

ECONOMIC FORECAST REVISION

COVID-19 - The Unexpected, Abrupt End to the Longest Expansion on U.S. Record

Craig Dismuke
Chief Economist
cdismuke@viningsparks.com

Dudley Carter
Economist
dcarter@viningsparks.com

FORECAST UNCERTAINTY

A SHARP AND DEEP RECESSION EXPECTED TO LEAVE LASTING IMPACT, LONGER PERIOD OF LOW RATES

Economic Conditions Deteriorated Much More Quickly and Significantly Than Expected

- COVID-19 outbreak has persisted for longer than anticipated, remains unresolved as of mid-July
- Job loss has been greater than expected but the labor market is showing signs of rebounding, long road ahead for job restoration
- Loss of economic activity has been larger and more abrupt than expected, likely to result in prolonged weakness

Fiscal and Monetary Policy Responses Have Been More Comprehensive, Larger than Expected

- Fiscal stimulus has been larger than expected (>\$2.8 trillion), and may be increased further in coming months
- Fed's emergency actions have been more comprehensive than anticipated

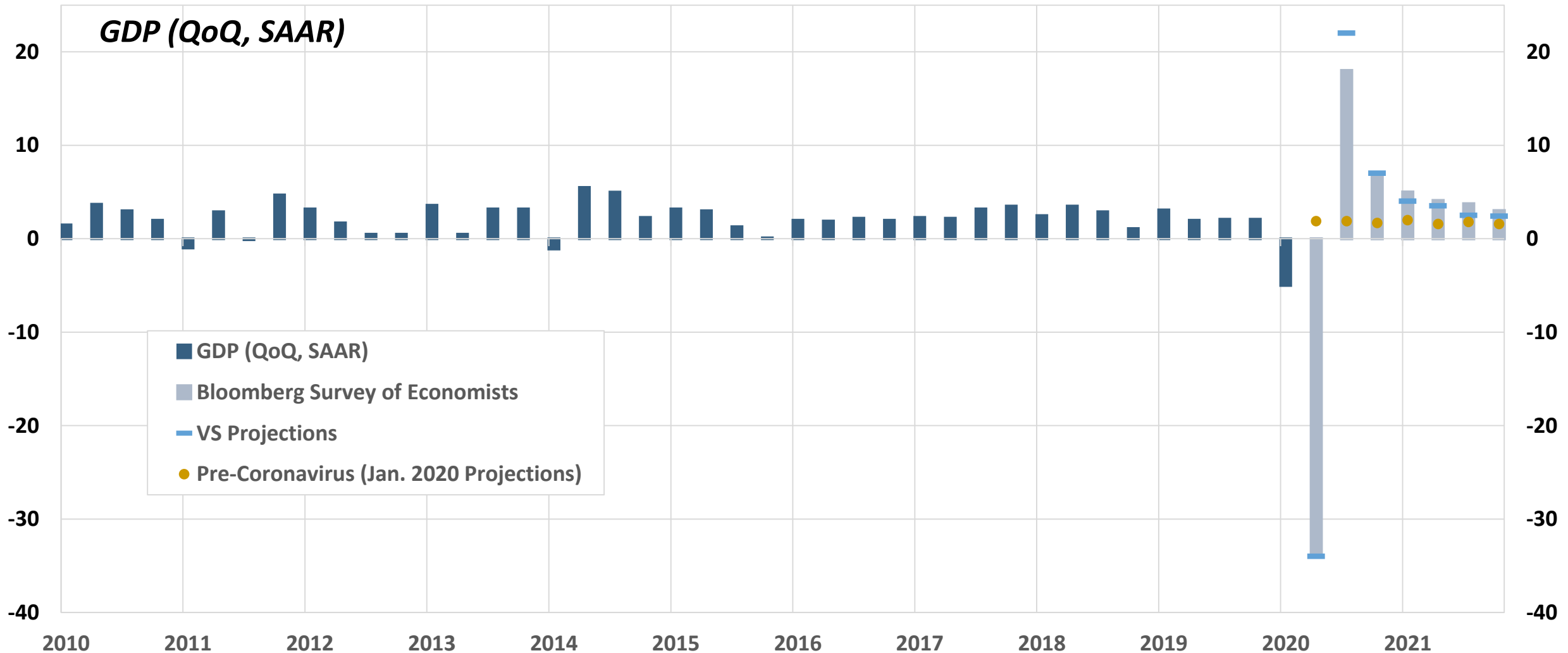
Future Outlook: Lasting Damage Likely Already Occurred, Key to Future Outlook Is Containment

