



## Economic Review - First 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 is the longest since the 1850s.<sup>1</sup> In the first quarter of 2020, 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 had one meeting scheduled in March but, due to rapidly deteriorating economic and financial market conditions, held multiple unscheduled meetings and took extraordinary measures to support the economy, including:

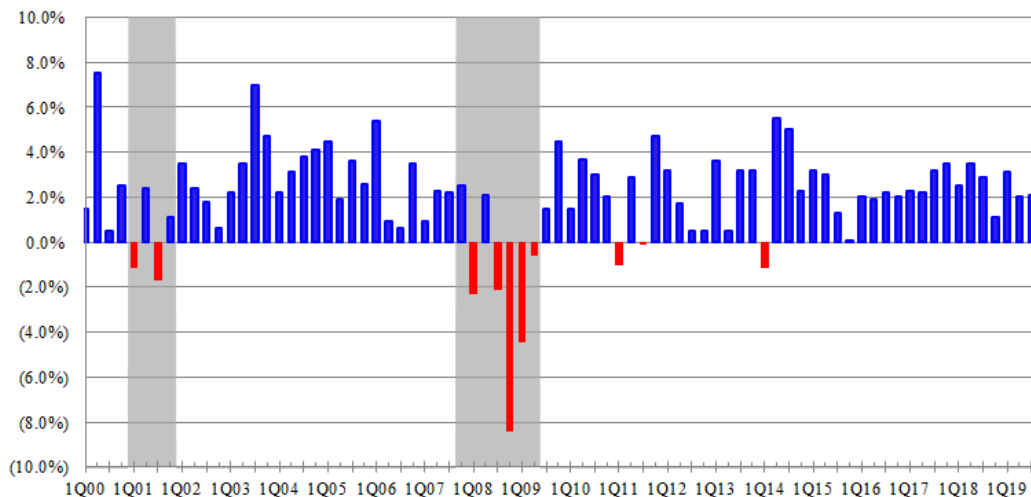
- Sharply reducing the target range for the federal funds rate to zero-to-0.25 percent.
- Commencing the purchase of over \$1.3 trillion in fixed income securities during the first quarter of 2020, increasing the total assets held on its balance sheet to over \$5.5 trillion.
- Established a temporary foreign and international monetary authority (FIMA) repurchase facility to support liquidity to domestic and international institutions.



## 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—increased at an annual rate of 2.1 percent in the fourth quarter of 2019. The Federal Reserve typically publishes its estimates of GDP growth; however, the Federal Reserve has not published any updated projections during the first quarter of 2020. Private sector analysts estimate that GDP will have decreased by annualized rates of approximately 5 percent in the first quarter of 2020 and approximately 20-to-30 percent in the second quarter of 2020—rates not seen since the Great Depression of the 1930s. 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

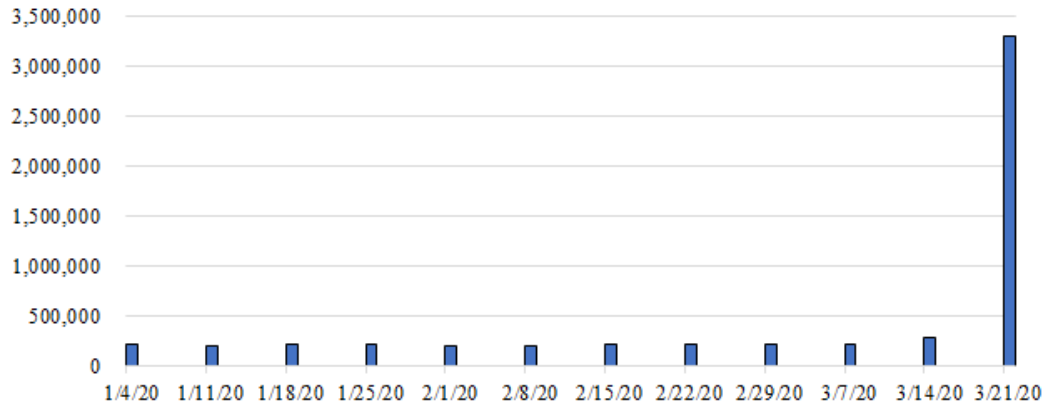
From March 2010 (the end of the 2008–2009 recession) to February 2020, 23.2 million net non-farm jobs were created.<sup>2</sup> As of February 2020, the unemployment rate of 3.5 percent was near an all-time low. A more expansive measure of labor underutilization, including discouraged workers who have 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.<sup>3</sup>

