

ON ECONOMIC, BUSINESS & POLITICAL CLIMATE

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Topic #1:

After 10 years of growth, COVID-19 sidelined the economy . . . But for how long . . . And what parts of the “new normal will be “new”?

Three Questions . . . that Dominated the Economics

What are the **dynamics of the infection**? Another surge? Can we get re-infected? Will COVID-19 mutate?

How do we **separate the effects** of voluntary behaviors from government mandated behaviors?

How do we respond when **government supports end**?
What about **end of forbearance agreements**?

Contributions To GDP Growth

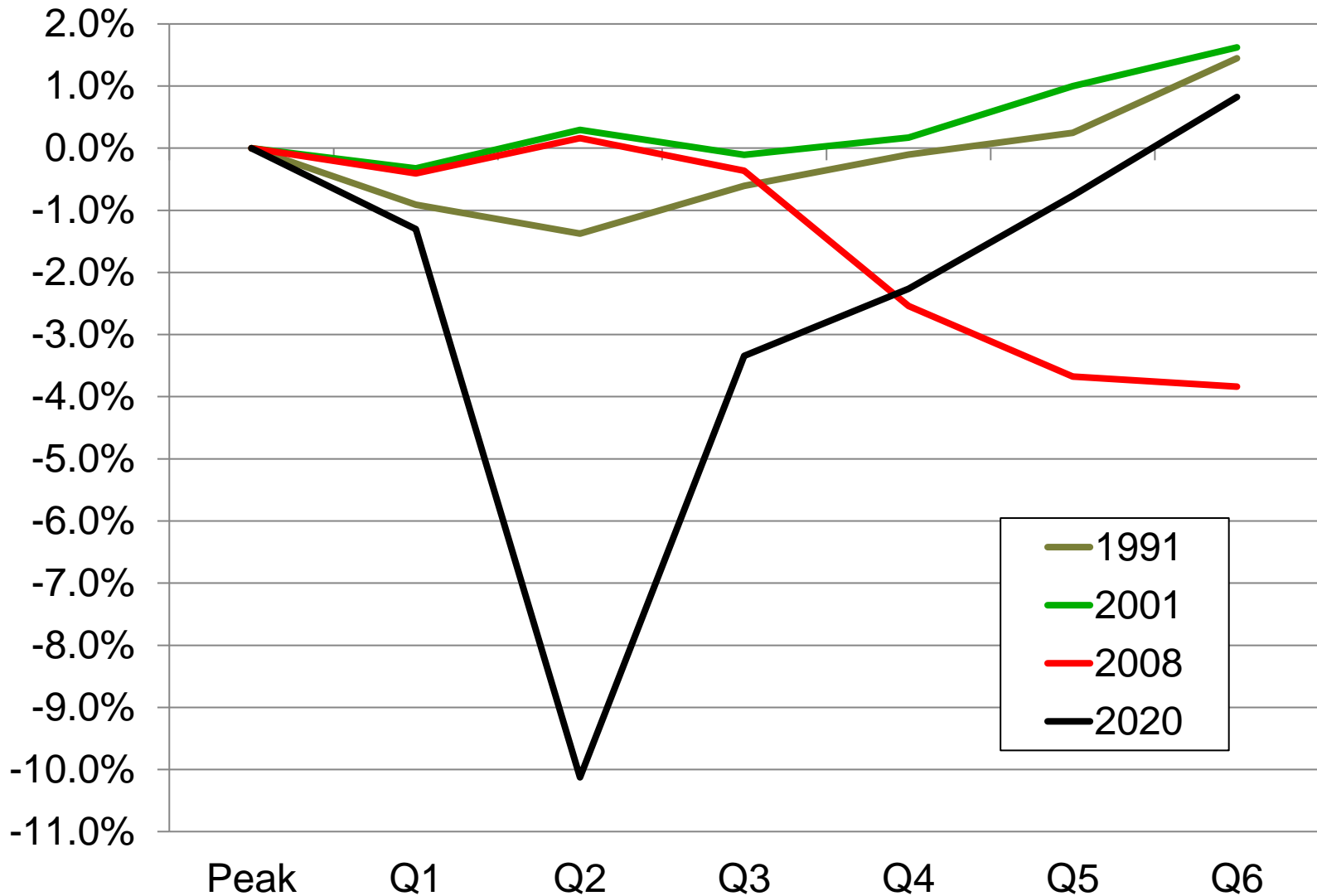
(Source: Bureau of Economic Analysis)

	GDP =	Consumption	Gross Investment	Net Exports	Government
2019: Q4	1.90%	1.13%	-1.18%	1.43%	0.52%
2020: Q1	-5.10%	-4.79%	-0.92%	-0.05%	0.63%
2020: Q2	-31.20%	-24.10%	-9.64%	1.53%	0.97%
2020: Q3	33.80%	25.51%	11.71%	-3.25%	-0.19%
2020: Q4	4.50%	2.26%	4.01%	-1.65%	-0.09%
2021: Q1	6.30%	7.44%	-0.37%	-1.56%	0.77%
2021: Q2	6.70%	7.92%	-0.65%	-0.18%	-0.36%
2021: Q3	2.10%	1.18%	1.93%	-1.16%	0.16%

	Gross Investment =	Nonresidential	Residential	Inventory
2019: Q4	-1.18%	-0.23%	0.04%	-0.99%
2020: Q1	-0.92%	-1.14%	0.73%	-0.51%
2020: Q2	-9.64%	-4.28%	-1.36%	-4.01%
2020: Q3	11.71%	2.72%	2.16%	6.84%
2020: Q4	4.01%	1.57%	1.34%	1.10%
2021: Q1	-0.37%	1.65%	0.60%	-2.62%
2021: Q2	-0.65%	1.21%	-0.60%	-1.26%
2021: Q3	1.93%	0.21%	-0.41%	2.13%

