



FEDERAL RESERVE BANK *of* NEW YORK

# U.S. Economic Conditions

David Lucca, Research and Statistics Group  
October 2020

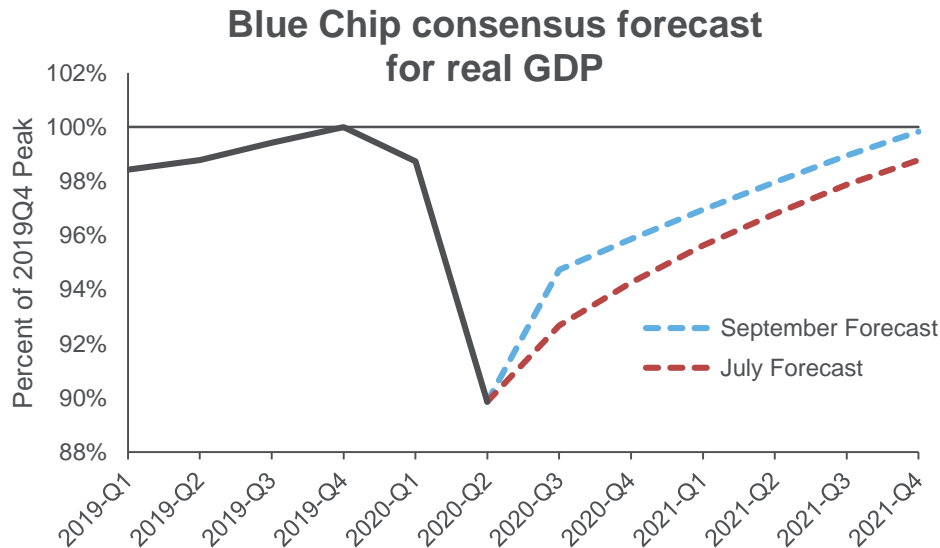
The views expressed here are those of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.

# Overview

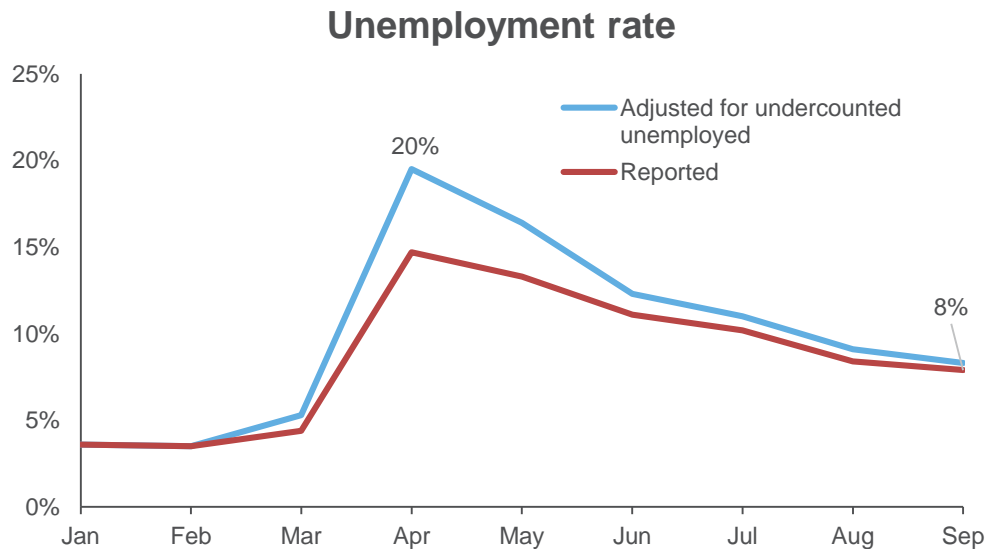
- The US economy experienced a sharp contraction in Q2
- The recovery in Q3 has progressed more quickly than anticipated at the beginning of the summer despite elevated COVID-19 infections
- The rebound is uneven with activity still depressed at smaller firms and in service sectors that more heavily depend on face-to-face customer interactions
- Financial conditions also show evidence of an unbalanced recovery



# Rebound in economic activity, labor market ...



- Real GDP plunged 31.5% in Q2 (annual rate)
- Recovery in Q3 is progressing more quickly than expected in early July

