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

Source: BEA, Blue Chip Economic Indicators, BLS
..and inflation despite elevated new COVID infections

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

Source: BEA, JHU, Google
Unprecedented monetary and fiscal support

- Economic recovery supported by unprecedented monetary and fiscal policy actions
- 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

Source: Board of Governors, BEA
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
Equipmen and residential inv. rise; nonresidential lags

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

- Residential investment is experiencing a v-shaped recovery

Source: Census, Board of Governors
Mortgage originations are at record highs but elevated delinquency rate, especially for FHA/GNMA loans.

Business credit standards tightening while corporate IG/HY bond spreads narrowing.
Small businesses under stress

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

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

Source: Census Small Business Pulse Survey (Sept. 20-26), Yahoo Finance