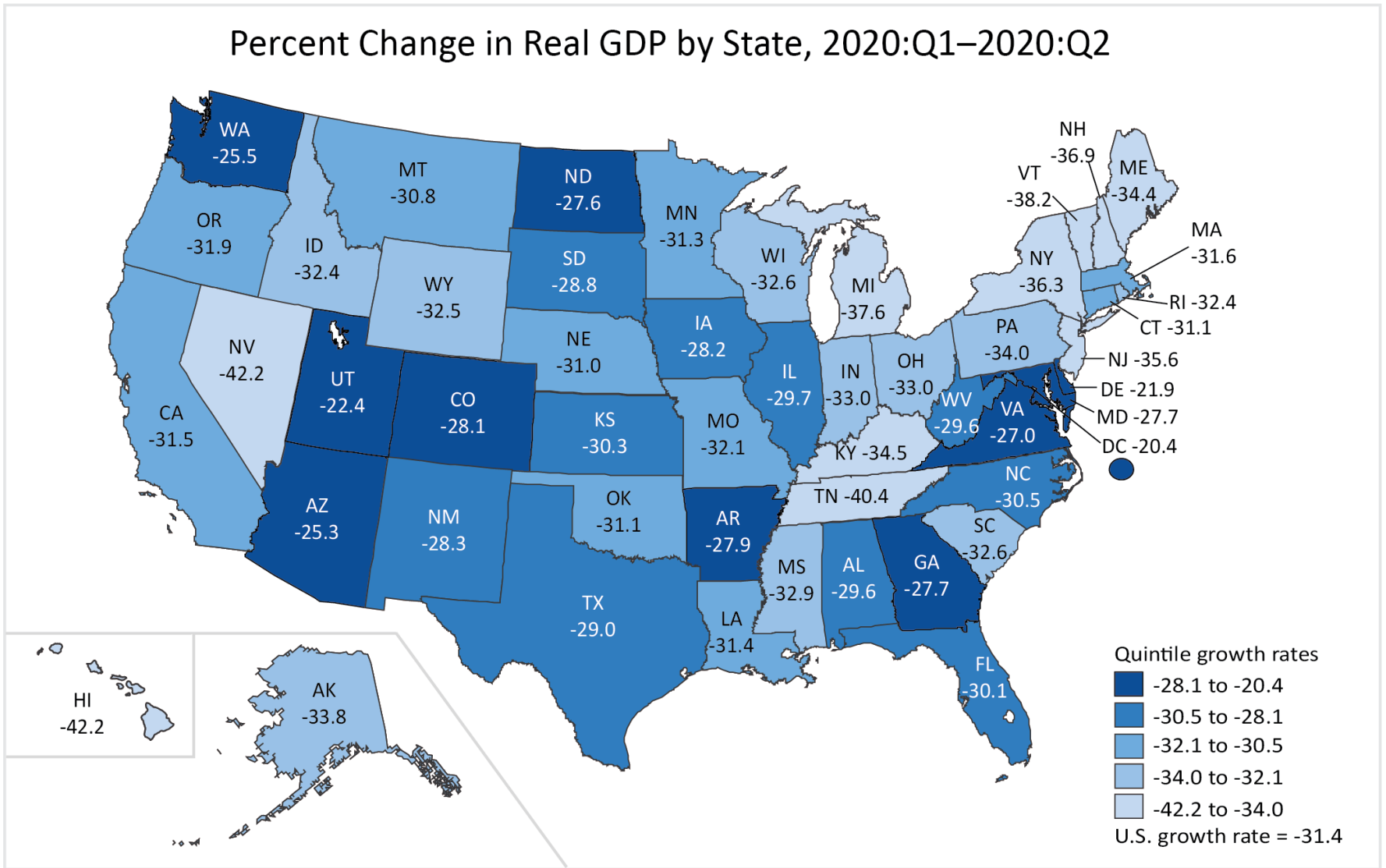
Tale of 4 Recessions

(Source: Department of Commerce, BEA)



2Q 2020 GDP Growth: By State

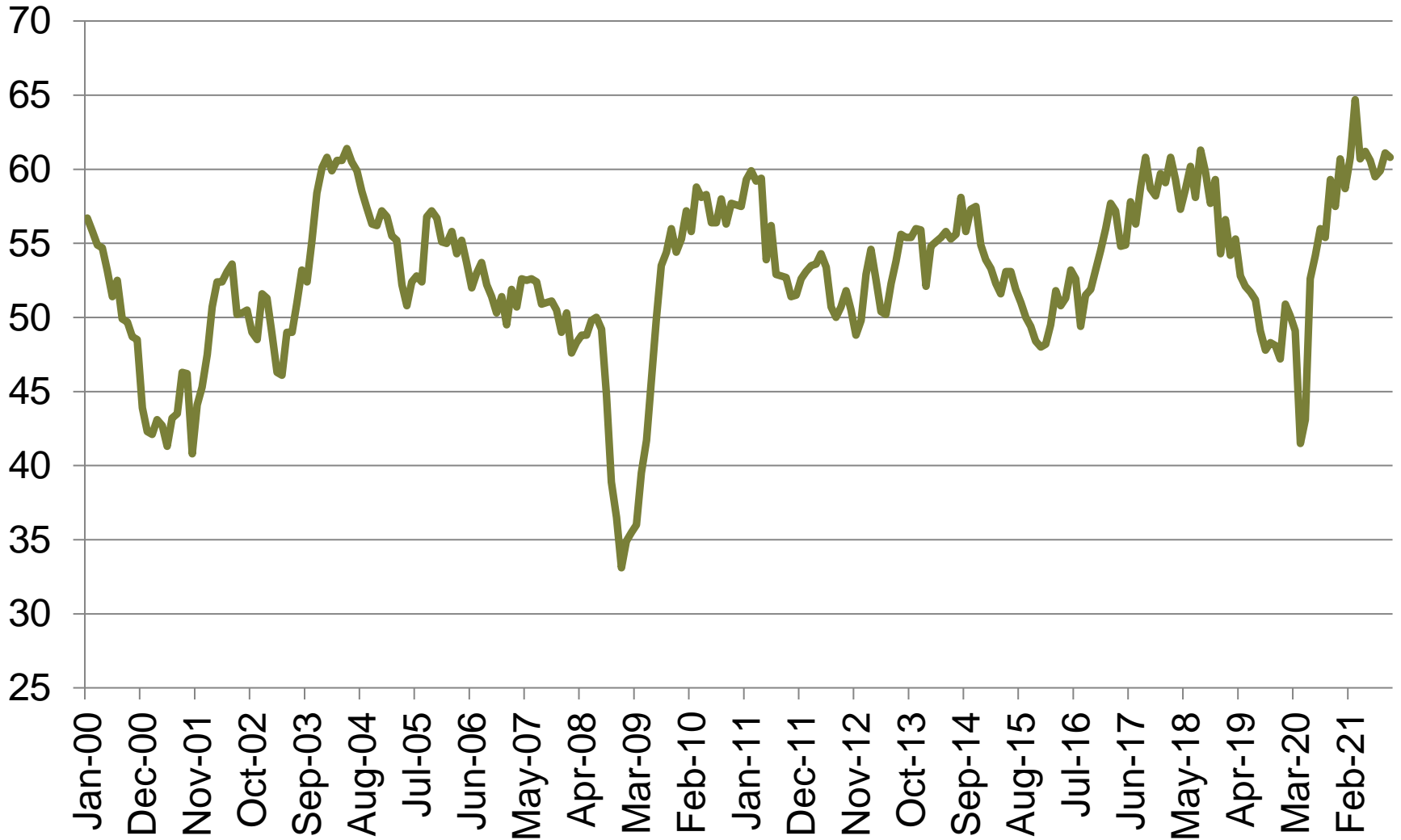
Percent Change in Real GDP by State, 2020:Q1–2020:Q2