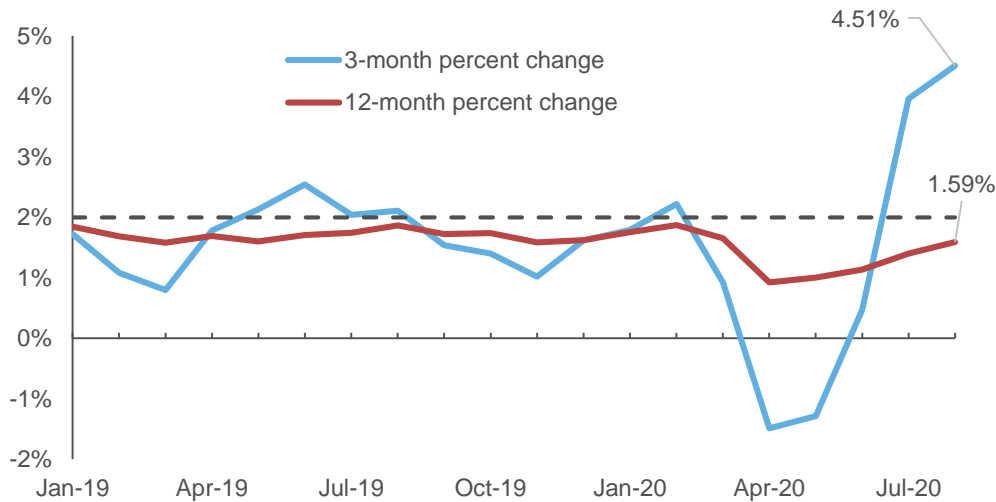


- The unemployment rate has fallen sharply; but only half of the jobs lost in Feb-Apr are recovered



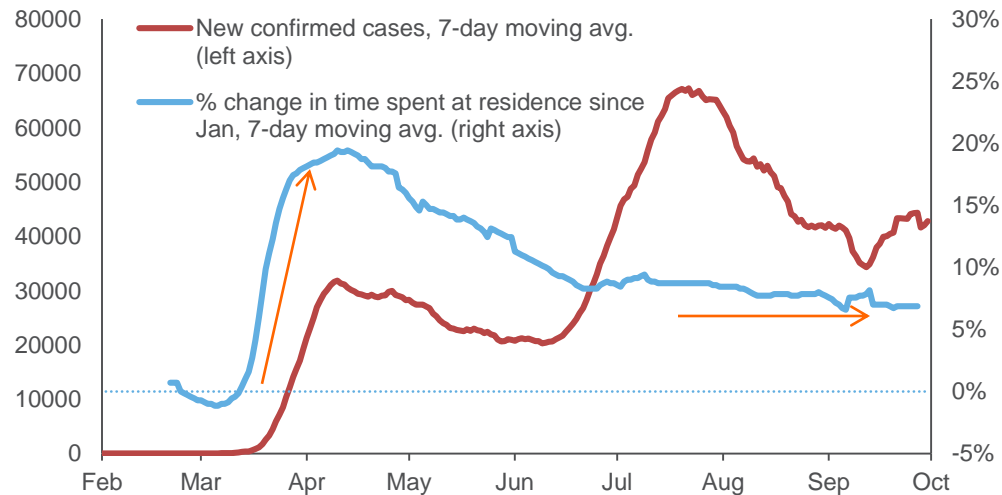
# ..and inflation despite elevated new COVID infections

### Core PCE inflation



- 3-month core-PCE inflation accelerated in Jul/Aug; on a 12-month basis inflation remains muted
- Rebound in activity & inflation despite elevated new COVID confirmed infections