- Length of time to recover lost economic activity is now expected to be longer than twelve to eighteen months
 - Uncertainty remains: will be delayed further as outbreak re-accelerates, some regions appear to not be through the worst yet
- More business failures now likely given prolonged interruption in cashflow
 - Business deaths now expected to exceed births limiting recovery in labor market
- Household income expected to be weak once stimulus measures work way through system
Household balance sheets stable at this point thanks to low interest rates fueling housing and equity markets
- Consumer behavior expected to be altered in ways that reduce future economic activity
 - Most acute concern is for industries providing non-essential services which require high employee-consumer interaction
- Healthier banking sector than during previous cycle expected to help limit damage, allow monetary easing to flow to real economy

Outlook Cumulatively Points to Prolonged Period of Low Interest Rates

GDP FORECAST REVISION

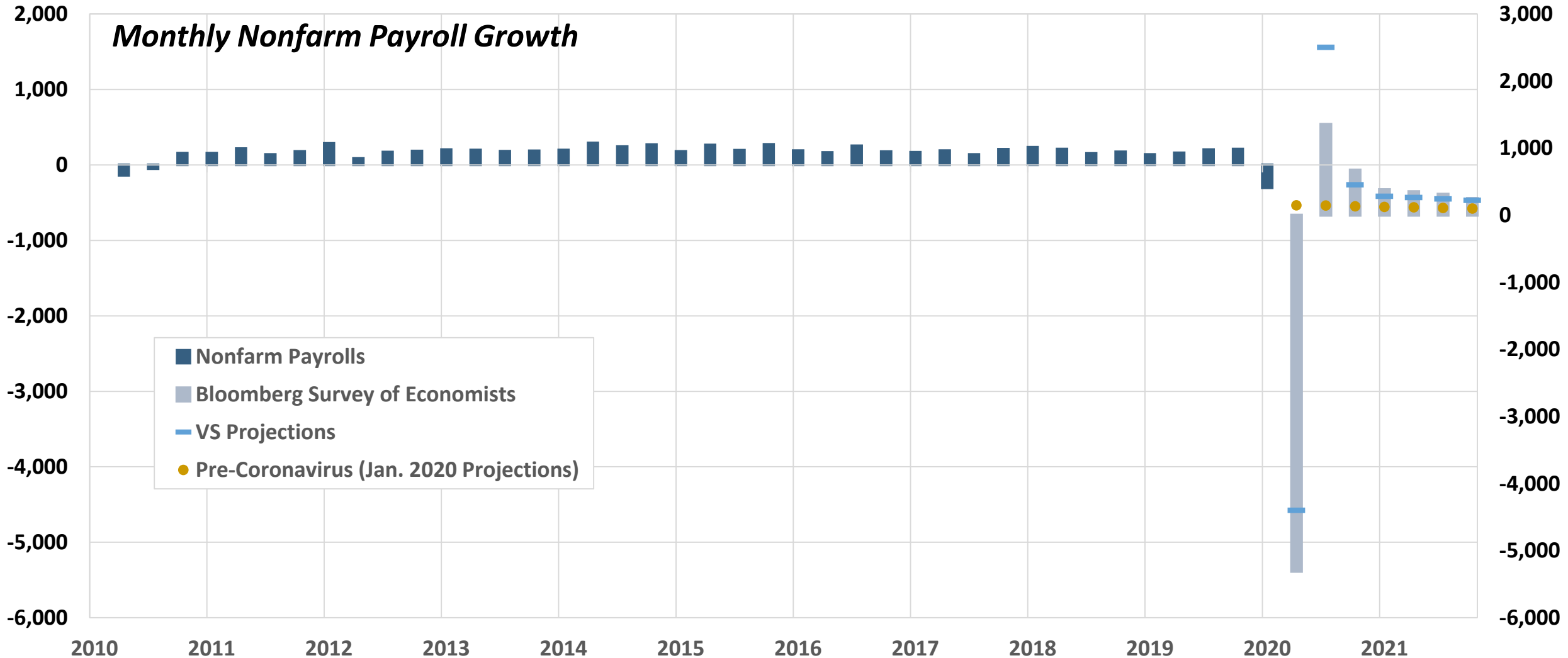
ECONOMIC DISRUPTION NOW EXPECTED TO RESULT IN SHARP CONTRACTION, SLOWER RECOVERY



