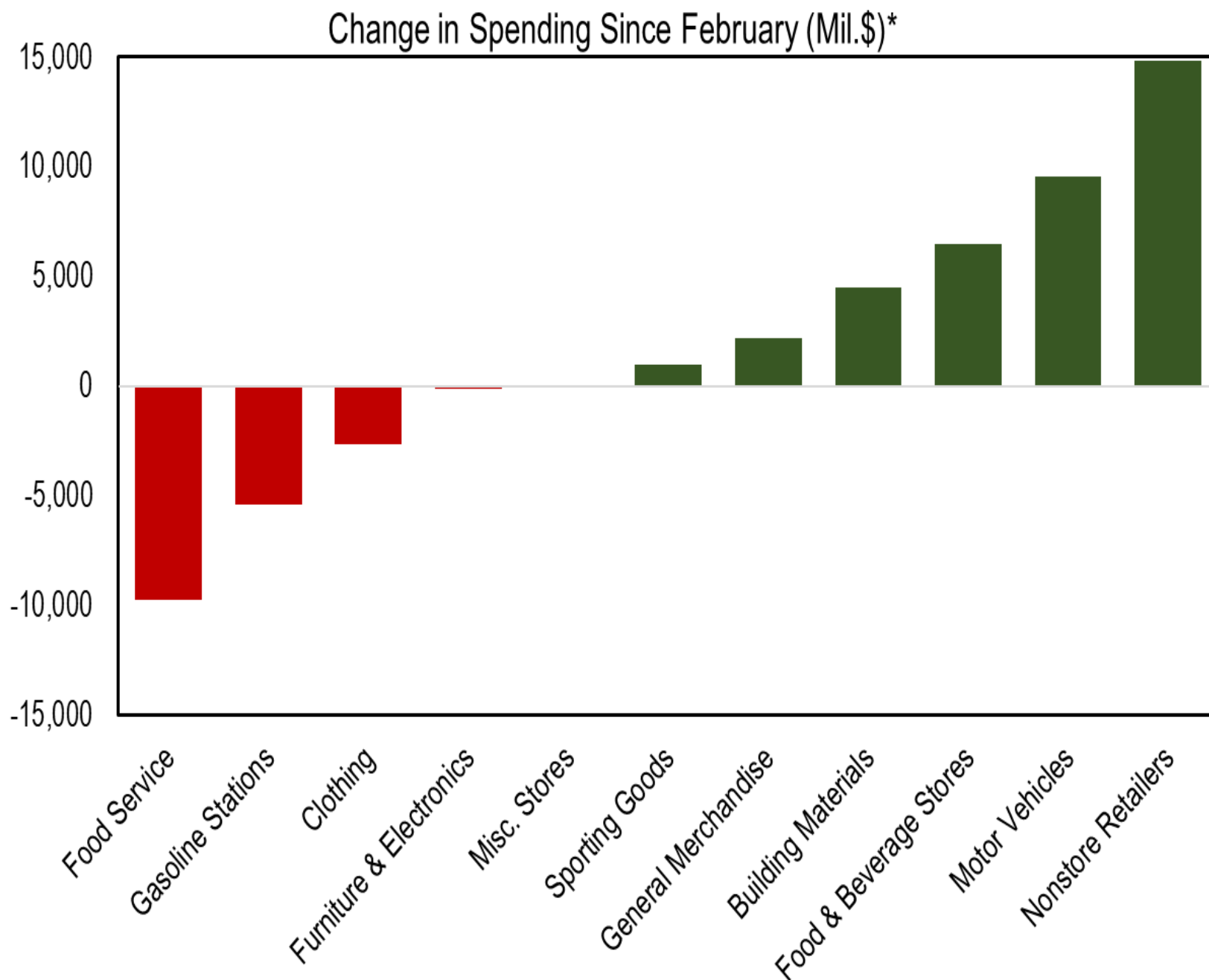
Retail sales fell 8.2% in March and 14.7% in April

Sales rose **1.9%** in September, marking the fifth consecutive month of increase

The 1.9% gain, however, was down from a more rapid pace in May (18.3%) and June (8.6%)

Over the past six months, sales have averaged 2.6%

Year-over-year, retail sales rose **5.4%** in September, a nine-month high, and following a 2.8% gain in August



Source: Census Bureau/ Haver Analytics

\*Data as of September 2020

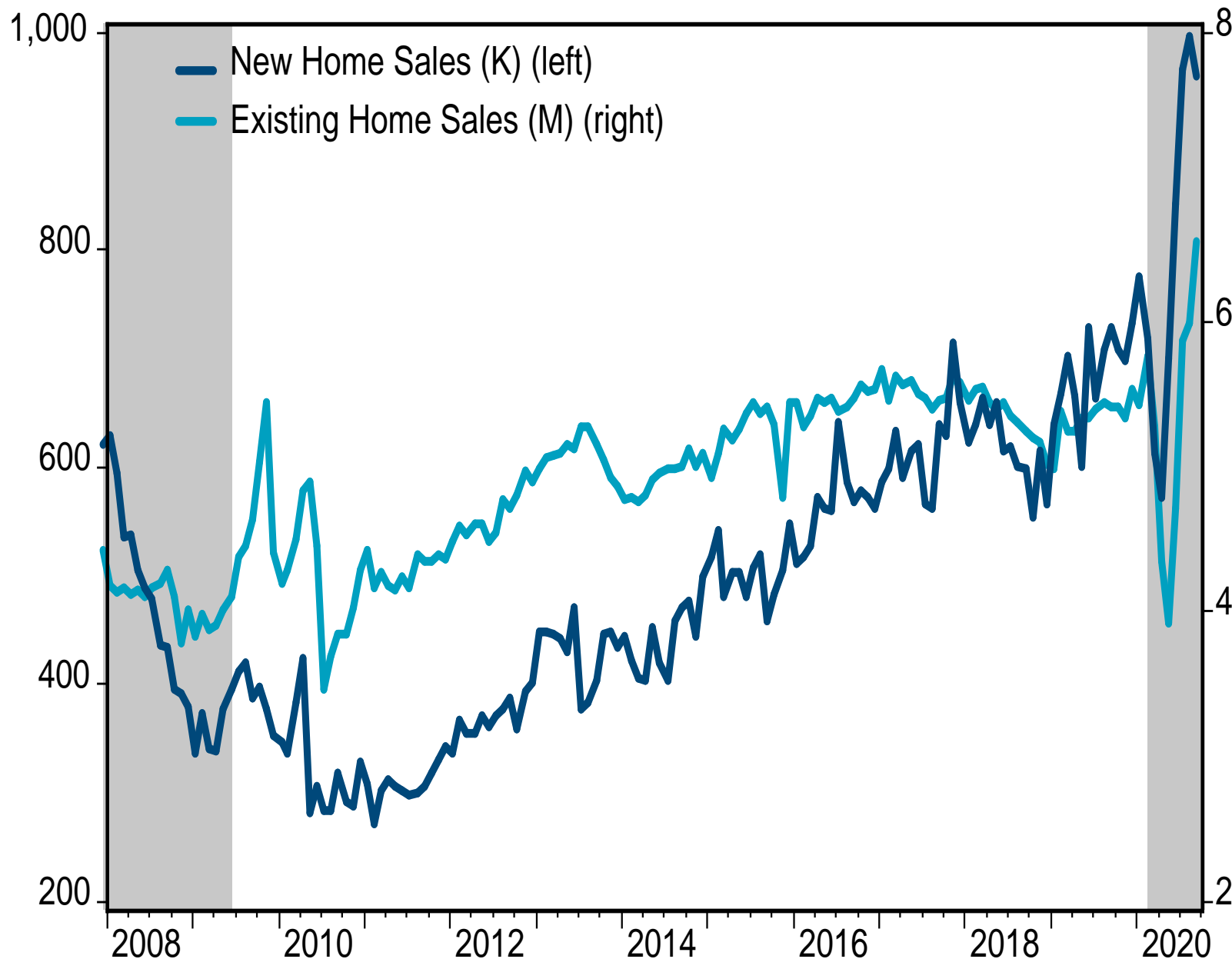
# Increased Demand for Housing

Existing home sales rose **9.4%** in September to a 6.5M unit pace, the highest since May 2006

The inventory of existing homes declined from 3.1 to 3.0 months, a six-month low

New home sales dropped **3.5%** in September to a 959K unit pace, a three-month low