### COVID-19 cases and mobility

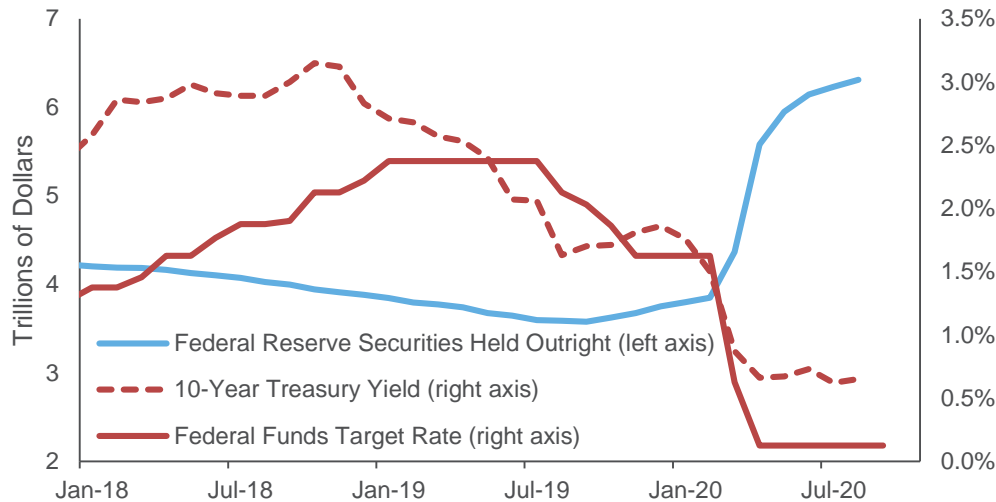


- Absence of summer increase in time-at-home suggests more efficient distancing (face masks)
- Future path is uncertain



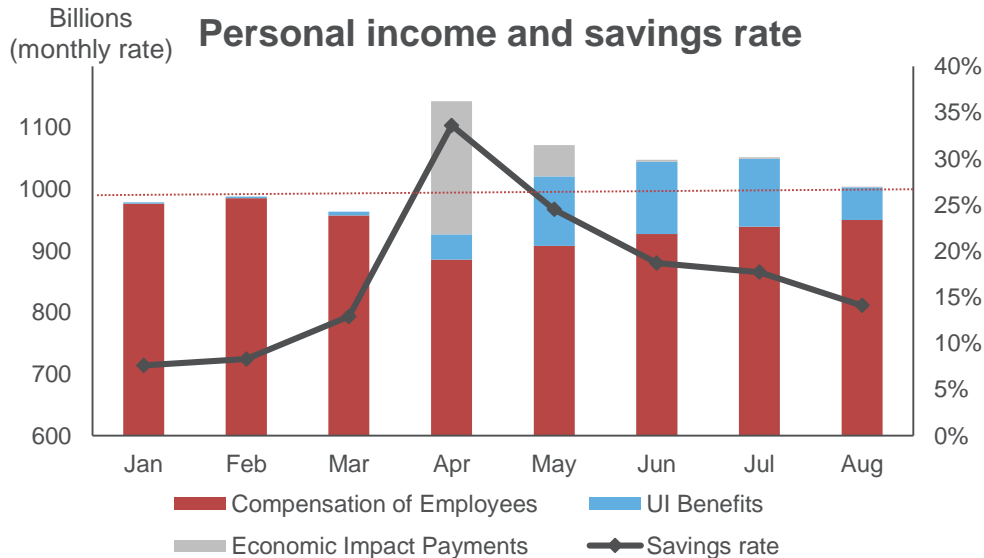
# Unprecedented monetary and fiscal support

Fed's actions during pandemic



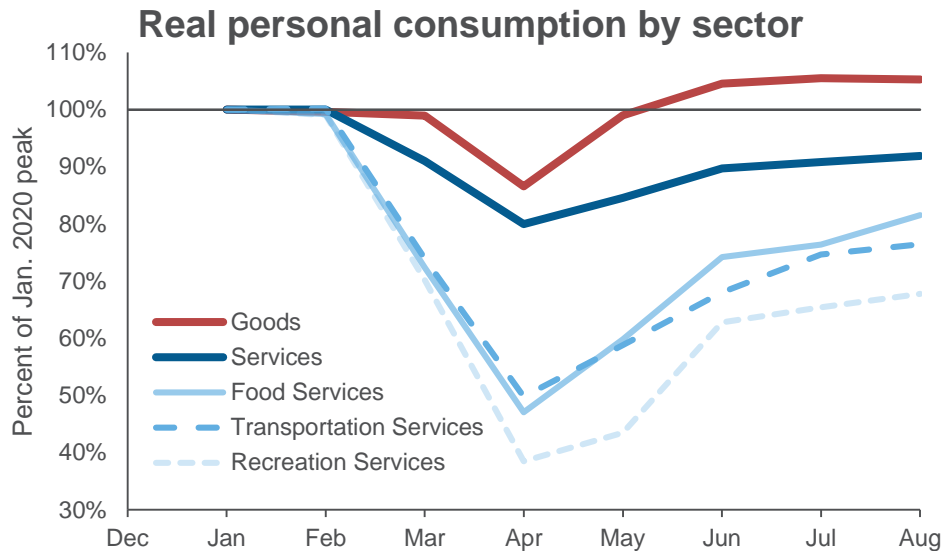
- Economic recovery supported by unprecedented monetary and fiscal policy actions