Sources: BEA, Bloomberg Survey of Economists, Vining Sparks Projections

SHARP PAYROLL DECLINE

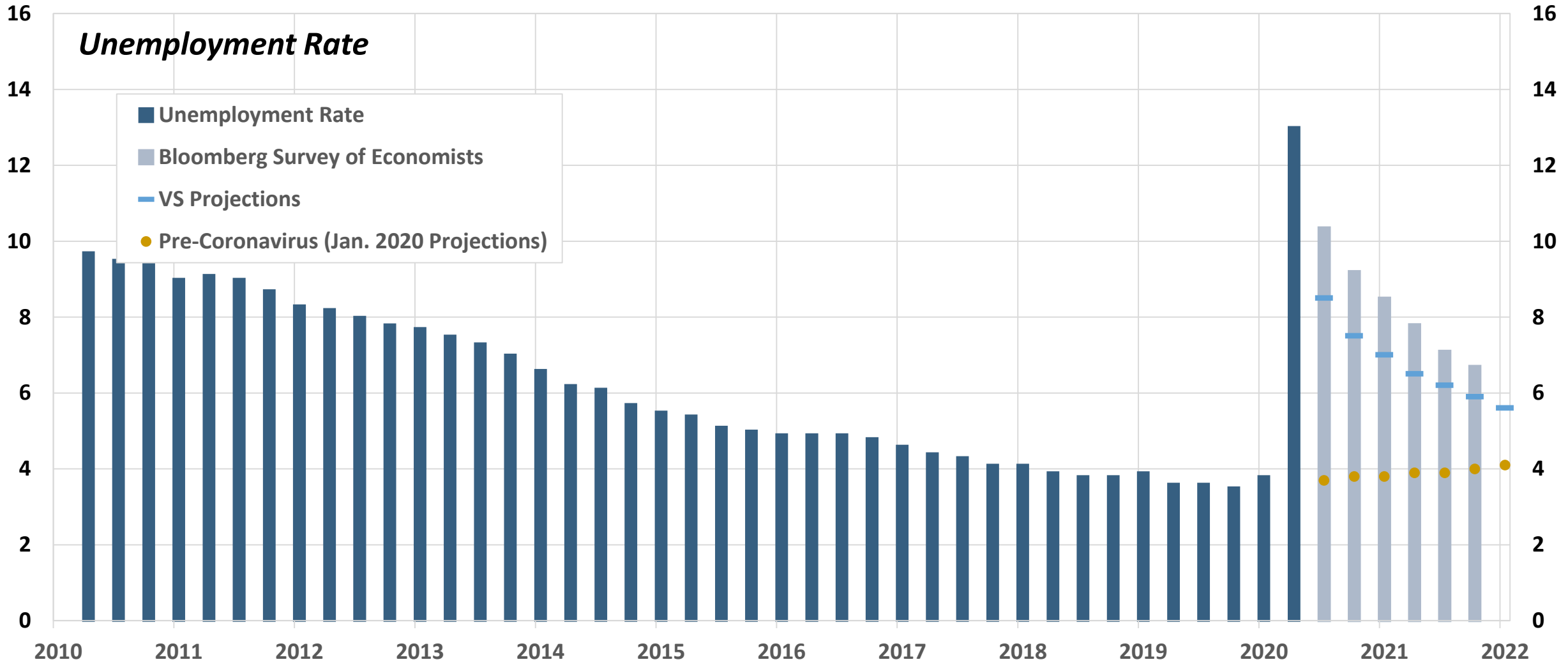
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Sources: BLS, Bloomberg Survey of Economists, Vining Sparks Projections

