MONTHLY Economic Review

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The data for this report is released on a rolling schedule. The presented numbers are current as of publication and are subject to revision.

SYNOPSIS | Path to US Economic Recovery Difficult to Determine

It's now official: The economic downturn brought on by the coronavirus pandemic has been declared an actual recession by the National Bureau of Economic Research, the nonprofit research organization that tracks economic cycles in the United States. According to the bureau's Business Cycle Dating Committee, the expansion that began in June 2009 ended in February 2020 — the month of the U.S. stock market crash — and has been in a recession since then. The 128-month expansion was the longest in U.S. history, beating the previous record of 120 months from March 1991 to March 2001.

The economy's slide into a recession was quick and sharp. The bureau defines a recession as a "significant decline in economic activity spread across the economy lasting more than a few months" that is visible in production, employment, real income and other indicators. By mid-March, there was a sudden and dramatic drop-off in economic activity after most businesses were ordered closed in an attempt to control the pandemic — with resulting declines in both employment and productivity. Following the standard that a decline must last "a few months" before being called a recession, the bureau did not make its declaration until June 8. In doing so, it noted that the public health response to the pandemic has resulted in a downturn with different characteristics and dynamics than prior recessions, most of which came on gradually. It also concluded that the unprecedented magnitude of the decline in employment and production, and its broad reach across the entire economy, warranted the designation of this episode as a recession even if it turns out to be briefer than earlier contractions.

Will this recession be briefer than earlier recessions? No one has a crystal ball. And just as it can take months to be certain a recession has begun, it can take time to declare when one is over as well. In the past, anywhere from six to 18 months of data was needed for the NBER committee to declare that a recession had started. Likewise, it has taken about the same amount of time for the NBER to say a recession has ended. In thinking about key signs of an upturn, there will be a tradeoff between optimism and practicability. The stock market on one hand is viewed as a leading indicator for the economy but on the other hand needs to be validated by actual output and employment. A rising market historically leads an upturn in the business cycle, and over the last three months equity prices have registered an impressive recovery despite the deep and sudden recession. While it would be unusual for a recession to last less than six months, it is possible that the current one could have already ended with May's rebound of 2.5 million jobs. Thus, the good news is that the recession might have ended as fast as it started. The bad news is there is plenty of uncertainty on the shape of the reopening of the economy, and the recovery will be slow even if we are no longer in recessionary territory.

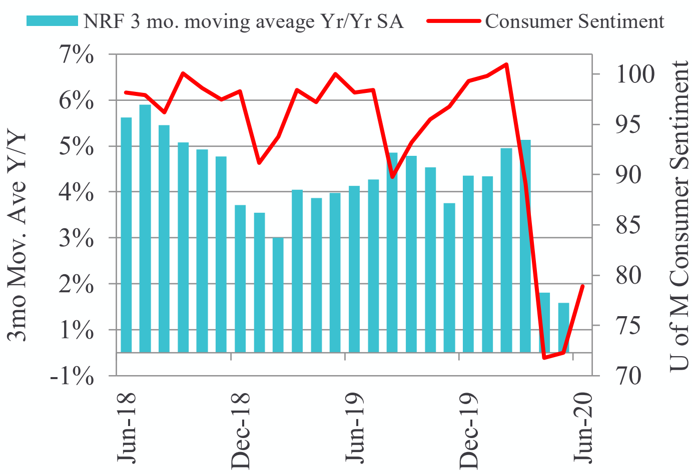
While the May employment report delivered a huge surprise, payrolls are still down a devastating 19.6 million from February. Notwithstanding issues with collecting and classifying employment data, the job market is the most important indicator regarding the recovery, but the data unfortunately tells us more about losses than hiring and not much about the difficulty of finding a job. How fast jobs come back is directly connected to how much consumers are willing to spend, and full recovery is a long way off. The firehose approach of government stimulus checks and unemployment insurance payments paid off in May as consumer spending rose 8.1 percent, offsetting much of the 12.2 percent drop seen in April. Spending was up sharply in every category, a clear indication that people were able and willing to spend more despite the circumstances. The consumer sector is still not out of the woods, however, as personal consumption expenditures are still down 11.7 percent from the February peak. Overall retail sales were up 17.7 percent seasonally adjusted in May from April, but still down 6.1 percent year over year. Retail sales as defined by NRF — excluding automobile dealers, gasoline stations and restaurants to more accurately reflect core retail — were up 11 percent from April and up 1.7 percent year-over year. The improvements came even though the bulk of the stimulus payments — which contributed to a huge 10.8 percent gain in personal income in April — had already been distributed a month earlier and personal income fell 4.2 percent. Going forward, there is no way to know how consumers will draw on savings to offset the falloff in income as unemployment continues to hover at historic levels.