The inventory of new homes rose from 3.4 to 3.6 months, a two-month high

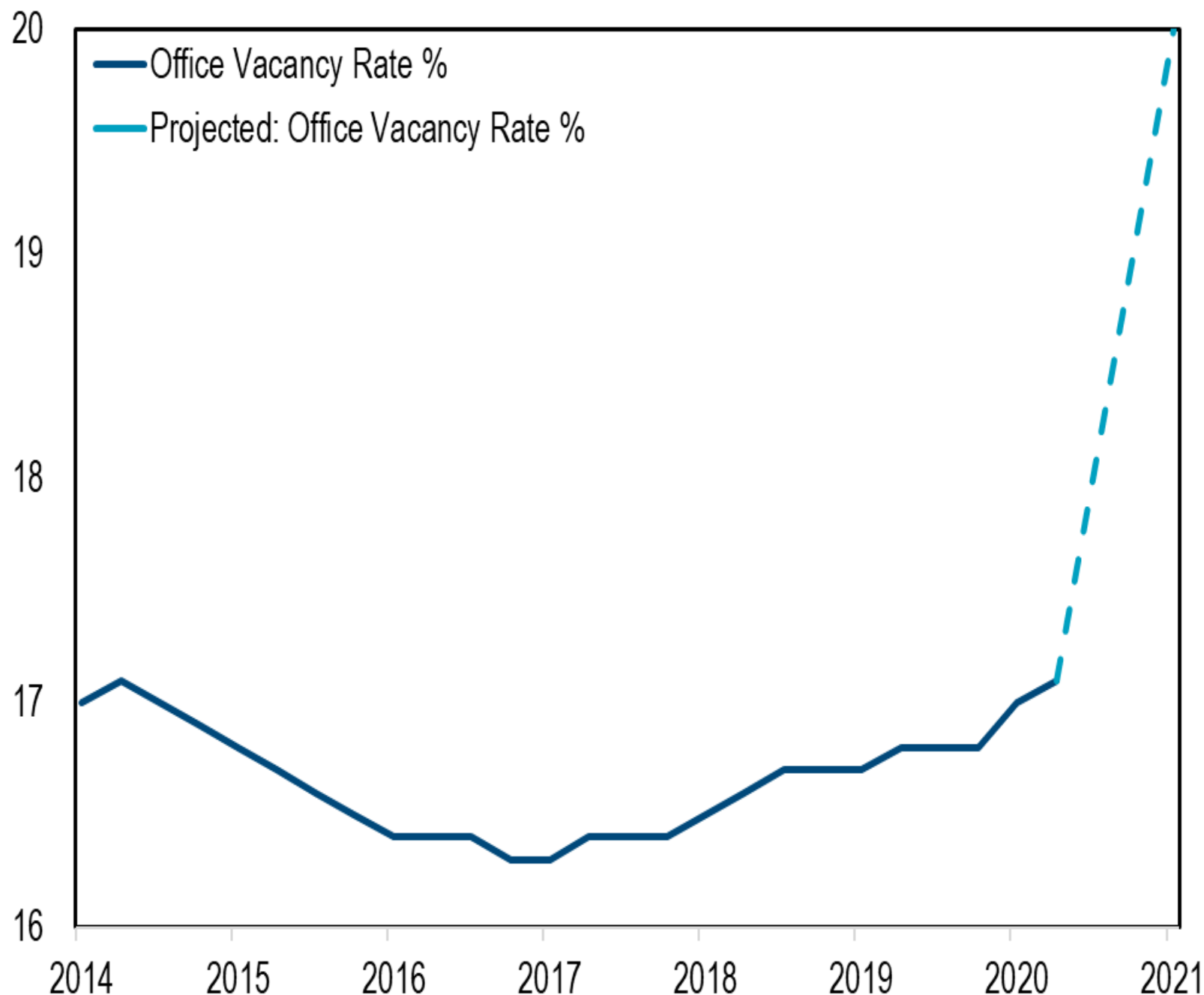


Sources: Census Bureau, National Association of Realtors/Haver Analytics

# Vacancy Rates on the Rise Amid Closures

The commercial vacancy rate rose to **17.1%** in Q2, a six-year high

Amid further bankruptcies and business closures, the office vacancy rate is expected to climb to a historic high of 20% by 2021



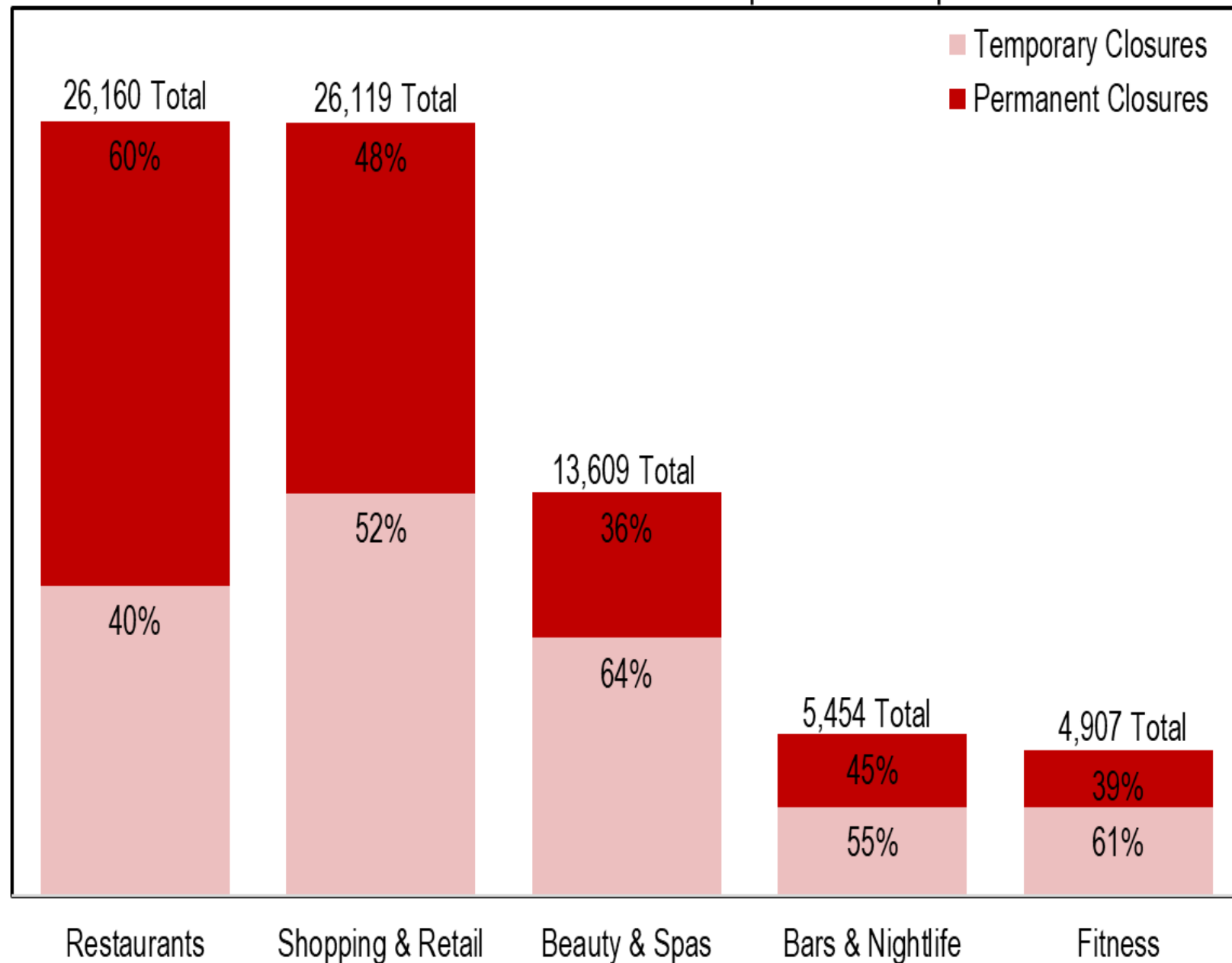
Source: Bloomberg, Moody's Analytics

According to the U.S. Chamber, 23% of small businesses have already closed their doors at least temporarily since the pandemic

Nearly two-thirds of small businesses report they are worried or at risk of permanent closure by year-end

According to Yelp, more than 60% of restaurants temporarily shut down because of the pandemic have since permanently closed