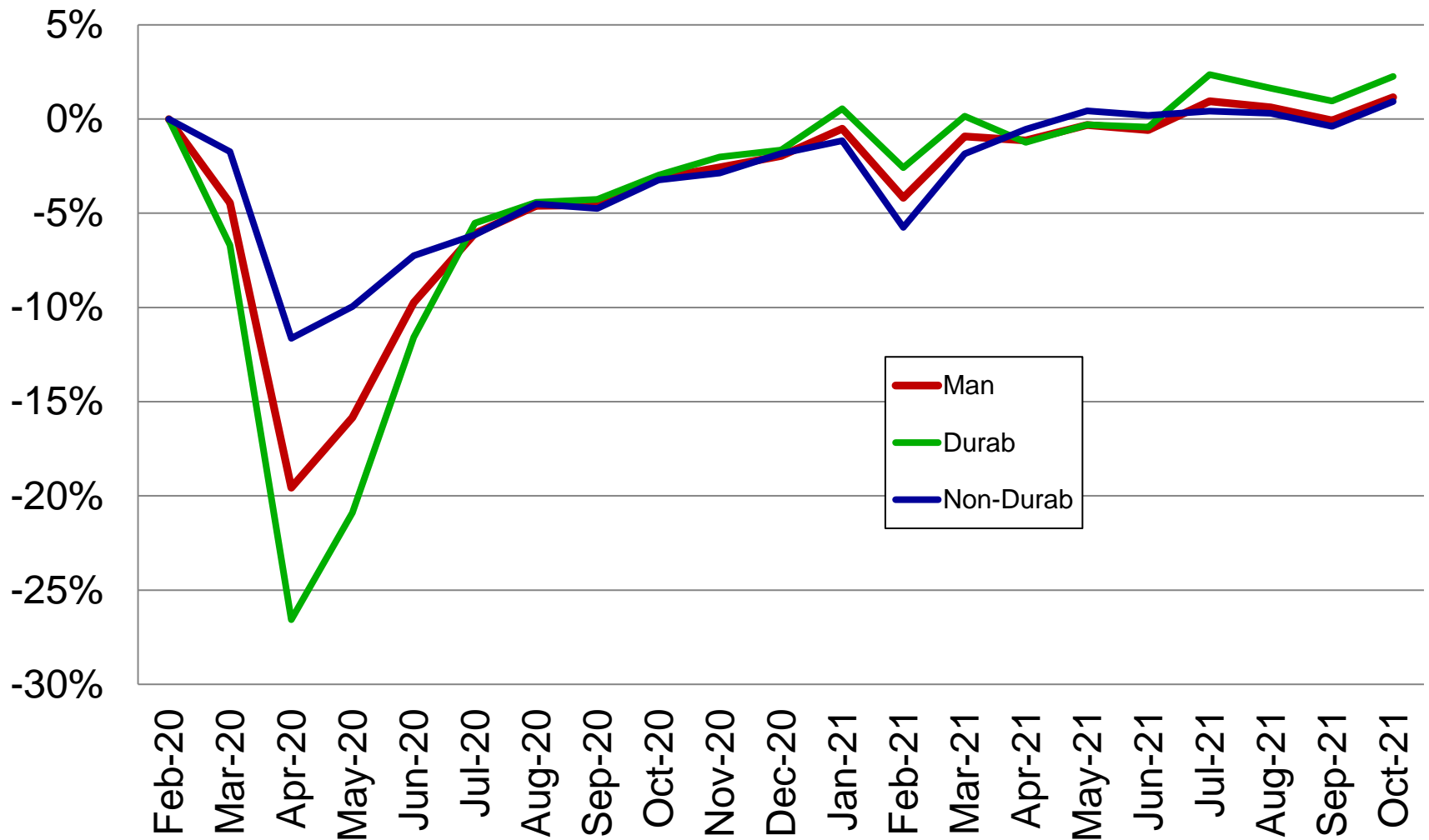
U.S. Bureau of Economic Analysis

ISM's "PMI"

(Source: Institute of Supply Management)