Personal income and savings rate

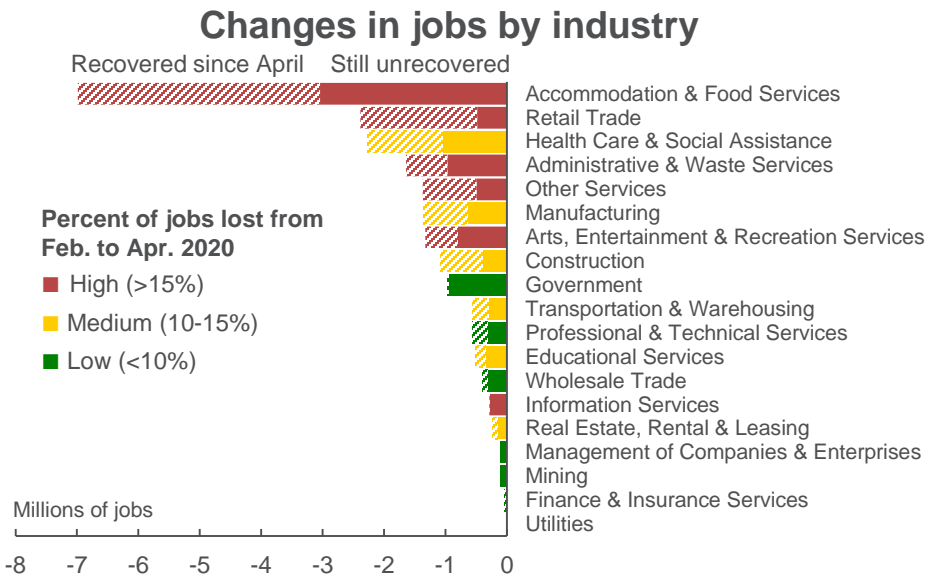


- Personal income since April rose despite large job losses
- Expiration of \$600 top-up in UI payments weighed on Aug personal income but savings rate remains high

# Activity in many service sectors still very depressed



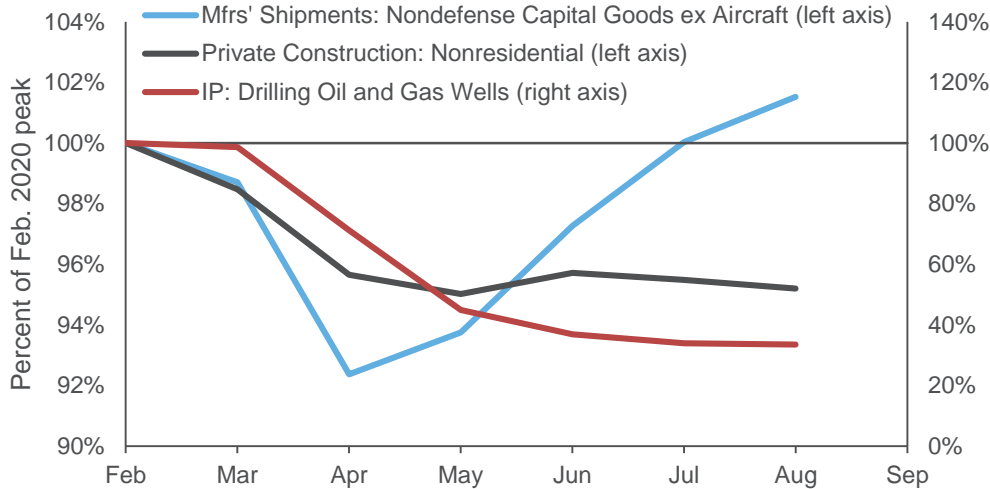
- Uneven recovery: strength in personal goods consumption but depressed services consumption especially if dependent on face-to-face interactions



- Unbalanced jobs recovery even for sectors with similar (%) job losses this spring
- Elevated COVID cases to weigh on “face-to-face-dependent” industries