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 recently averaged 218,000 per week



spiked to 3,307,000 for the week ending March 21, 2020 (the latest available as of March 31, 2020). It is likely that subsequent data will also show millions of additional unemployment filings when data is published in April. Unemployment filings in 2020 are shown in the following figure.

### WEEKLY INITIAL UNEMPLOYMENT CLAIMS

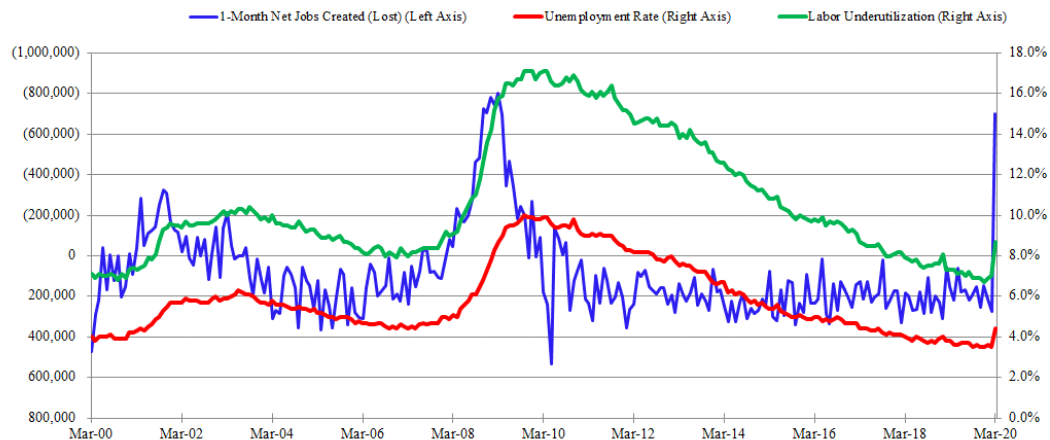


Source: Federal Reserve Bank of St. Louis.

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.

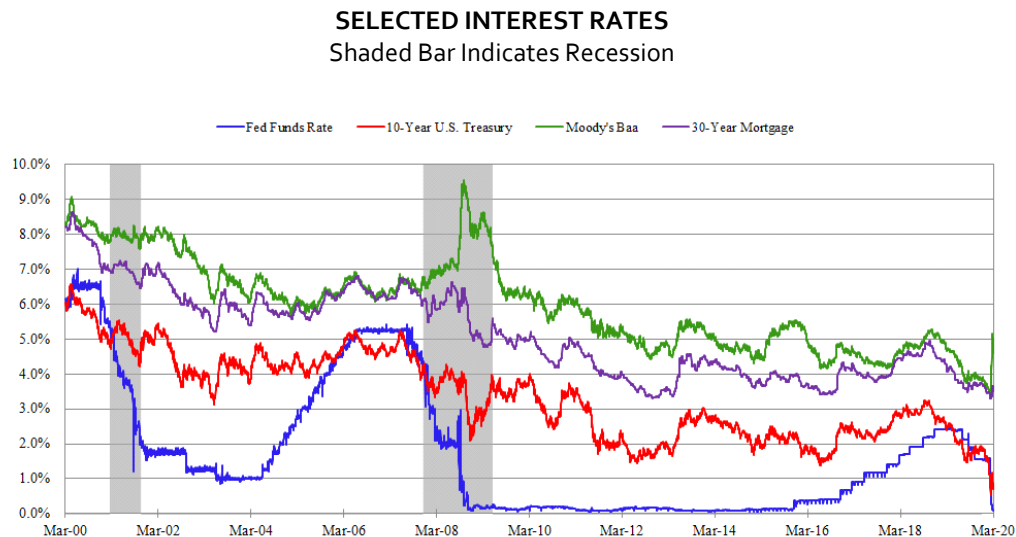


## Interest Rates

Notable recent events in bond markets include:

- Interest rates have declined, as investors fled to safe haven assets and as the Federal Reserve has increased its purchases of bonds and mortgage-backed securities.
- The yield on the 10-year U.S. Treasury dropped over 100 basis points, reaching its all-time low of 0.54 percent in March 2020.
- In late March, the yields on one-month and three-month U.S. Treasury bills briefly turned negative for the first time in the last four years and just the second time in U.S. history.