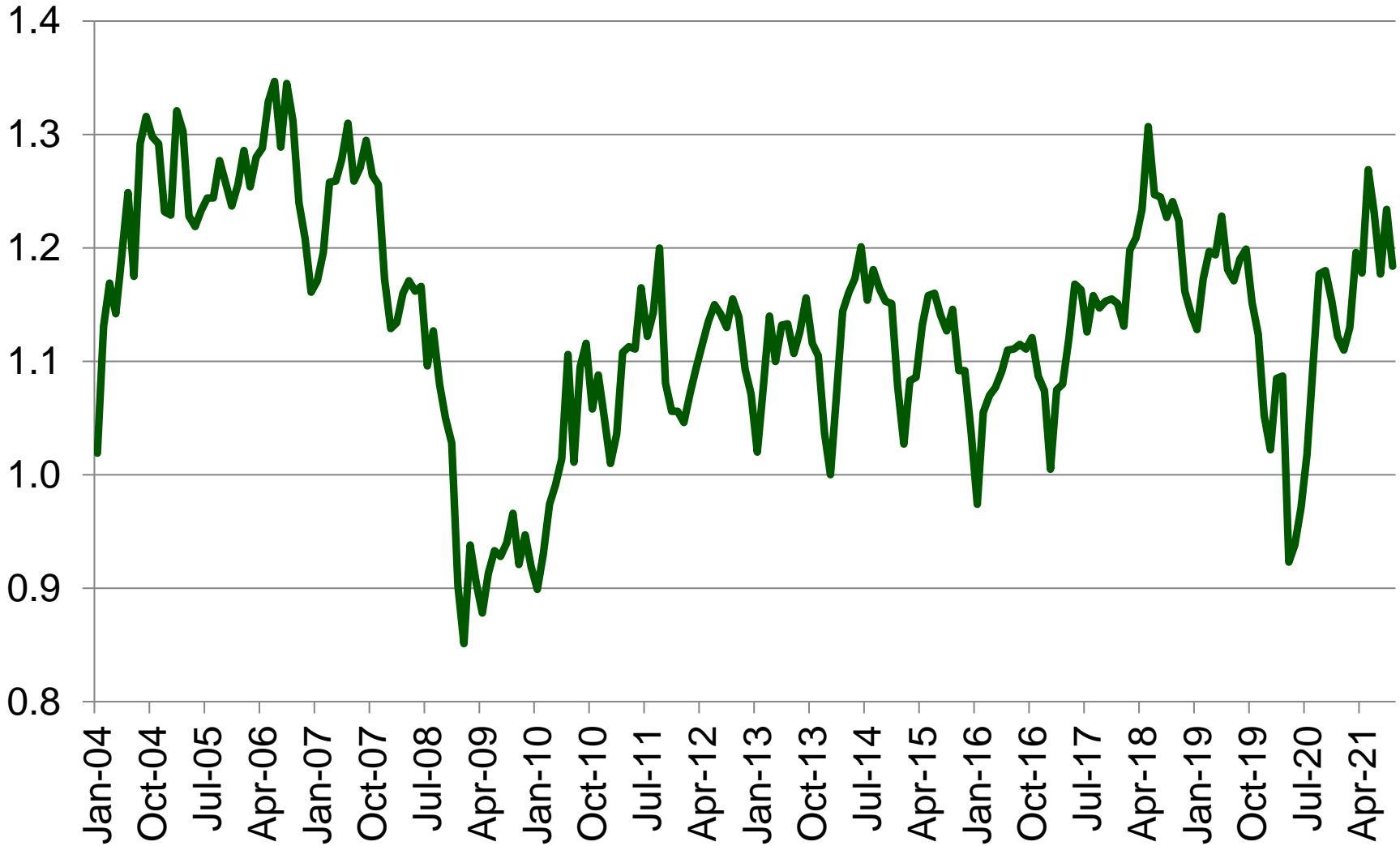


Industrial Production: From Peak



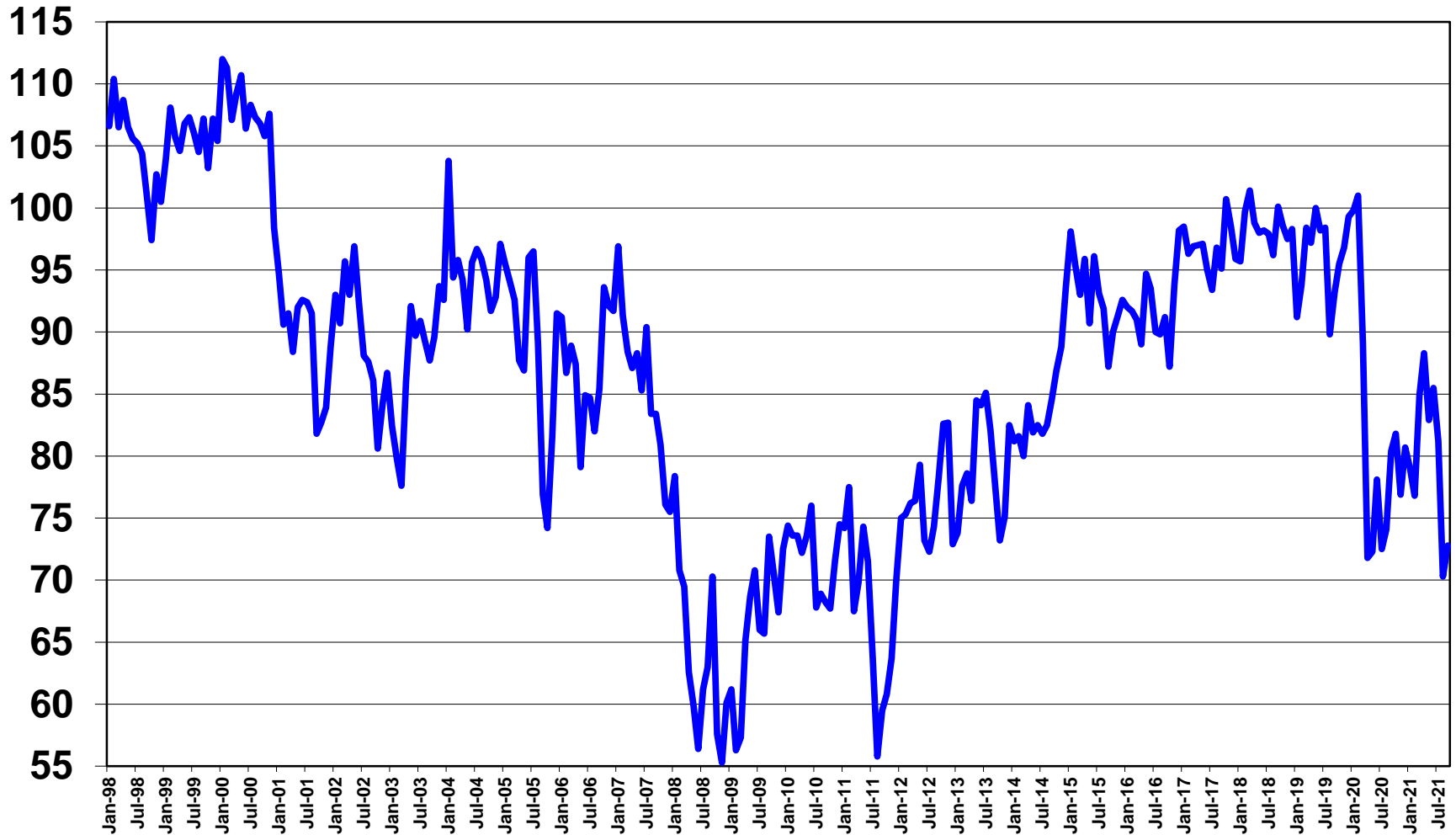
Freight Shipments

(Source: Cass Freight Index)