JUMP IN UNEMPLOYMENT

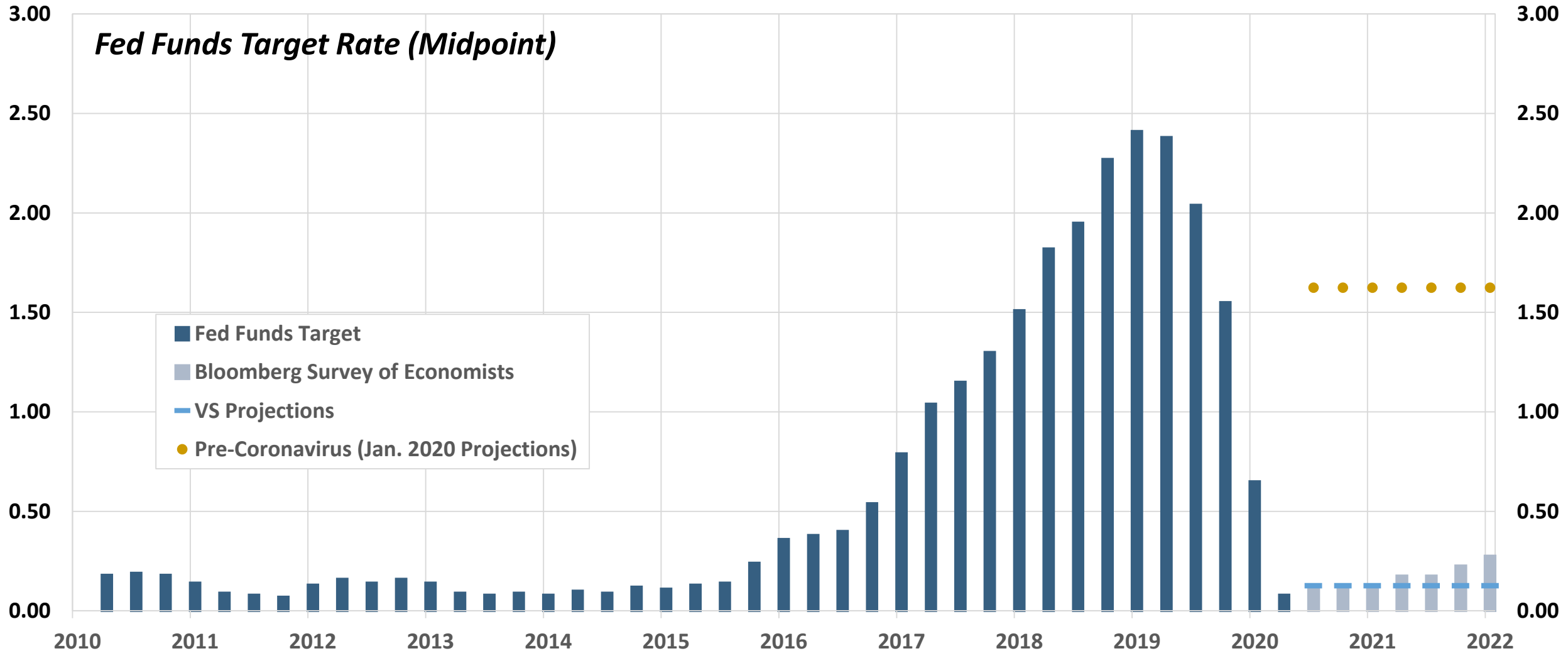
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FED FUNDS PROJECTION