Number of Businesses Marked Closed on Yelp that were Open March 1



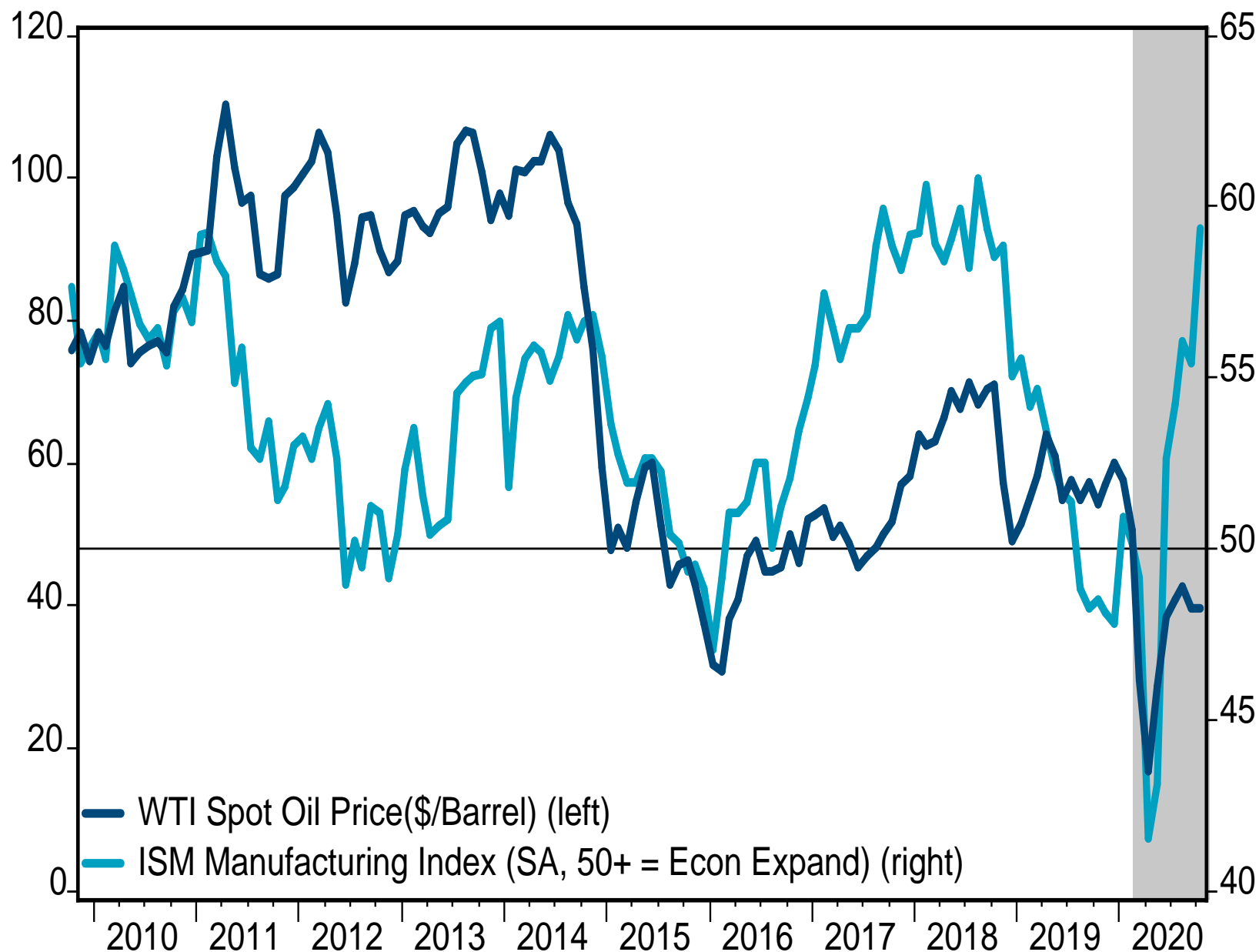
Source: Yelp

# Manufacturing Activity Improvement

The ISM manufacturing Index dropped from 50.1 in February to a low of 41.5 in April, but has since rebounded to **59.3** as of October, a two-year high

Oil prices have declined 33% for the year, after dropping an unprecedented 300% to -\$37 on April 20<sup>th</sup>

Crude prices have been trading in a \$34 to \$42 range for the past four weeks

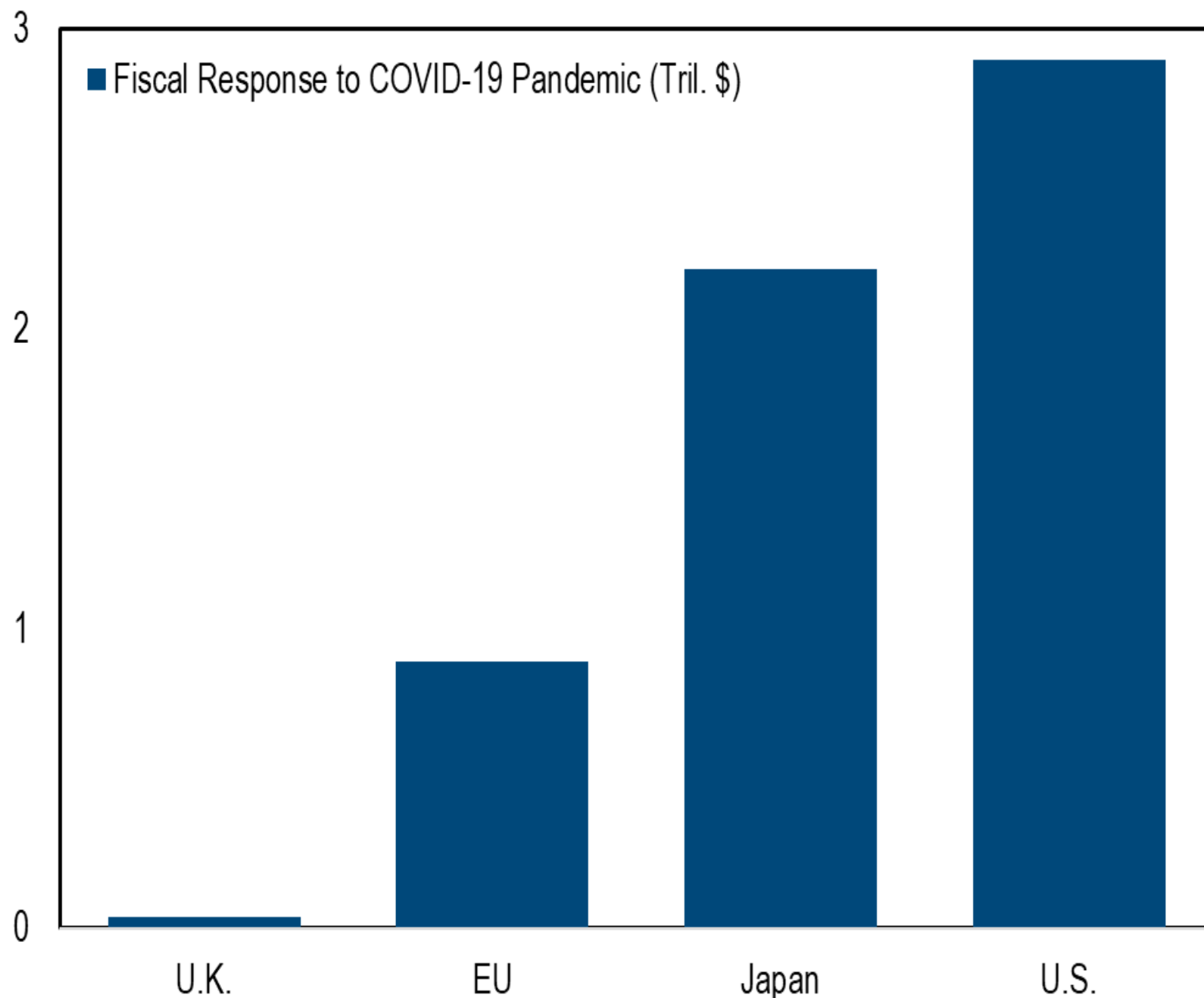


Sources: EIA/CME, ISM/Haver



The U.S. has spent around \$3.0T to combat the economic fallout from the COVID-19 pandemic, while Japan has deployed \$2.2T

The EU agreed on a €750B stimulus package (\$889B) and the U.K. unveiled \$38B in stimulus measures