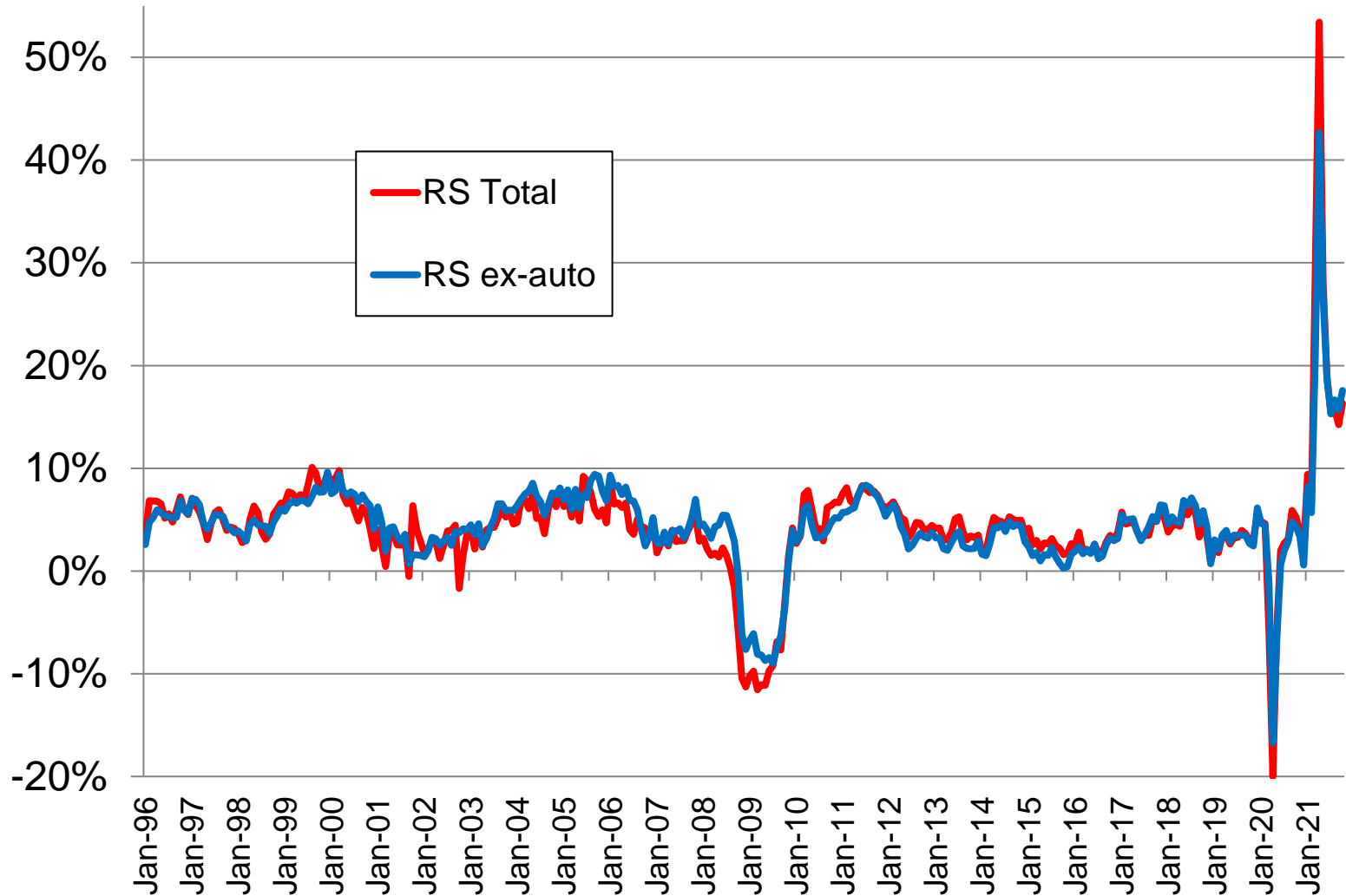
Consumer Sentiment

(source: University of Michigan, Survey Research Center)



Retail Sales

(source: U.S. Bureau of the Census, annual rate of growth)



Leading Economic Indicators

(source: Conference Board, % change in last 6 months)