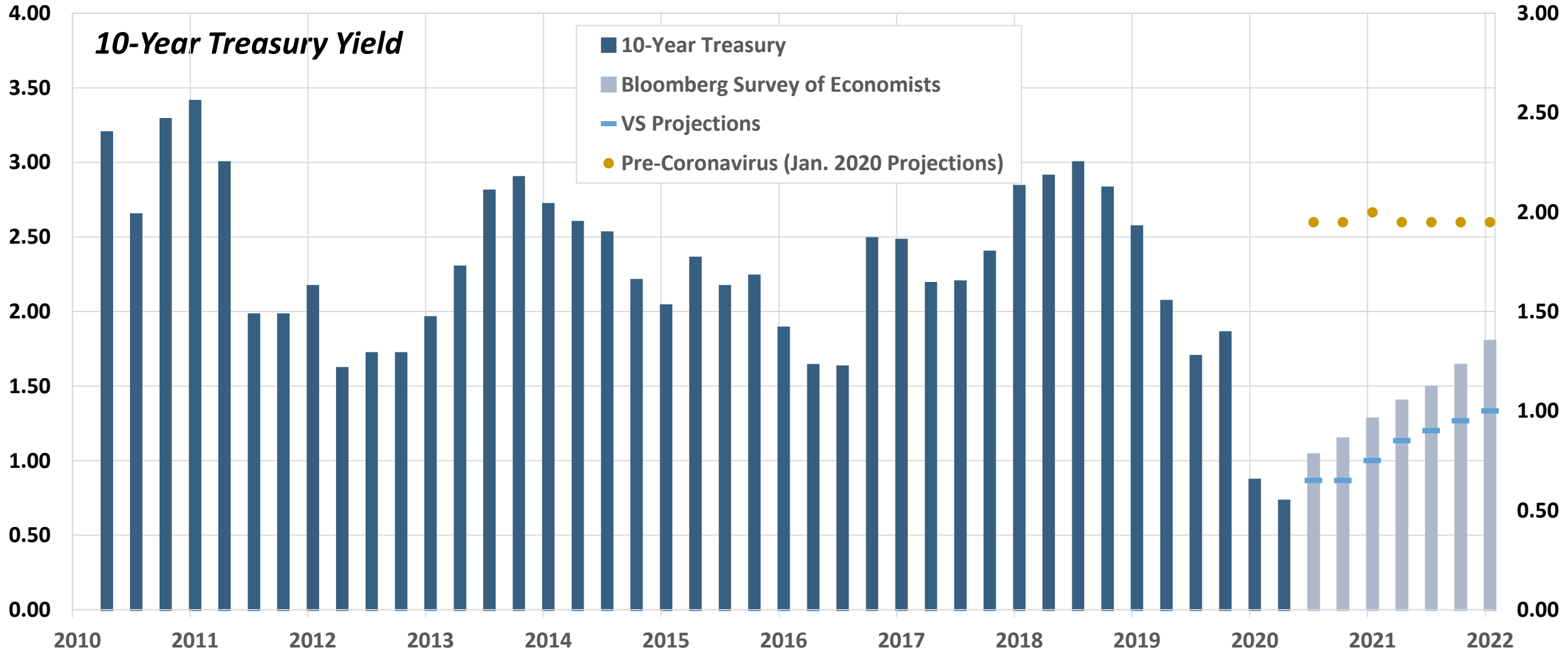
ECONOMIC DISRUPTION NOW EXPECTED TO RESULT IN SHARP CONTRACTION, SLOWER RECOVERY