Source: Bloomberg, WSJ,

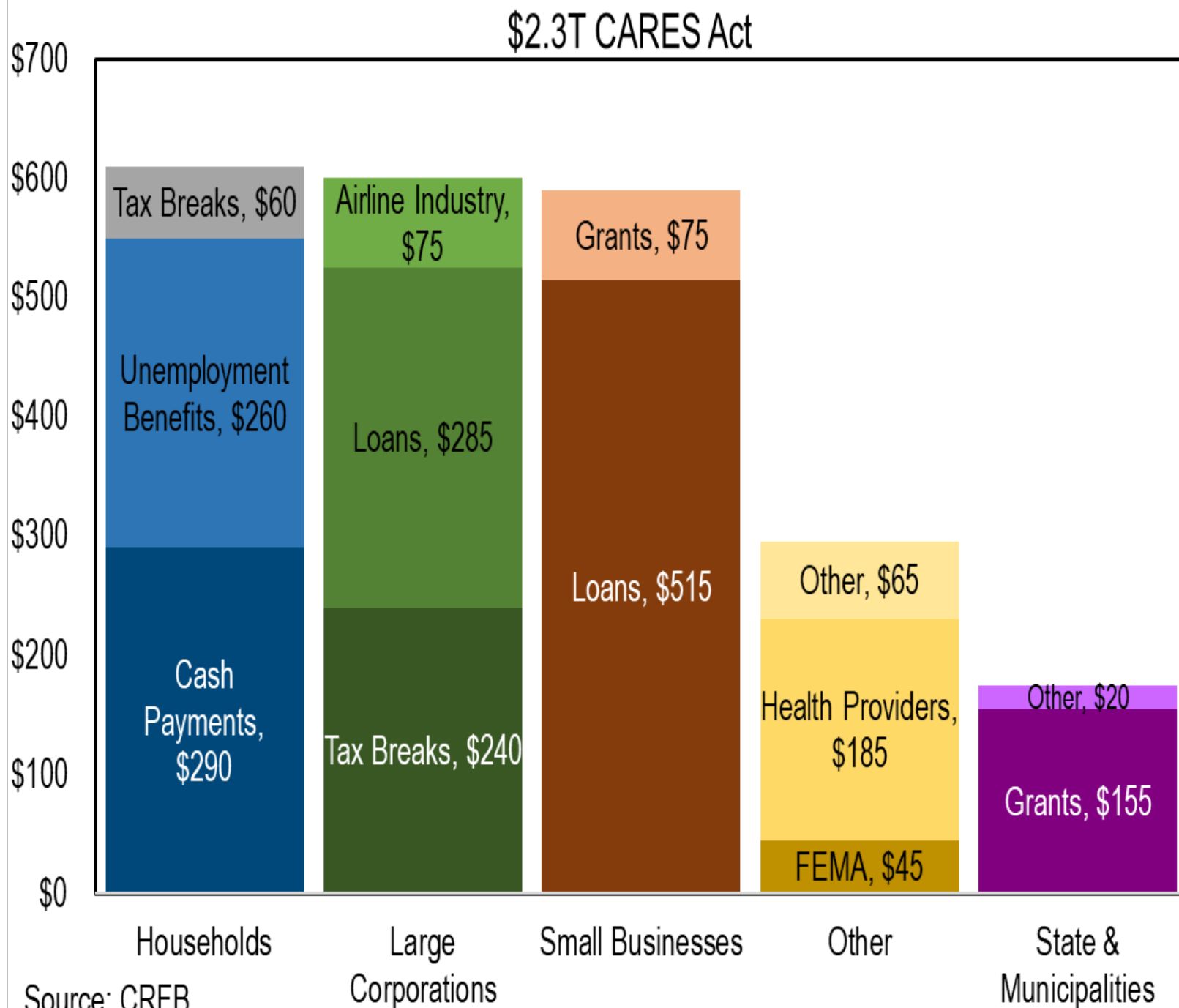
Roughly \$3T total in U.S. government aid

Round 1 (Mar 6): \$8.3B for health agencies and testing, and for small-business loan subsidies

Round 2 (Mar 18): \$104B that included tax credits for employers offering paid sick leave, and increases to unemployment benefits and food assistance

Round 3 (Mar 27): \$2.3T CARES Act included checks to households, bailouts for airlines and other distressed industries, and \$349B loans and grants for small business under the Paycheck Protection Program (PPP)

Round 4 (Apr 24): \$484B for additional funding for PPP, as well as more funds for hospitals and testing



# Polling Question #1

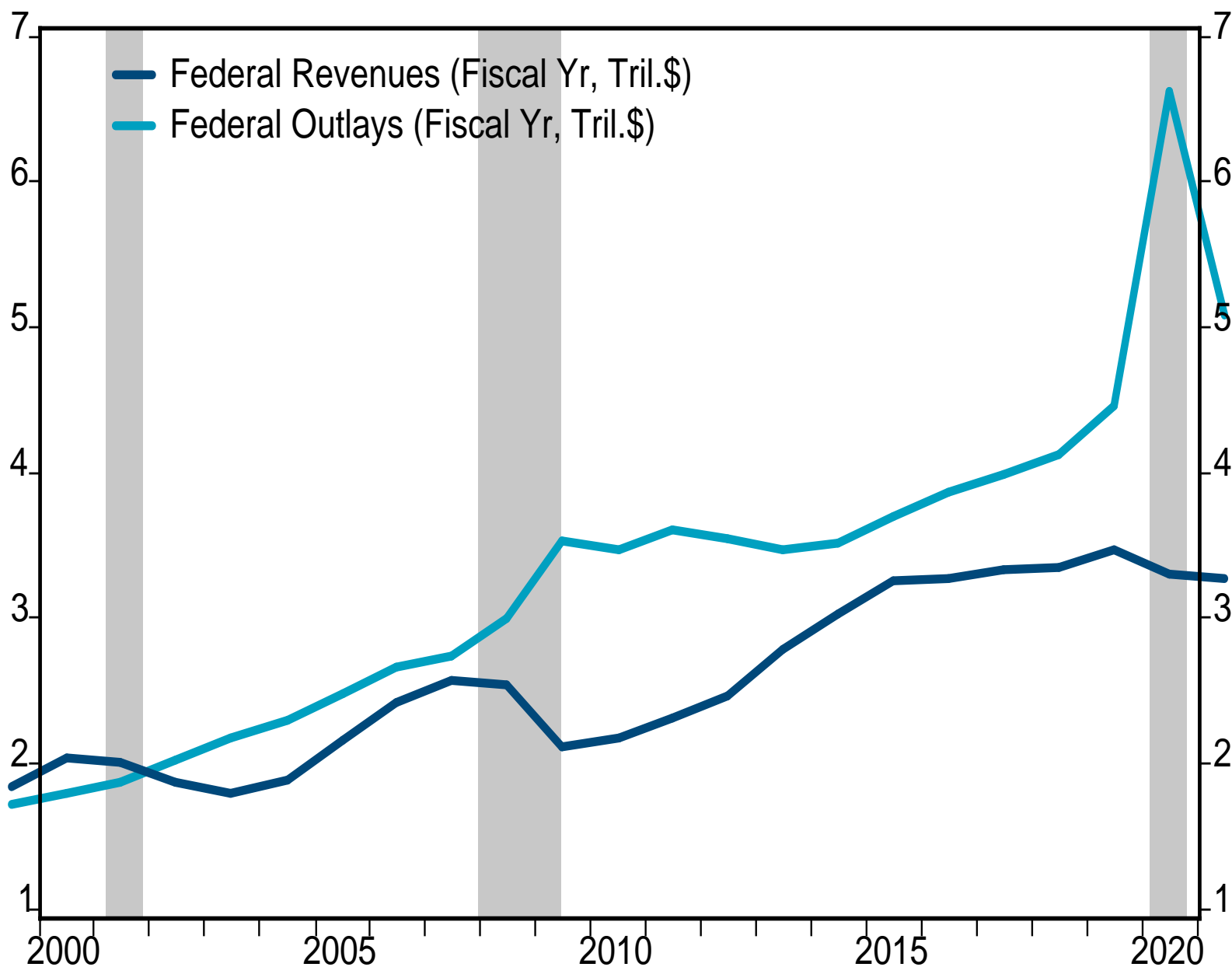
# U.S. Deficit On the Rise

According to the Congressional Budget Office, the deficit for FY 2020 rose to \$3.T, or 16% of projected GDP, more than triple the shortfall in 2019

Deficits over the last 50 years have averaged 3% of GDP

During the Great Recession, the largest deficit recorded (in FY 2009) was under 10% of GDP

The unprecedented increase in expenditures in 2020, as expected, was dominated by the COVID-19 pandemic, the economic shutdown, and the legislative response in terms of fiscal relief aid and stimulus