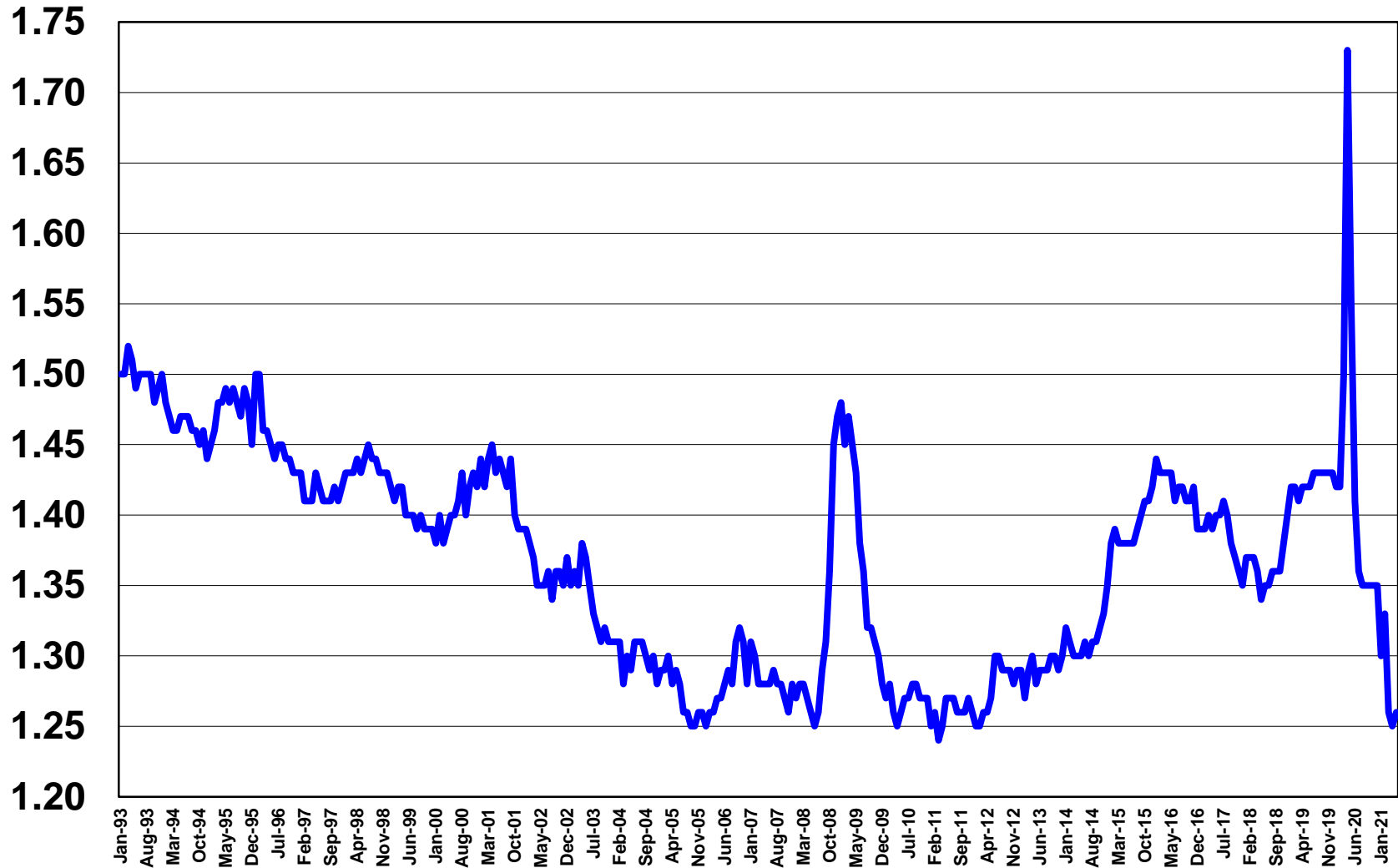


Topic #2:

One of the Big 3 challenges – *supply chain disruptions*

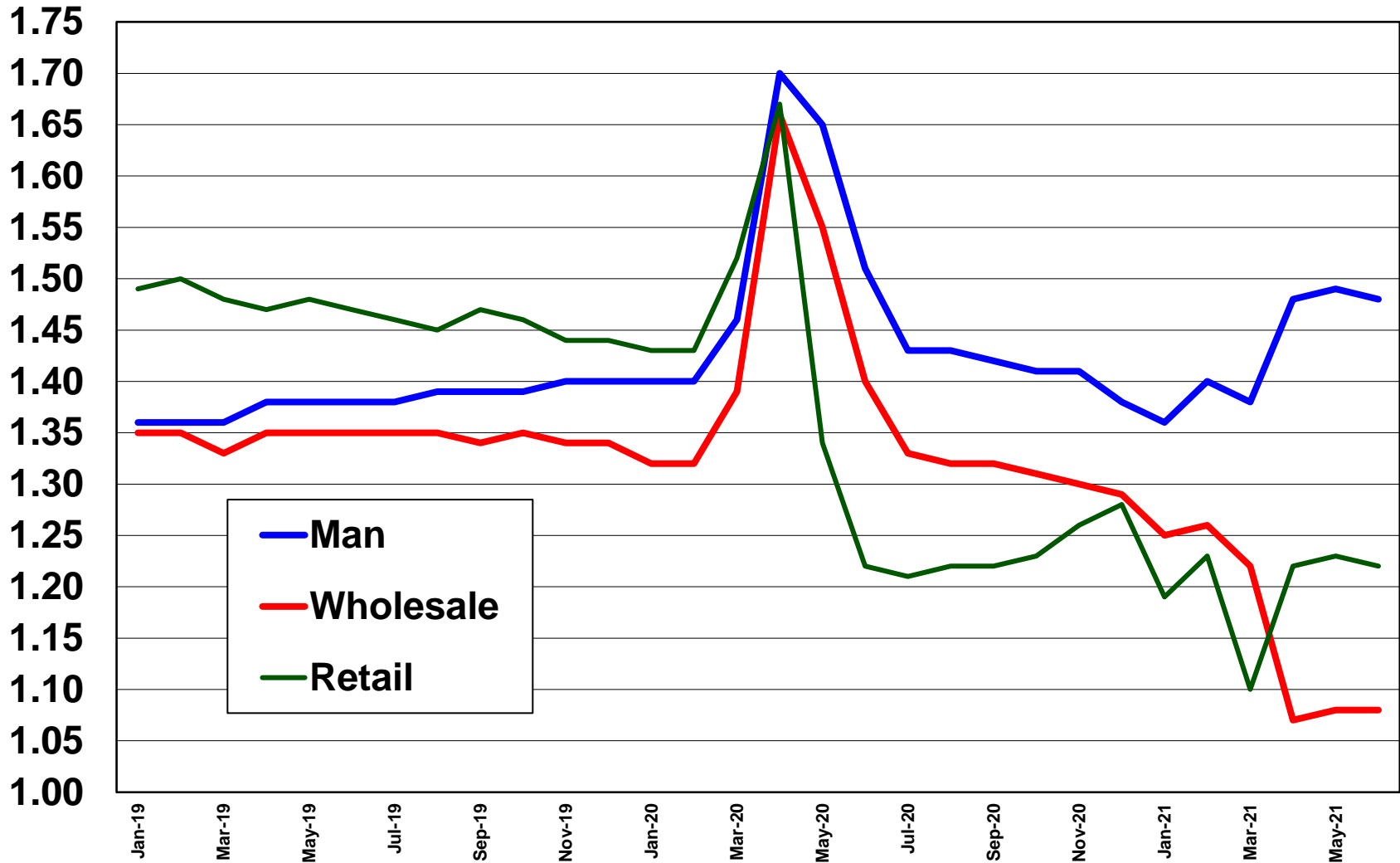
Inventory/Sales Ratio

(Source: Department of Commerce, in months)