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



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

## Stock Market Activity

The S&P 500 closed at a record high on February 19, 2020, before decreasing nearly 34 percent in 33 days. As governments announced major efforts to combat the coronavirus, and central banks took extraordinary steps to support financial markets, the S&P 500 increased by approximately 17 percent in 7 days, a notably sharp recovery. Volatility has been extremely elevated, with the Dow Jones Industrial Average repeatedly registering swings of 1,000 and 2,000 points per day. All major indices ended the first quarter with large losses. Total returns for U.S. stock indices during the first quarter of 2020 are shown in the following figure.



### TOTAL RETURNS OF MAJOR U.S. STOCK INDICES

Index	First Quarter 2020
S&P 500	(19.6%)
Dow Jones Industrial Average	(22.7%)
NASDAQ Composite (1)	(14.2%)
S&P MidCap 400	(29.7%)
Russell 2000	(30.6%)

*Note:*

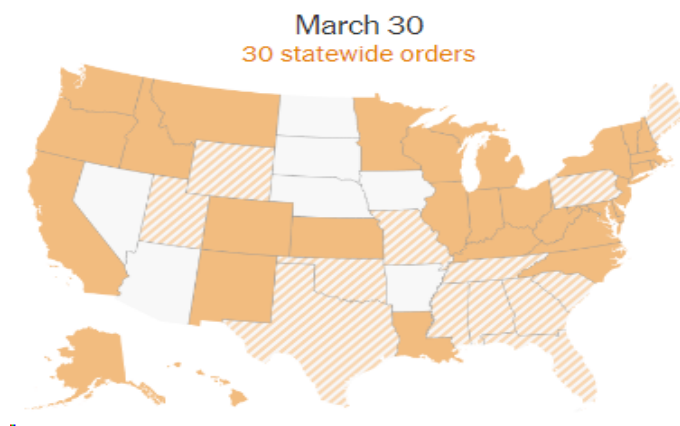
(1) Return represents principal only.

## Coronavirus Pandemic and Government Response

- The first confirmed COVID-19 case occurred in Wuhan, China, in late December 2019 and China reported its first death on January 11, 2020.
- The World Health Organization declared a global pandemic on January 30, 2020.
- As of March 31, 2020, COVID-19 has spread to over 170 countries and caused more than 100,000 deaths globally.<sup>4</sup>
- Many large global events have been canceled or postponed, including the 2020 Summer Olympics in Tokyo.
- Weakened global demand and a lack of cooperation between OPEC and Russia pushed oil below \$20 per barrel and towards negative territory.
- Congress passed two major stimulus bills to aid businesses and workers.
  - The “Families First Coronavirus Response Act” will provide an expansion to unemployment insurance and support small business through \$350 billion in loans and the Paycheck Protection Program.<sup>5</sup>
  - The “CARES Act” will provide direct cash payments of \$1,200 per adult (making less than \$75,000) and \$500 per child.<sup>6</sup>
- Many countries have restricted travel into, and within, their borders.
- 30 U.S. states have implemented “stay at home” orders, and 13 additional states have enacted regional or limited orders to help slow the spread of COVID-19, as shown in the following figure.



## U.S. STATES WITH STAY AT HOME ORDERS



Source: The New York Times.

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/CES000000001?output\\_view=net\\_1mth](http://data.bls.gov/timeseries/CES000000001?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," April 7, 2020. <<https://www.nytimes.com/article/coronavirus-timeline.html>>.
5. United States Congress, "Families First Coronavirus Response Act," March 18, 2020. <<https://www.congress.gov/116/plaws/publ127/PLAW-116publ127.pdf>>.
6. United States Congress, "CARES Act," March 27, 2020. <<https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf>>.