Source: Congressional Budget Office/Haver Analytics

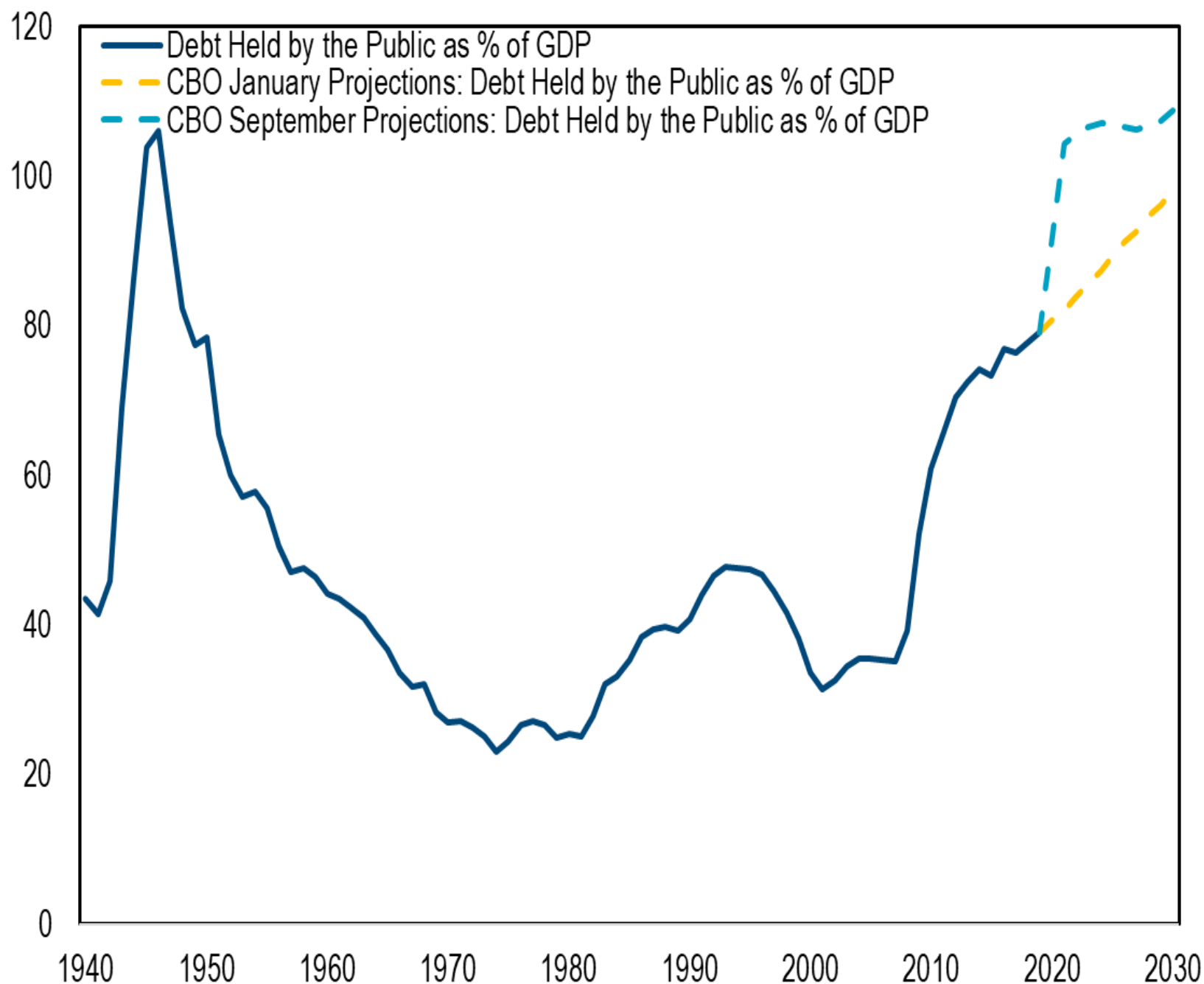
# U.S. Government Debt Rapidly Rising

Debt held by the public is projected to rise sharply, to 98% of GDP in 2020, compared with 79% at the end of 2019 and 35% in 2007, before the start of the previous recession

Debt to GDP is expected to exceed 100% in 2021 and increase to 107% in 2023, the highest in the nation's history

The previous peak (106%) occurred in 1946 following the large deficits incurred during World War II

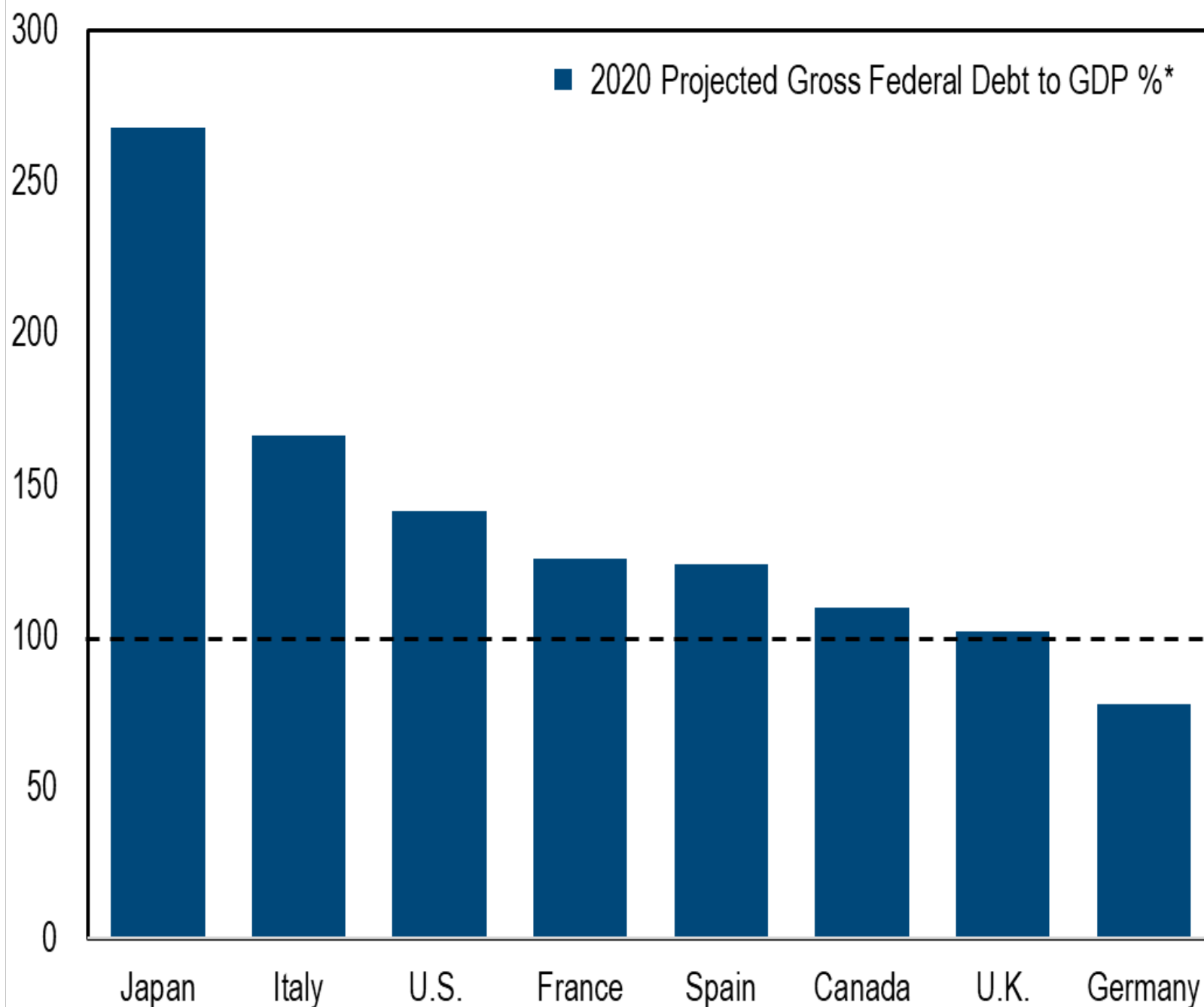
By 2030, debt to GDP is projected to rise to 109%



Source: Congressional Budget Office

Much of the developed world has debt to GDP ratios exceeding 100%

The U.S. has the third highest gross federal debt to GDP ratio in the world at 141.4%, behind only Japan (268%) and Italy (166.1%)



Source: IMF

\*Gross federal debt is the sum of debt held by the public & intragovernmental debt