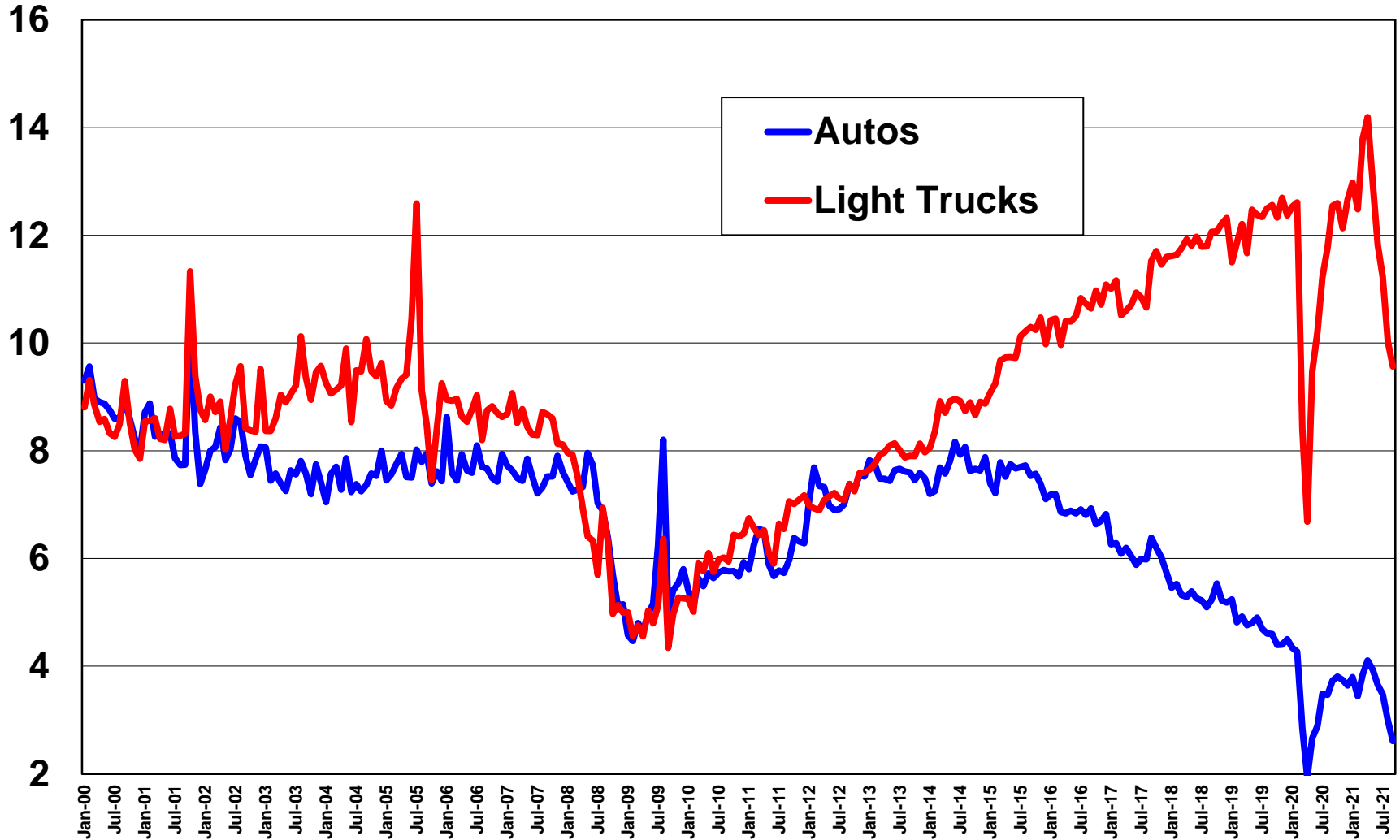
Inventory/Sales Ratio

(Source: Department of Commerce, in months)



Auto & Light Truck Sales

(Source: Department of Commerce, in millions)