A slew of real-time, "high-frequency" indexes provide snapshots of the economy, including those based on restaurant reservation apps, flight tracking software, help wanted ads and both Google and Apple maps using data from mobile device signals. While we don't know the statistical properties of the data or understand its representativeness and seasonality, it appears to be a reasonable proxy for economic activity and snapshots are useful. The Dallas Federal Reserve Bank has also developed geospatial analysis to track the reopening of the economy with its release of a Mobility and Engagement Index using real-time data. The index shows the economy has been in a contractionary mode since February, but that consumer activity appears to be rising recently, suggesting a bottoming out. The index correlates closely with the New York Fed's Weekly Economic Index, which is based on timely and frequent data from unemployment claims, railroad traffic and other measurements and is consistent that a recovery is at hand. (See graph below.)

Before we prematurely celebrate the return of the consumer, the wave of new coronavirus outbreaks spreading throughout the country are a major threat to the recovery. These outbreaks are alarming, and if they accelerate will certainly sway consumer and business confidence, taking a toll on output and employment and prolonging the time it takes to achieve a true economic recovery.

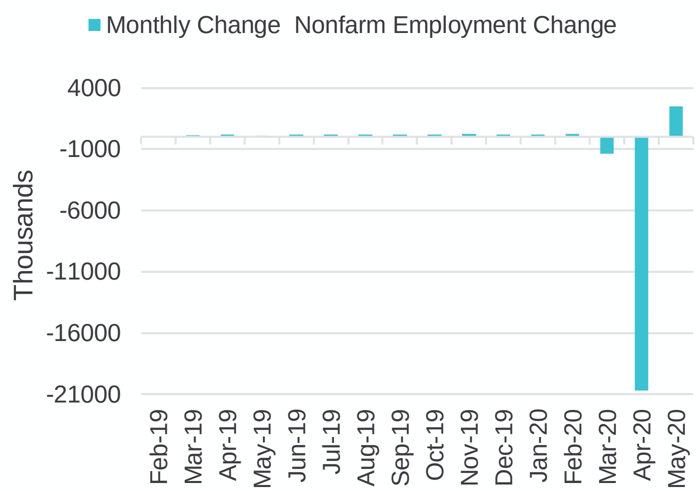
RETAIL SALES

The downdraft in retail sales appears to have bottomed, but confidence is at a level consistent with a recession. The back-to-back depressed sales should set up an easy percentage gain for June numbers.