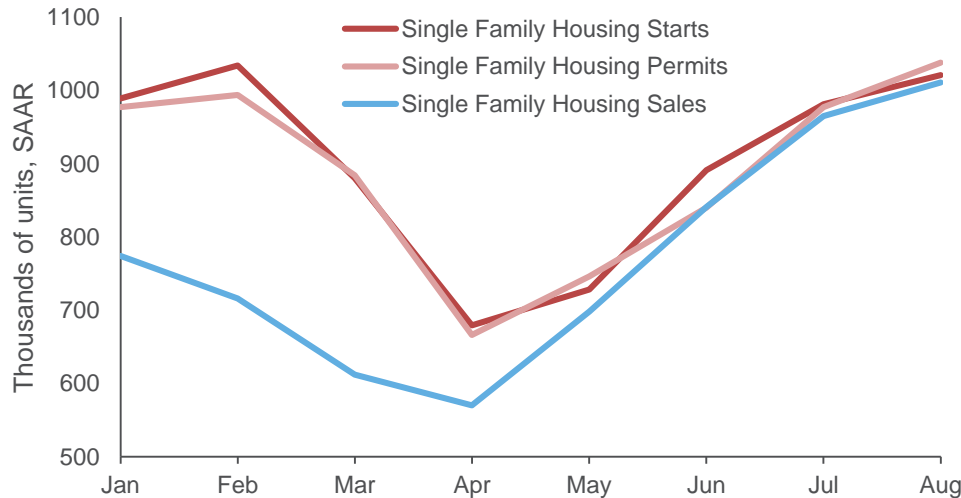
# Equipment and residential inv. rise; nonresidential lags

## Business investment



- Rebound in capex for equipment investment but weakness in business construction, especially in oil & gas

## Residential investment

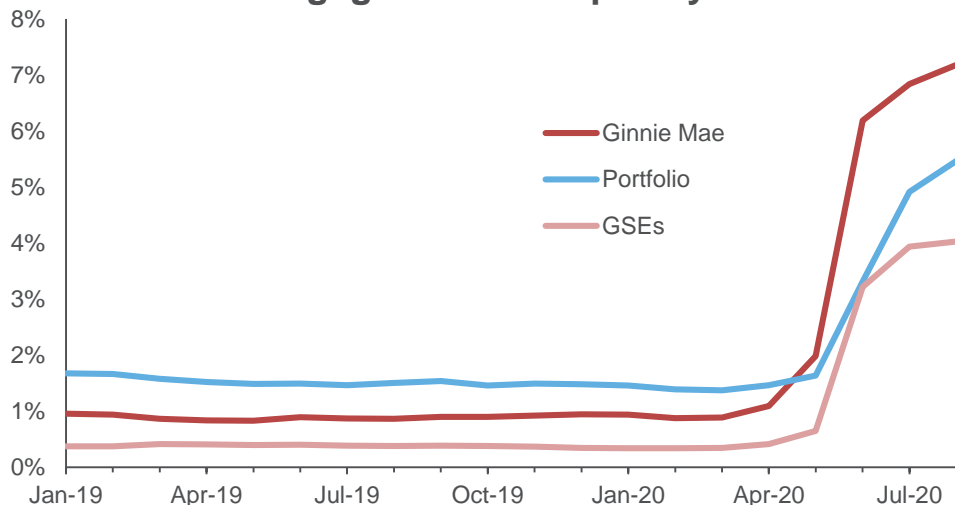


- Residential investment is experiencing a v-shaped recovery



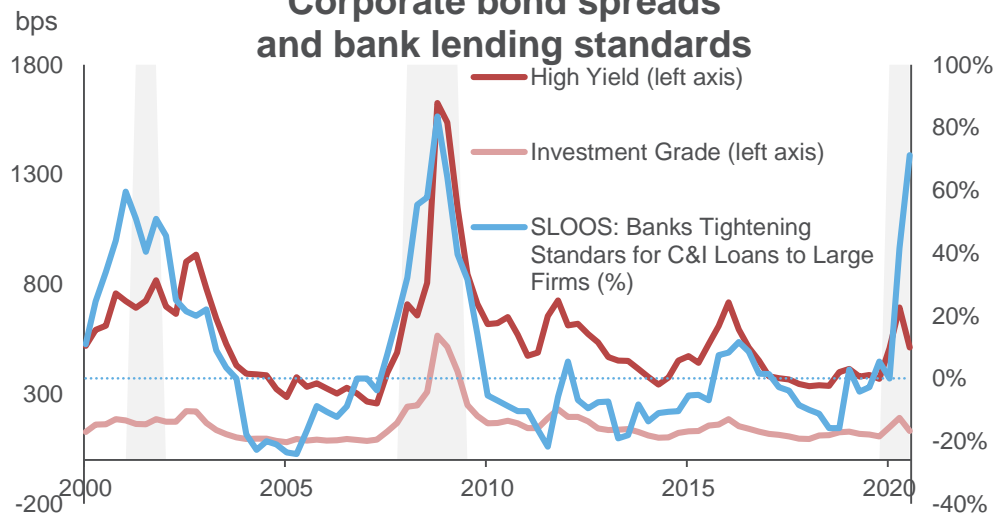
# Distress in retail credit; bus. credit lags market funding

