The Economic Impact of COVID-19

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The Issue

• Unexpected “black swan” events have disrupted our lives & our economy.

• COVID-19
• Oil price war
• Ongoing trade war
TOPICS

• What was the state of the economy BEFORE the outbreak?
• What impacts has COVID-19 had to date?
• How has my recession forecast changed?
• How long will the downturn last?
• What can you expect and plan for?
• Have you been at work on your contingency plan?
• What else should you be doing?
What was the state of the economy BEFORE the outbreak?

- 128 months
- Housing was peaking
- Inflation was in check
- Consumption steady
- Job growth slowing
Remember, stock market performance does not equal economic performance.
What impacts has COVID-19 had to date?

• Supply chain disruptions

• Direct effects – unemployment

• Indirect effects – quarantines, closures, etc.

• Demand shocks -- consumption
Consumer Spending as Share of Total

Services

- Healthcare, 16.9%
- Food & Beverages, 7.4%
- Housing & Utilities, 16.4%
- Other Nondurables, 5.1%
- Pharmaceuticals & Therapeutic Goods, 4.1%

Goods

- Financial Services, 6.4%
- Other Services, 6.2%
- Motor Vehicles & Parts, 4.1%
- Furnishings, 3.1%
- Recreational Goods, 4.4%
- Other Durables, 1.5%
- Clothing, 3.1%
- Gasoline, 3.3%

*Dark shades represent resilient categories of consumer spending.

Source: U.S. Department of Commerce and Wells Fargo Securities
Now let’s talk about the “R” word...

• Loose definition: Two back-to-back quarters of negative GDP growth.

• NBER definition: “A significant decline in economic activity...normally visible in real GDP, real income, employment, industrial production, and real wholesale-retail sales.”
Remember what I said in my earlier talks about when will the next recession start?
This is what I was saying just one month ago!

- 40% chance of recession in 2020
- 80% chance of recession in 2021

- Minimum financial sector risk
- NAI was still above -0.7
- 4-week unemp. claims < 400K
- Yield curve positive
- LEI slowing but growing
- Business investment was down
BUT...I also said that these are the things what could derail this outlook.

- Bubble bursting
- Exogenous event (black swan)
- Monetary policy gone awry
- Trade war effects
- OPEC reneging on output deal
- Recession in China/Europe
What do I think NOW about when will the next recession start?

Though the data through February do not bear this out, we are likely already in recession.
How long will the downturn last?

- Ends in 3 months?
- Seasonal, returns in Nov? (12 months)
- Persistent until herd immunity? (2 years)
- Until vaccine, treatment? (12-18 months)

The “shape” of the recovery depends entirely on COVID-19.
What can you expect and plan for?

• Expect clusters of illness among your team.

• Identify susceptible critical functions.

• Identify supply chain risks.
Have you been at work on your contingency plan?

- How prepared am I for the next downturn?
- What predetermined strategies should I have in place?

1. Leveraged properly
2. Working capital
3. Lean / efficient
4. Value proposition

- You should have these already in place!

Defer CAPEX
Defer maintenance
No dividends
Delayed tax date
Pay suppliers w/in terms
Full use of LOC
ST debt to LT debt
What else can you be doing?

• Documenting impacts ($)
• Defer decisions (until further data)
• Build flexibility (labor, supplies, delivery)
• Offramp strategies
• Growth opportunities?
• Spread the “word” about the health and well-being benefits of flowers to citizens of all ethnicities, of all socioeconomic characteristics, in all economic conditions.
Updates on Federal Relief Efforts

• President Trump has signed 2 bills into law so far.

Coronavirus Preparedness and Response Supplemental Appropriations Act (H.R. 6074) - Signed into law on March 6
• Provides emergency funding for federal agencies to respond to the coronavirus outbreak including funding for loans to support affected small businesses.

Families First Coronavirus Response Act (H.R. 6201) - Signed into law on March 18
• Expands job-protected leave for American workers; and, unemployment insurance programs, among other relief initiatives.
• Coronavirus Emergency Leave - Requires private sector employers with 50-500 workers to provide up to 12 weeks of leave under the FMLA for Coronavirus-related childcare or quarantine.
• Emergency Sick Leave - Private sector employers with <500 workers required to provide employees with paid sick time off for Coronavirus-related treatment and family care.
• Employer/Self-Employed Tax Credits - Creates payroll tax credits to offset the costs of the new leave requirements and established a refundable credit against the self-employment tax.
• Unemployment Insurance Support – Provides $1B in emergency transfers to states to support UI
Federal Stimulus Legislation (Phase 3)

A domestic stimulus was passed by the Senate last night; House votes tomorrow (3/27/20).

**Coronavirus Aid, Recovery, and Economic Security (CARES) Act**

- Direct payments of $1,200 to individuals making $75,000 or less and $2,400 to couples making $150,000 or less, plus a $500 per child bonus
- Boost to unemployment benefits
- Delay of tax filing date to July 15 from April 15
- Suspend federal student loan payments for six months, with no accruing interest
- Allow businesses to defer payments of the employer side of the Social Security payroll tax
- Loans to small businesses, can be forgiven if used for certain purposes, e.g. keeping workers on payroll
- Loans to businesses, states and municipalities adversely impacted by measures taken to combat COVID-19. Most loans will originate from a Federal Reserve lending facility and likely won’t be forgiven.
- Gives depository institutions the option to temporarily delay measuring credit losses on financial instruments using the new Current Expected Credit Losses (CECL) accounting standard
- Supplemental appropriations for federal agencies/programs, hospitals, and state & local governments (e.g. hospitals & veterans’ health care, FEMA)
Your trade associations are already at work on your behalf.