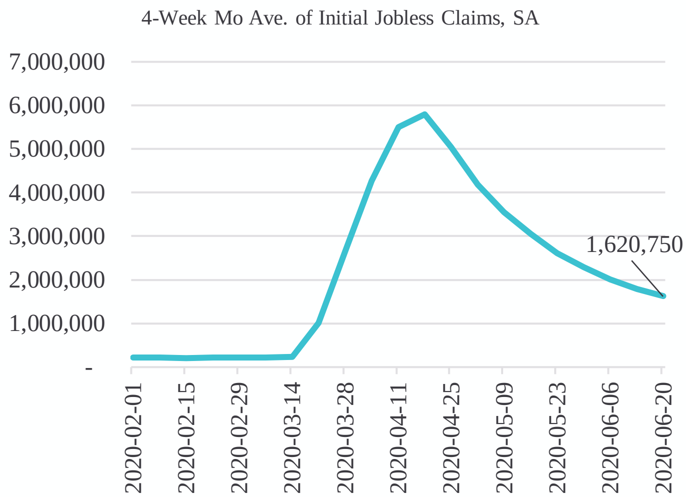
EMPLOYMENT

May's payroll bounce of 2.5 million was a surprise and reflected the reopening of the economy. The stronger jobs data boosted spending in May and should carry into June results.



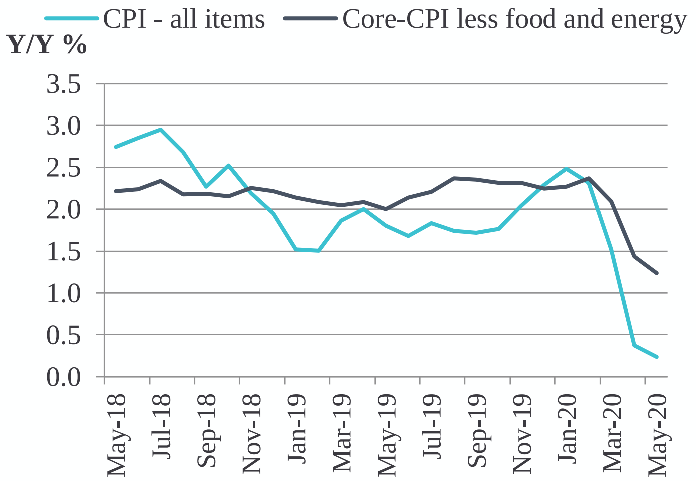
JOBLESS CLAIMS

June's payroll gains were not well predicted as jobless claims have remained at historic high levels. The claims data should have signaled consequential job losses for May.



INFLATION

The economy is facing an unusual supply-and-demand shock, dramatically altering consumer habits and affecting prices in recent months. But price declines may have moderated.



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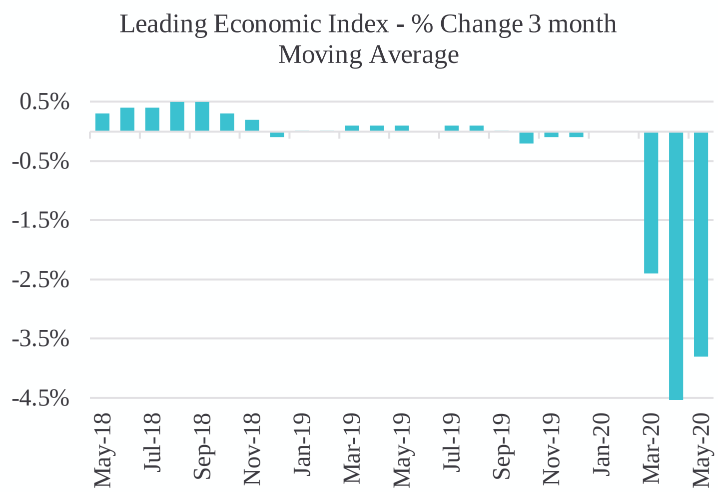
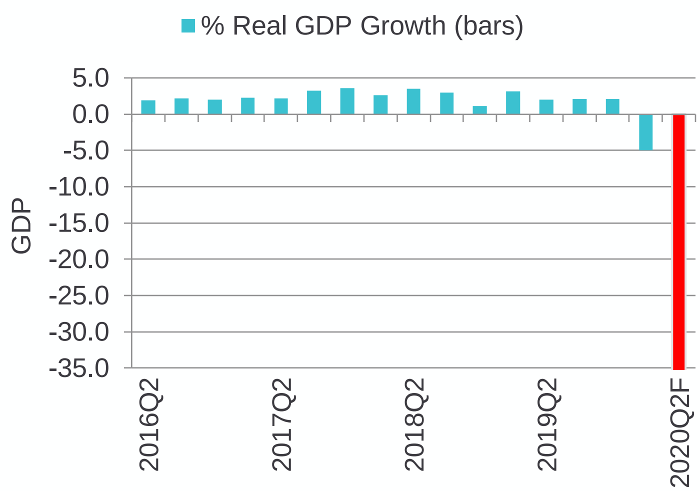
LEADING ECONOMIC INDEX

