SYNOPSIS | Difficult times to measure

The esteemed 20th-century economist Frank Knight once observed that there is a critical distinction between “risk,” which can be quantified and thus managed, and “uncertainty,” which by contrast refers to an event whose probability cannot be known and therefore cannot be readily managed. Therefore, according to Knight, risk applies to situations where we do not know the outcome but can accurately measure the odds. Uncertainty, on the other hand, applies when we do not know all the information needed to set accurate odds in the first place. So, a known risk is “easily converted into an effective certainty,” while “true uncertainty,” as Knight called it, is “not susceptible to measurement.”

Is it possible the worst of the coronavirus pandemic is behind us? Maybe, but we are not out of the woods yet, and uncertainty abounds. In the last few months, the economic landscape has shifted dramatically and in unimaginable ways. In early March, the economy changed course almost overnight from the longest expansion on record with historically low unemployment to an historic economic slump with sky-high unemployment. While this period has not yet been officially declared a recession, it manifests all the signs of one and could be one of the deepest on record. With businesses already beginning to reopen and economic activity resuming, however, the hope is that it will also be one of the shortest. Nonetheless, predicting what will happen is even more challenging than usual. While history often helps guide us, previous downturns offer little guidance on what is likely to unfold over the next six to 12 months. There is no user’s manual in which government, businesses or consumers can find precise solutions for what we are going through, and that makes the outlook even more uncertain. The economy is clearly undergoing an adjustment because of the coronavirus but compared with prior economic cycles it is likely to take a significantly different path.
We are living in a world of inordinate uncertainty. The data that normally serves as our guide has shown such unparalleled numbers that it is not comparable to anything in economic history and it has yet to catch up with the reality of what we are experiencing. With such sizeable disruptions, it is difficult to tally the damage or determine the future trajectory of key indicators such as employment or gross domestic product. The data has been dramatic because this is not a typical cyclical downturn but a sudden, mandated shutdown instead. Nonetheless, the economic impact of the pandemic will become more apparent as we move forward and get additional data on various dimensions of the economy.

To help us overcome uncertainty, the U.S. Census Bureau has launched several major new data reports to supplement its regular reporting on the economy. These weekly surveys are important snapshots of how individuals and businesses are weathering the current crisis. Their nearly real-time nature and deep coverage will allow us to analyze economic conditions in far greater detail and in a much timelier fashion than we can with traditional monthly government economic indicators.

In the Census' new Household Pulse Survey, the goal is to measure various sectors impacted by COVID-19 including employment status, consumer spending, food security, housing, education disruptions and both physical and mental wellness. The interactive tool provides data for select indicators at national and state levels. The initial results released May 20 show that many households have experienced losses in employment income, are concerned about food security and have deferred decisions to access health care.

The Small Business Pulse Survey includes information on location closings, changes in employment, disruptions in the supply chain, use of federal assistance programs and expectations concerning future operations. Initial results released May 14 showed most businesses responding did not expect to resume operations for at least six months. They reported experiencing supply chain disruptions and significant negative impacts from the pandemic.

In addition, the Census Bureau has rolled out a weekly, more localized version of its Business Formation Statistics report, which tracks the number of applications filed to create new businesses. The new data provides timely and granular information on new business development and can provide insight on the state of the economy. Survey results are published by economic sector and state and for the 50 most-populous Metropolitan Statistical Areas. New businesses play an important role in overall economic activity and account for a sizable share of the job creation very much needed right now. Not surprisingly, the number of applications filed for businesses that plan to hire workers was down 12.8 percent from last year as of mid-May. The surprising news is that nearly 9,000 such applications were still filed in a single week despite the pandemic.

Despite negative economic data that shows the U.S. economy is facing an extended period of weak growth and high unemployment, there could be the beginning of a small inflection point in the labor market. Early signs suggest that small employers are leading the ramp-up in hiring as the economy slowly moves toward reopening, according to the Help Wanted Online Index from the Conference Board and Burning Glass. Since mid-April, the smallest employers have begun to rise sharply in terms of the number of active employers and the number of new help-wanted ads. In the four weeks ending April 19, the number of help-wanted ads in this group was almost 60 percent below February levels. But since then, the downward trend has begun to reverse, and ads are approximately 40 percent below February levels. Since many of these employers were forced to let go of their workers when their businesses were shut down, at least part of the hiring likely reflects refilling previous positions rather than newly created jobs. Nonetheless, seeds for recovery are being planted.

Caution is required when interpreting fluctuations from reports such as these since weekly data is subject to variation from seasonal factors such as holidays and the beginning or end of the calendar year. Nonetheless, frequently updated data is necessary to keep up with frequently changing times.
**CONSUMER SENTIMENT**

Consumer spending went into a freefall in April at unprecedented rates as store closures and stay-at-home orders reduced sales. Consumer sentiment is at a recessionary level.

**EMPLOYMENT**

Payrolls shrunk by 20.5 million jobs during April. The sudden plunge was because of shutdowns rather than weakening in demand. A rebound is expected to be much slower.

**LEADING ECONOMIC INDEX**

With the steep contraction in employment and output in March and April, the Conference Board’s Leading Economic Index declined 4.4 percent in April. The index suggests the U.S. is now in recession territory.

**INFLATION**

The past two months have seen some of the largest monthly declines in consumer prices in U.S. history. COVID-19 weighed heavily on consumer demand. Inflation will remain muted.
CONSUMER CREDIT GROWTH

Revolving credit, which includes credit card spending, posted its largest monthly decline on record in March as consumer spending came to a virtual halt.

![Revolving vs. Nonreolving Credit Graph]

ECOMMERCE

While the COVID-19 outbreak largely shut down "non-essential" retail stores, internet sales have been able to gain as consumers follow stay-at-home directives.

![% change yr ago (L) vs. % of current retail sales (R) Graph]

CONSUMER DEBT

Financial burdens remain extremely low by historical standards, suggesting that consumers on average are not credit constrained and had the ability to pay their debts going into the downturn.

![Financial Obligations Ratio vs. Debt Service Ratio Graph]

FINANCIAL STRESS INDEX

The St. Louis Federal Reserve Bank’s Financial Stress Index eased in early May due to record-breaking amounts of fiscal and monetary stimulus.

![Chicago Fed Financial Stress Index Graph]