# Monetary Policy Response

## Federal Reserve Policy Actions in Response to Coronavirus Pandemic

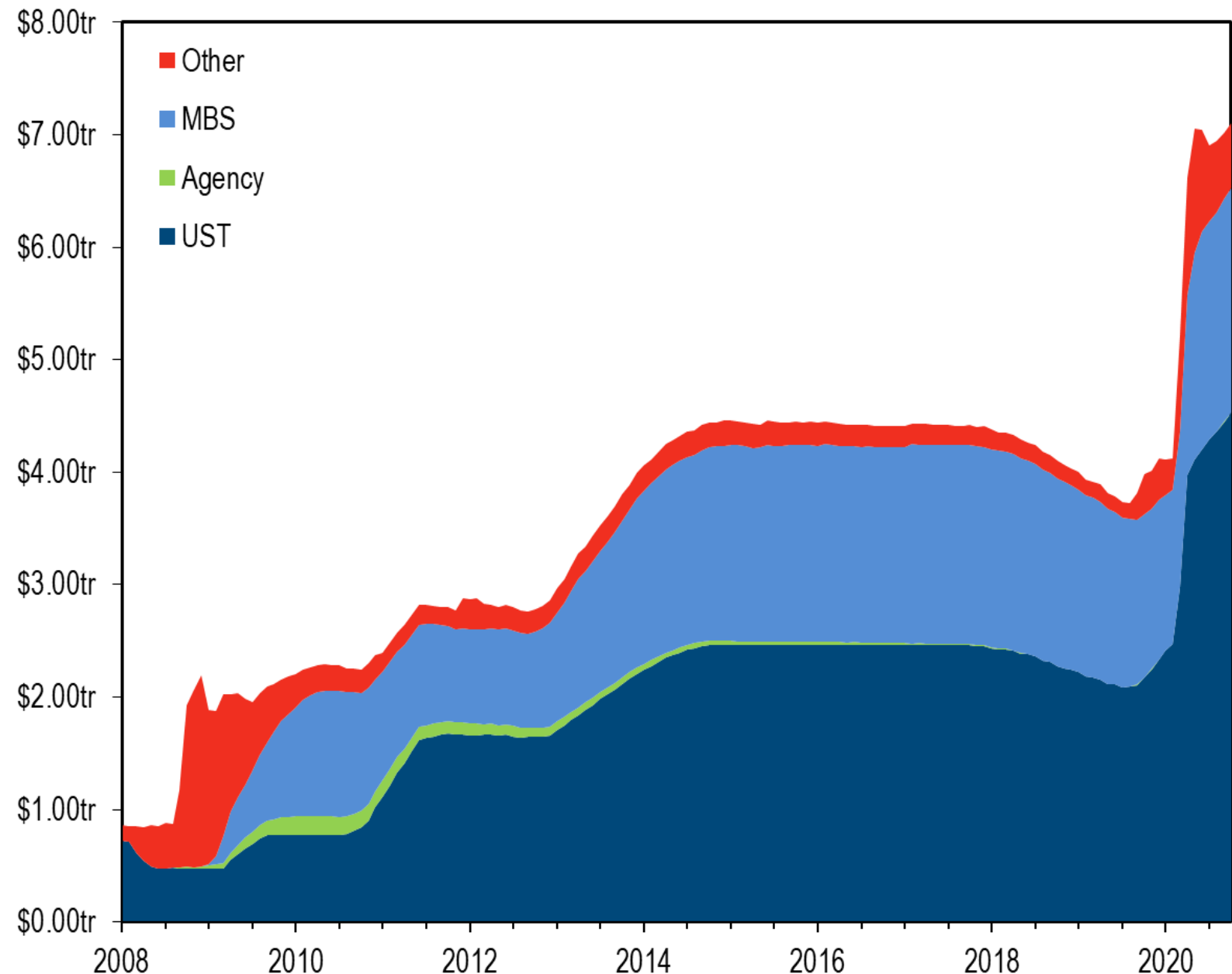
Date	Action
3-Mar-20	<b>Policy Rate Cut:</b> Federal Reserve cuts policy rate 50 bps from 1.50% - 1.75% to 1.00% - 1.25%
15-Mar-20	<b>Policy Rate Cut:</b> Federal Reserve cuts policy rate 100 bps from 1.00% - 1.75% to 0.00% - 0.25%
15-Mar-20	<b>Quantitative Easing/Balance Sheet Action:</b> Federal Reserve will increase its holdings of UST by at least \$500B and its MBS by at least \$200B
15-Mar-20	<b>Discount Window:</b> Federal Reserve lowers the primary credit rate by 150 bps to 0.25% to enhance the role of the discount window for banks facing potential funding pressures
17-Mar-20	<b>Commercial Paper Funding Facility (CPFF)</b>
17-Mar-20	<b>Primary Dealer Credit Facility (PDCF)</b>
18-Mar-20	<b>Money Market Mutual Fund Liquidity Facility (MMLF)</b>
23-Mar-20	<b>Federal Reserve Issues FOMC Statement:</b> The Federal Reserve will continue to purchase Treasury securities and agency mortgage-backed securities in the "amounts needed"
23-Mar-20	<b>Primary Market Corporate Credit Facility (PMCCF)</b>
23-Mar-20	<b>Secondary Market Corporate Credit Facility (SMCCF)</b>
23-Mar-20	<b>Term Asset-Backed Securities Loan Facility (TALF)</b>
31-Mar-20	<b>Temporary Foreign and International Monetary Authorities (FIMA) Repo Facility</b>
9-Apr-20	<b>Paycheck Protection Program Liquidity Facility (PPPLF)</b>
9-Apr-20	<b>Main Street Business Lending Program</b>
9-Apr-20	<b>Municipal Liquidity Facility (MLF)</b>
24-Apr-20	Federal Reserve Board announces interim final rule to delete the six-per-month limit on convenient transfers from the "savings deposit" definition in Regulation D
25-Apr-20	Small Business Administration (SBA) and U.S. Department of Treasury Announce Availability of New Paycheck Protection Program Loans
27-Apr-20	Federal Reserve Board announces an expansion of the scope and duration of the Municipal Liquidity Facility
30-Apr-20	Federal Reserve Board announces it is expanding the scope and eligibility for the Main Street Lending Program
30-Apr-20	Federal Reserve Board expands access to its Paycheck Protection Program Liquidity Facility (PPPLF) to additional lenders, and expands the collateral that can be pledged
11-May-20	Federal Reserve Board published updates to the term sheet for the Municipal Liquidity Facility (MLF) to provide pricing and other information
12-May-20	Federal Reserve Board publishes updates to the term sheet for the Term Asset-Backed Securities Loan Facility (TALF)
3-Jun-20	Federal Reserve Board announces an expansion in the number and type of entities eligible to directly use its Municipal Liquidity Facility
8-Jun-20	Federal Reserve Board expands its Main Street Lending Program to allow more small and medium-sized businesses to be able to receive support
15-Jun-20	Federal Reserve Board updates the Secondary Market Corporate Credit Facility (SMCCF) to allow the buying of a broad and diversified portfolio of corporate bonds
29-Jun-20	Federal Reserve Board releases new term sheet for the Primary Market Corporate Credit Facility, adding pricing and other information
23-Jul-20	Federal Reserve Board announces updates to Secondary Market Corporate Credit Facility (SMCCF)
28-Jul-20	Federal Reserve Board announces an extension through December 31 of its lending facilities that were scheduled to expire on or around September 30
11-Aug-20	Federal Reserve Board announces revised pricing for its Municipal Liquidity Facility
30-Oct-20	Federal Reserve Board adjusts terms of Main Street Lending Program to better target support to smaller businesses that employ millions of workers and are facing continued revenue shortfalls due to the pandemic

Source: Federal Reserve Board, Stifel

# Fed Balance Sheet Reaches \$7T

During the 2007-2008 Financial Crisis and subsequent recession, the Federal Reserve's balance sheet increased significantly from \$870B in August 2007 to \$4.5T in early 2015, including \$1.7T in MBS and \$1.7T in UST purchases

Since the start of the coronavirus pandemic, the Fed's balance sheet has increased from \$4.2T in February to \$7.2T as of October, with \$628B in MBS and \$2.1T in UST purchases



Source: Federal Reserve, Haver Analytics

\*Other includes discount window lending; lending to other institutions; assets of limited liability companies (LLCs) that have been consolidated onto the Federal Reserve's balance sheet, and foreign currency holdings associated with reciprocal currency arrangements with other central banks (foreign central bank liquidity swaps).



# Equities Recapture Pandemic Losses

The equity market – despite a recession and ongoing pandemic – has recouped early pandemic losses

Down more than 20% after the first quarter, U.S. equities moved back into the black – by May for the Nasdaq and late July for the S&P 500

YoY the Nasdaq is up 38% and the S&P 500 is up 15% as of November 9<sup>th</sup>

The Dow is up 2% since the start of the year

Dow Jones Industrial Average



INDU Index (Dow Jones Industrial Average) Dow Jones Daily 31DEC2019-09NOV2020

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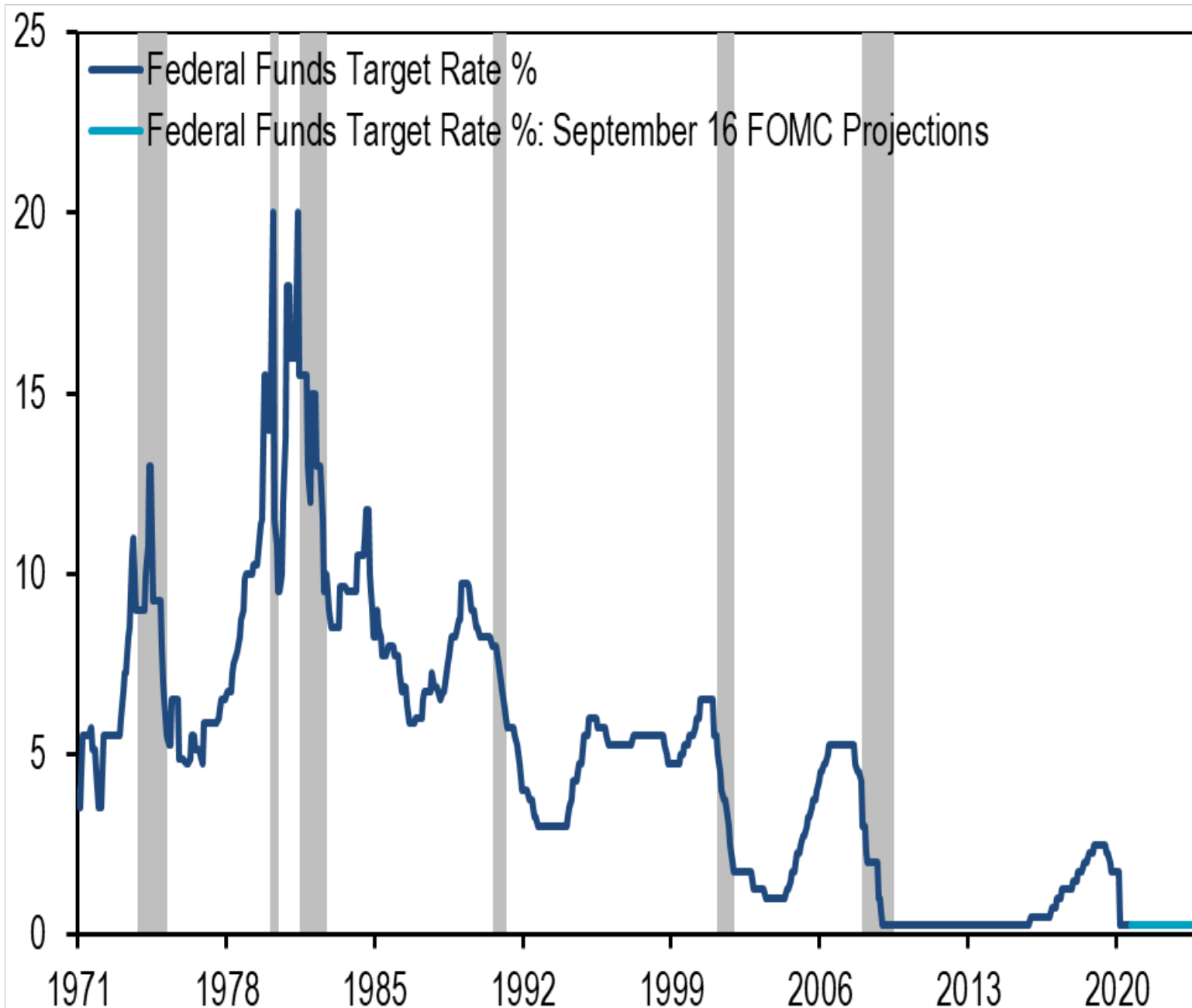
*"We think that the economy's going to need low interest rates, which support economic activity, for an extended period of time ... it will be measured in years. However long it takes, we're going to be there."*