The Conference Board's Leading Economic Index indicates that the worst of the COVID-19 shock may be behind us. Still, it is a long road to recovery from the quick and sharp recession.



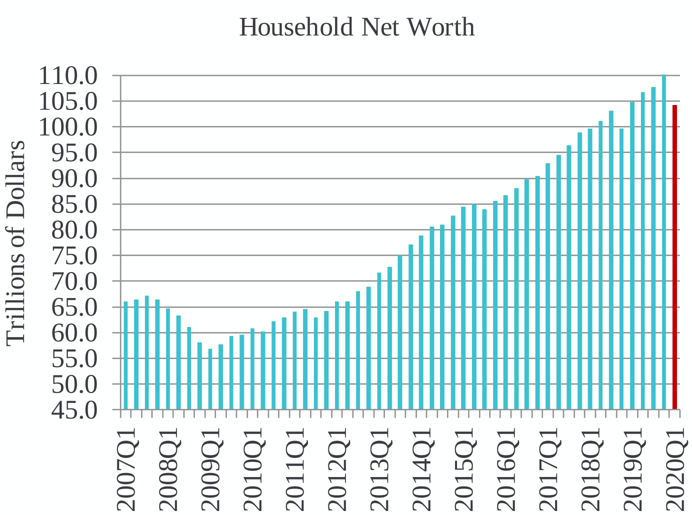
GDP GROWTH

GDP declined 5 percent in the first quarter, according to the Bureau of Economic Analysis. The Blue Chip Economic Indicators survey predicts a drop of 35.7 percent at an annual rate.



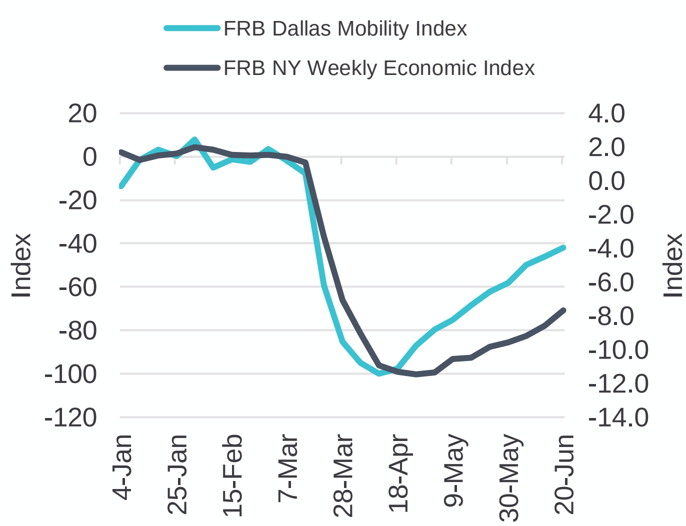
HOUSEHOLD NET WORTH

Stimulus payments to taxpayers totaling $267 billion were not enough to avoid a decline in household net worth in the first quarter. The 6.5 percent dip caused equity prices to fall by $7.8 trillion.



ECONOMIC INDICATORS

The Dallas Fed's Mobility and Engagement Index and the New York Fed's Weekly Economic Index are both rising, indicating a bottoming-out and a recovery for the economy.



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