## Mortgage loan delinquency rate



- Mortgage originations are at record highs but elevated delinquency rate, especially for FHA/GNMA loans

## Corporate bond spreads and bank lending standards



- Business credit standards tightening while corporate IG/HY bond spreads narrowing

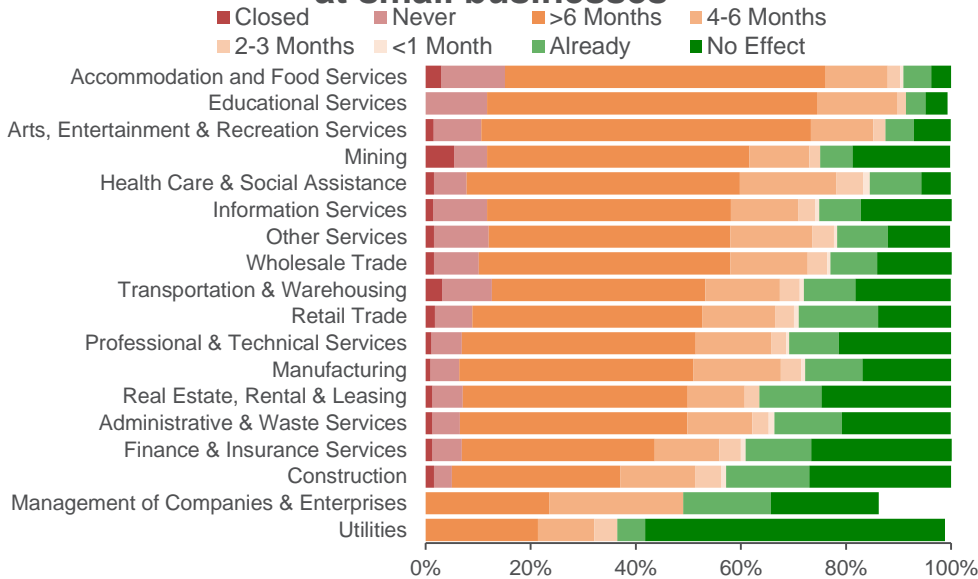




# Small businesses under stress

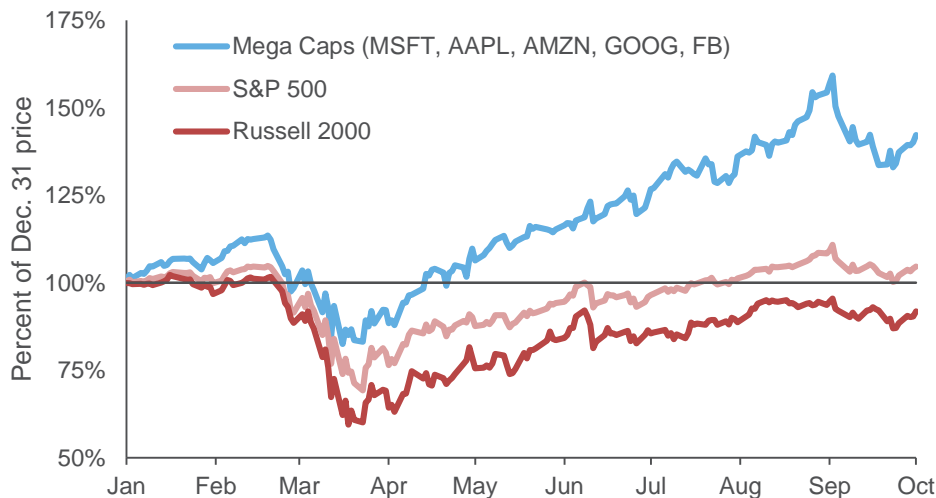
## Expected time to normal operations

### at small businesses



- Many small businesses don't expect business as usual for at least 6-months and many shuttered operations

## Stock market performance



- Gap between large and small firm performance evident in equity valuations for publicly traded companies