-Fed Chairman Jerome Powell, NPR Interview, September 4, 2020

*"We're not thinking about raising rates, we're not even thinking about thinking about raising rates."*

-Fed Chairman Jerome Powell, June 10 FOMC Press Conference

The latest dot plot shows the majority of officials expect rates to remain unchanged through 2023



Source: Federal Reserve Board/ Bloomberg

## Polling Question #2

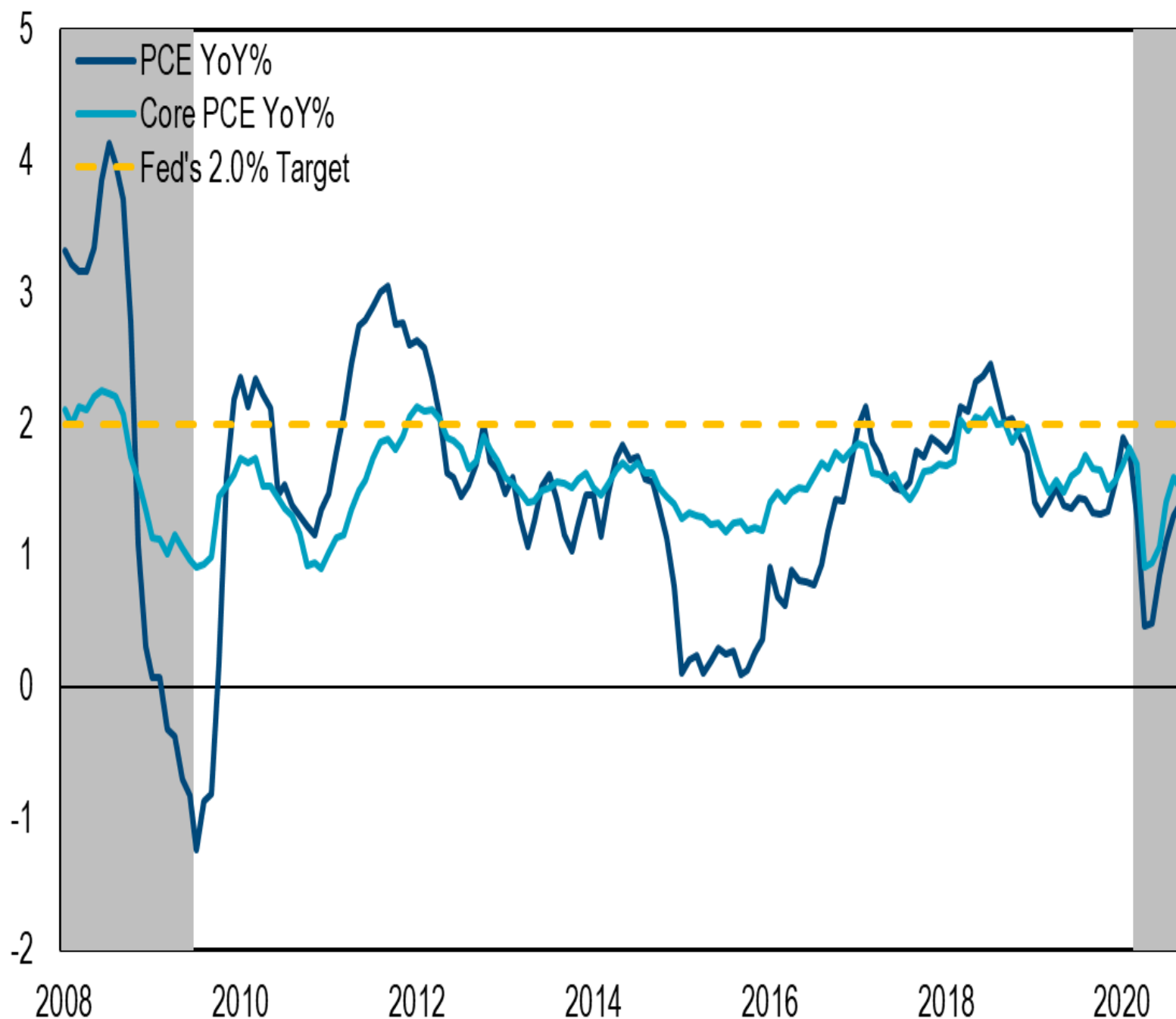
*“With inflation running persistently below this longer-run goal, the Committee will aim to **achieve inflation moderately above 2% for some time** so that inflation averages 2%...”*

-November 5<sup>th</sup> FOMC Statement

The PCE rose 0.2% in September and 1.4% YoY  
The Core PCE rose 0.2% and 1.5% MoM and YoY, respectively

Inflation has fallen short of the Fed’s 2% target for nearly a decade

Inflation has been averaging 1.3% over the past five years, allowing a potential for inflation to run near 3% for the next five without exceeding a longer-term average of 2%



Source: Bureau of Economic Analysis/ Bureau of Labor Statistics

# Updated Fed Projections

The Fed upgraded its outlook for near-term growth in 2020 from -6.5% to a lesser decline of -3.7% reflecting stronger economic data and a faster pace of recovery

Going forward, the Fed anticipates a more anemic growth rate of just 4% in 2021 and 3% in 2022, downgraded from June's projections of 5% and 3.5%, respectively

The Fed lowered its projections for the unemployment rate from 9.3% to 7.6% in 2020 and remaining below 6% thereafter

The Committee continues to anticipate muted price pressures in the near-term with inflation not returning to its 2% target until 2023

## FOMC September 16<sup>th</sup> SEP

Percent

Variable	Median <sup>1</sup>					Central Tendency <sup>2</sup>					Range <sup>3</sup>				
	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run
Change in real GDP	-3.7	4.0	3.0	2.5	1.9	-4.0--3.0	3.6-4.7	2.5-3.3	2.4-3.0	1.7-2.0	-5.5-1.0	0.0-5.5	2.0-4.5	2.0-4.0	1.6-2.2
June projection	-6.5	5.0	3.5		1.8	-7.6--5.5	4.5-6.0	3.0-4.5		1.7-2.0	-10.0--4.2	-1.0-7.0	2.0-6.0		1.6-2.2
Unemployment rate	7.6	5.5	4.6	4.0	4.1	7.0-8.0	5.0-6.2	4.0-5.0	3.5-4.4	3.9-4.3	6.5-8.0	4.0-8.0	3.5-7.5	3.5-6.0	3.5-4.7
June projection	9.3	6.5	5.5		4.1	9.0-10.0	5.9-7.5	4.8-6.1		4.0-4.3	7.0-14.0	4.5-12.0	4.0-8.0		3.5-4.7
PCE inflation	1.2	1.7	1.8	2.0	2.0	1.1-1.3	1.6-1.9	1.7-1.9	1.9-2.0	2.0	1.0-1.5	1.3-2.4	1.5-2.2	1.7-2.1	2.0
June projection	0.8	1.6	1.7		2.0	0.6-1.0	1.4-1.7	1.6-1.8		2.0	0.5-1.2	1.1-2.0	1.4-2.2		2.0
Core PCE inflation <sup>4</sup>	1.5	1.7	1.8	2.0		1.3-1.5	1.6-1.8	1.7-1.9	1.9-2.0		1.2-1.6	1.5-2.4	1.6-2.2	1.7-2.1	
June projection	1.0	1.5	1.7			0.9-1.1	1.4-1.7	1.6-1.8			0.7-1.3	1.2-2.0	1.2-2.2		
Memo: Projected appropriate policy path															
Federal funds rate	0.1	0.1	0.1	0.1	2.5	0.1	0.1	0.1	0.1-0.4	2.3-2.5	0.1	0.1	0.1-0.6	0.1-1.4	2.0-3.0
June projection	0.1	0.1	0.1		2.5	0.1	0.1	0.1		2.3-2.5	0.1	0.1	0.1-1.1		2.0-3.0