Sources: Bloomberg, Bloomberg Survey of Economists, Vining Sparks Projections

10YR TREASURY YIELD

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FORECAST REVISION

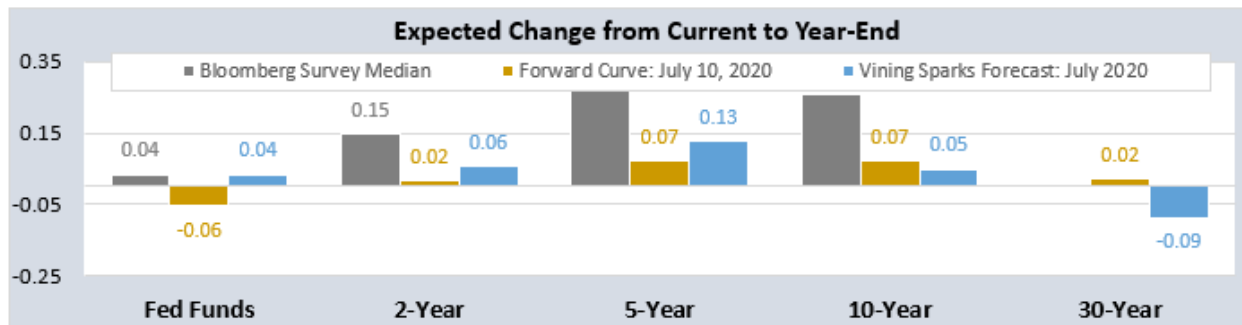
ECONOMIC DISRUPTION NOW EXPECTED TO RESULT IN SHARP CONTRACTION, MODEST REBOUND

Vining Sparks Projections

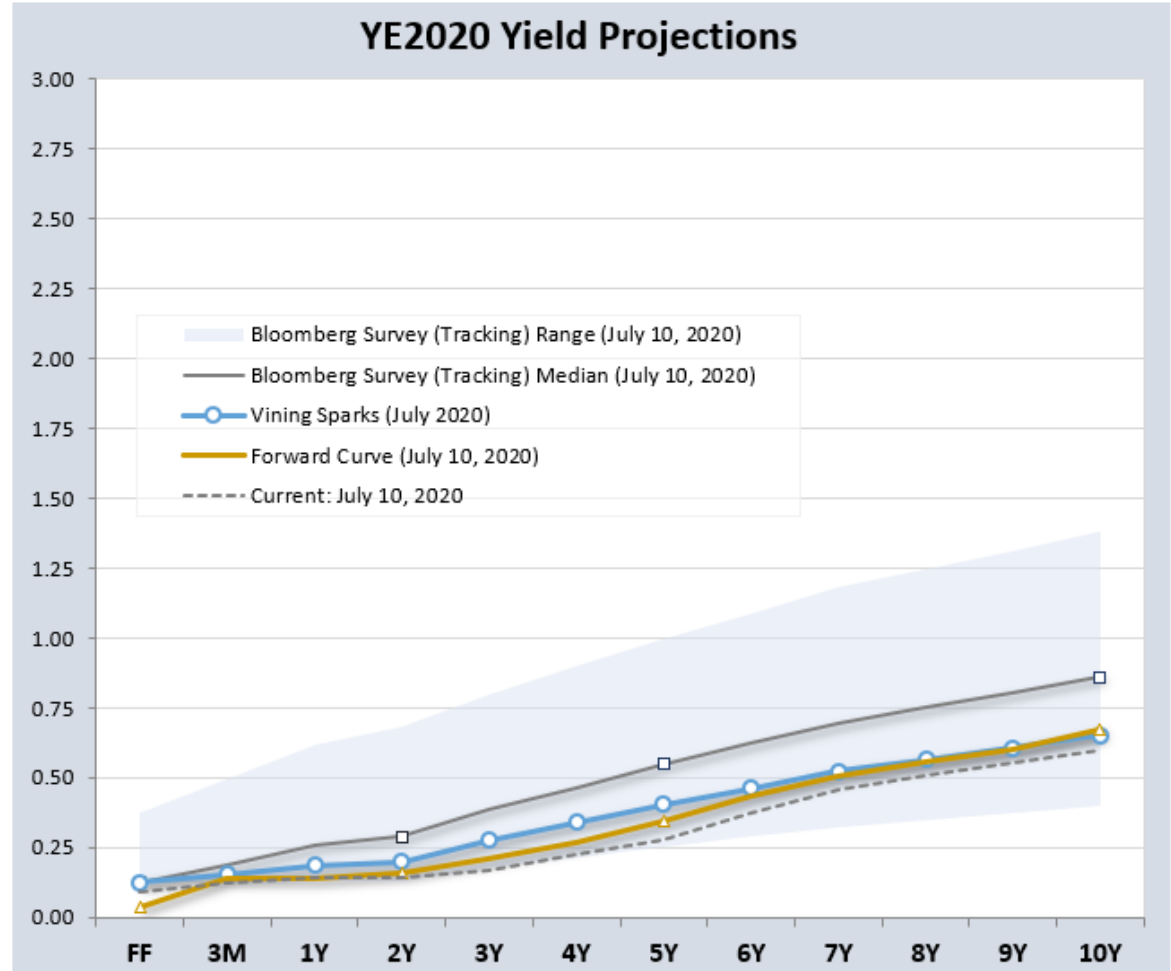
July 2020

	Q220	Q320	Q420	Q121	Q221	Q321	2020	2021
GDP (QoQ, SAAR)	-34.0	22.0	7.0	4.0	3.5	2.5	-5.5	2.9
Headline CPI (YoY)	0.4	0.6	1.1	1.4	2.2	2.2	0.6	2.6
Core PCE (YoY)	0.7	0.9	1.2	1.3	1.8	1.9	1.2	2.4
Unemployment Rate	11.1	8.5	7.5	7.0	6.5	6.2	8.1	6.0
Nonfarm Payrolls (Monthly)	(4,400)	2,500	450	280	260	240	(500)	250

	Q220	Q320	Q420	Q121	Q221	Q321	Q421	Q122
Fed Funds Target	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
2-Year Treasury Yield	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
10-Year Treasury Yield	0.65	0.65	0.65	0.75	0.85	0.90	0.95	1.00
30-Year Treasury Yield	1.25	1.25	1.20	1.28	1.45	1.53	1.61	1.70
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
30-Year Mortgage Rate	2.75	2.75	2.65	2.65	2.65	2.70	2.75	2.80



YE2020 Yield Projections



A heightened amount of uncertainty continues to attend our forecast. Our outlook revision now takes into account a longer-than-expected period of containment, a larger-than-expected impact to the labor market, and a longer-than-expected recovery period. Going forward, the key to the outlook will be the ability to contain the virus sufficiently to prevent future lockdowns. Given the more-persistent-than-expected nature of the virus, risks appear to be tilted to the downside.

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