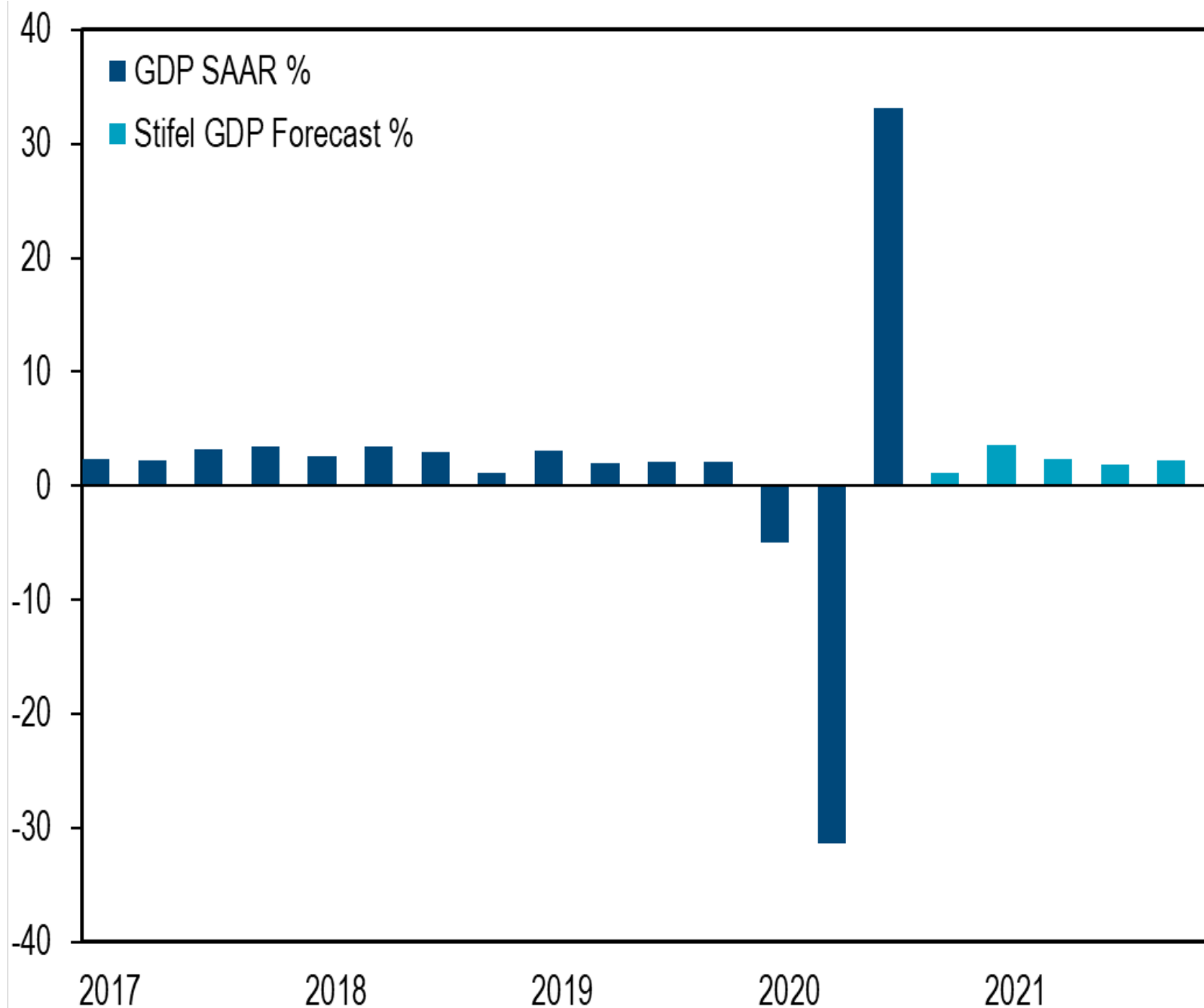
Source: Federal Reserve Board

## Polling Question #3

# GDP to Remain Restrained

After a 31.4% drop in Q2, growth rebounded **33.1%** in Q3

Going into the end of the year, growth is likely to slow, potentially falling back into negative territory and remain minimal throughout 2021



Source: Bloomberg/Stifel

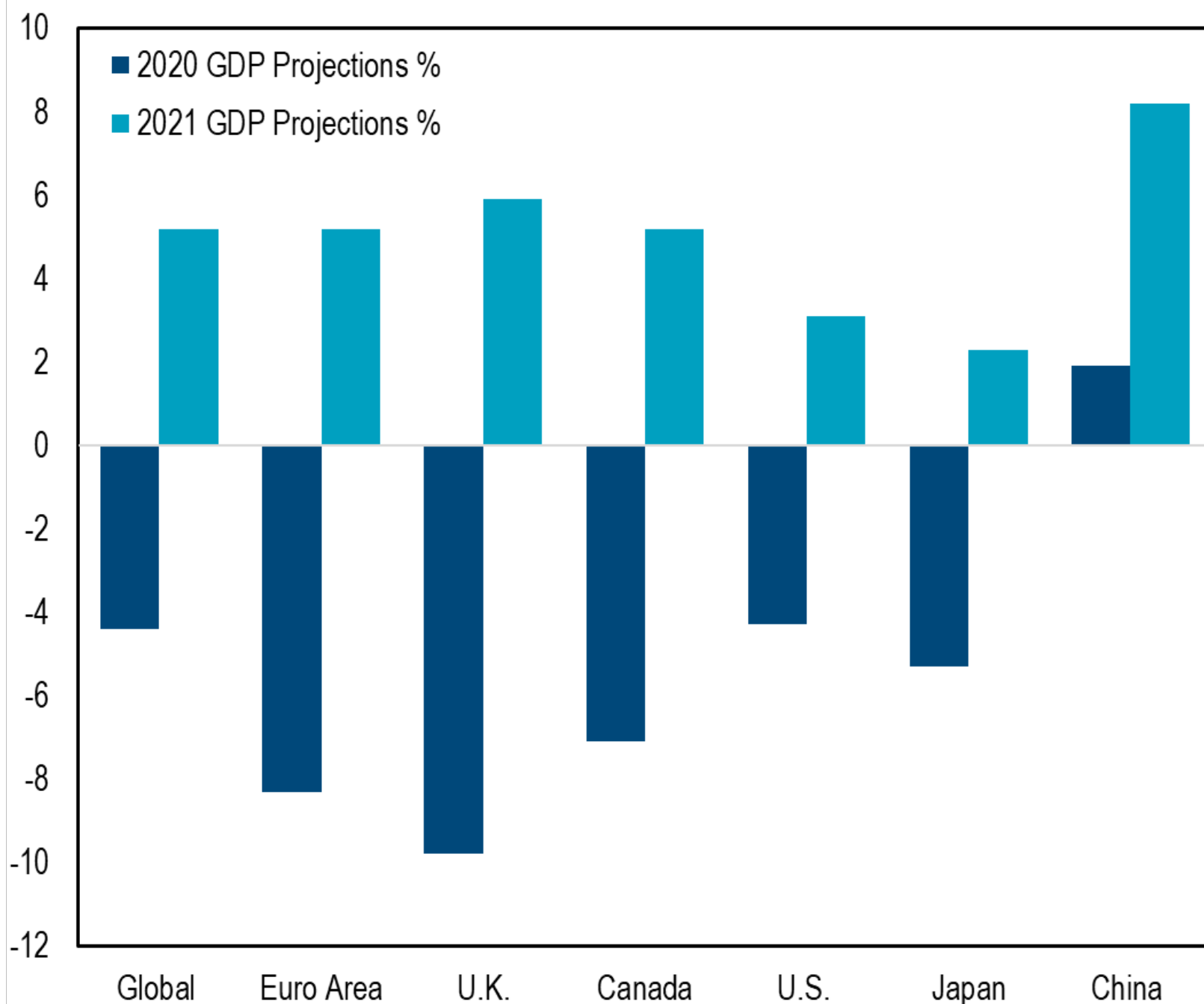


# Global GDP to Remain Restrained

According to the latest June IMF forecast, global GDP is expected to decline 4.4% in 2020 following a 2.8% gain in 2019

In 2021, GDP is expected to rebound to 5.2%, compared with 2.8% in 2019

In the five years preceding the pandemic, global growth averaged 2.9%



Source: IMF



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Underperform - For credit specific recommendations we expect the identified credit to underperform its sector specific peers over the next six months.

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