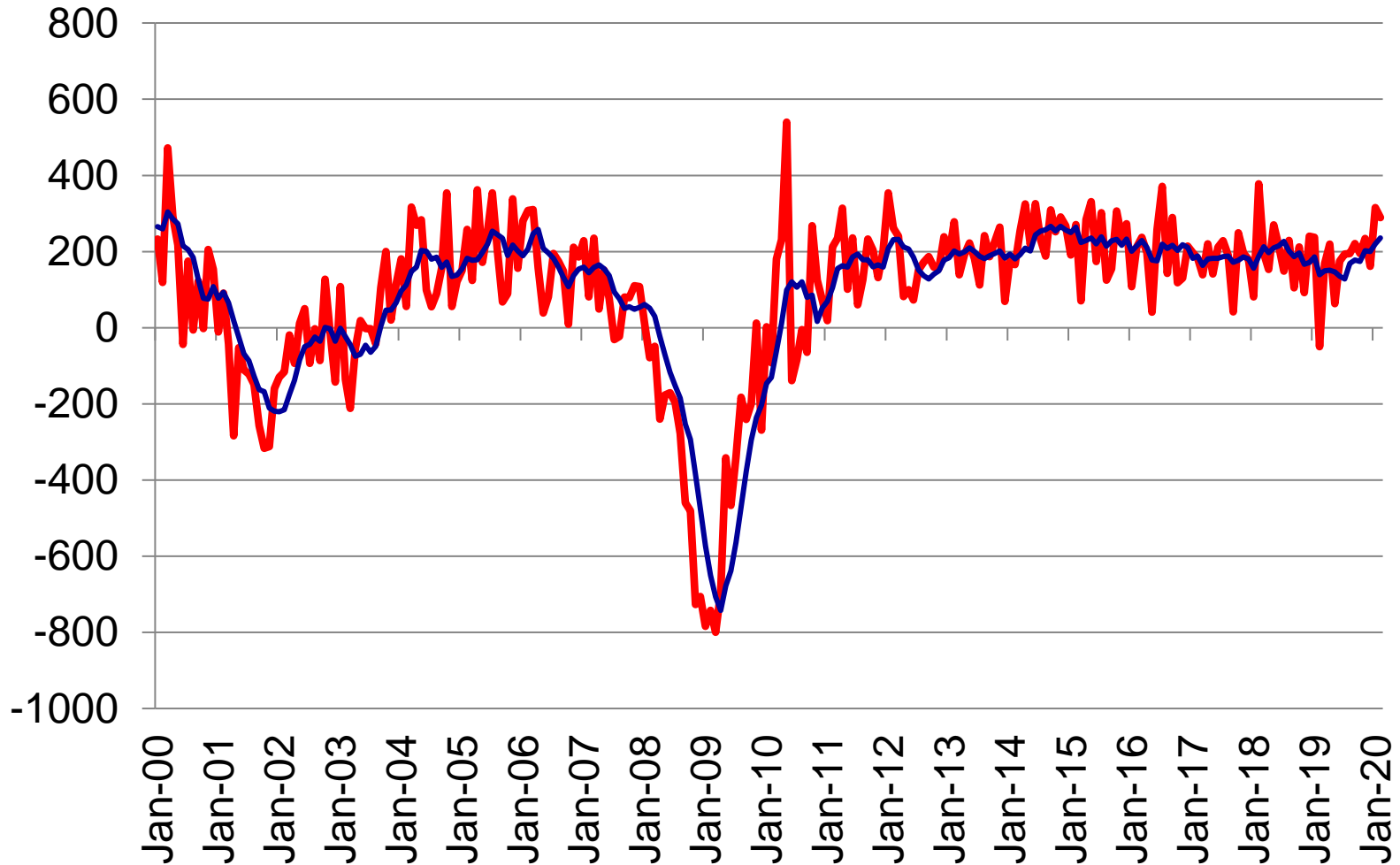


Topic #3:

The 2nd major challenge – *tight labor markets!*

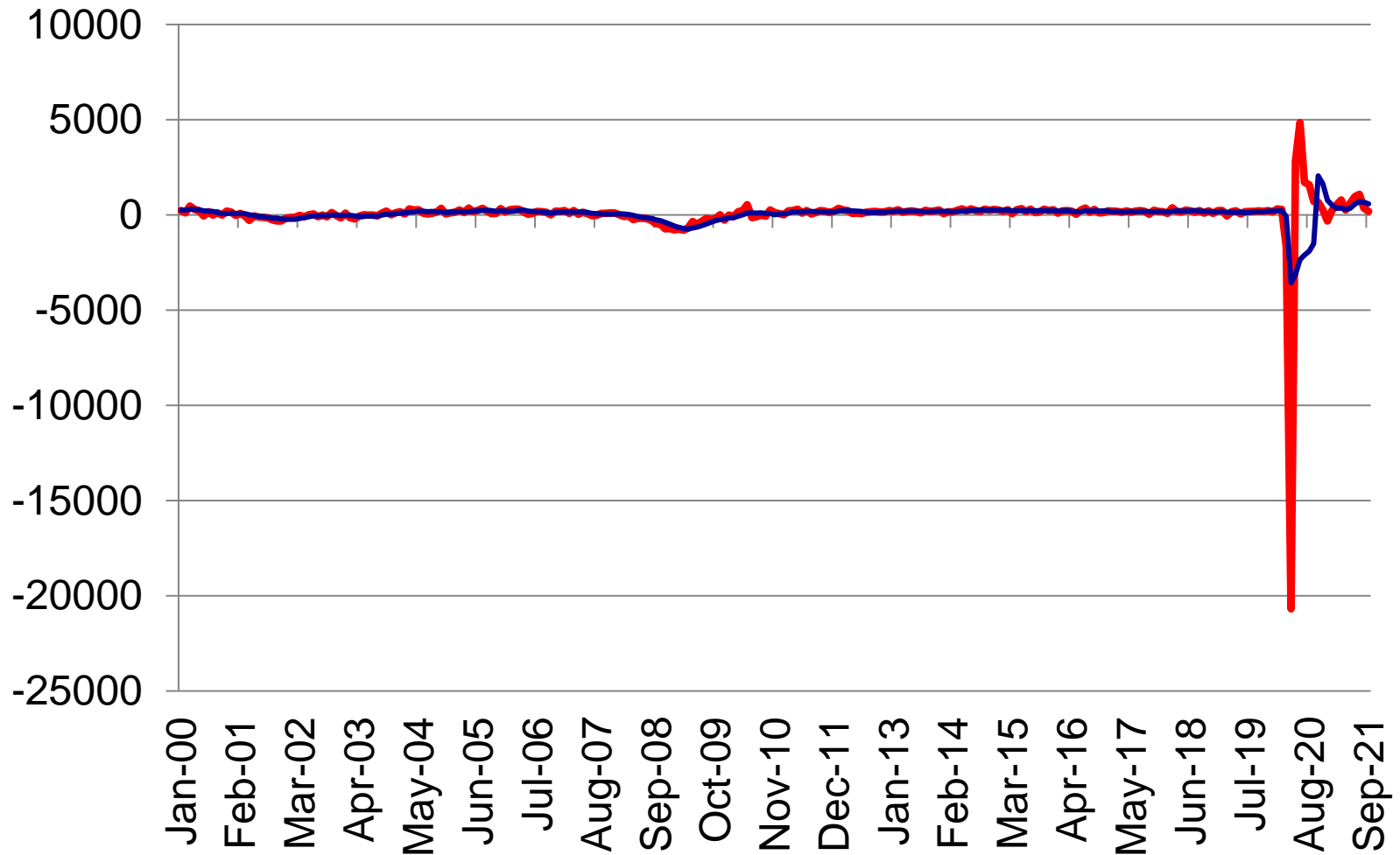
Change in Payroll Employment

(Source: Bureau of Labor Statistics)



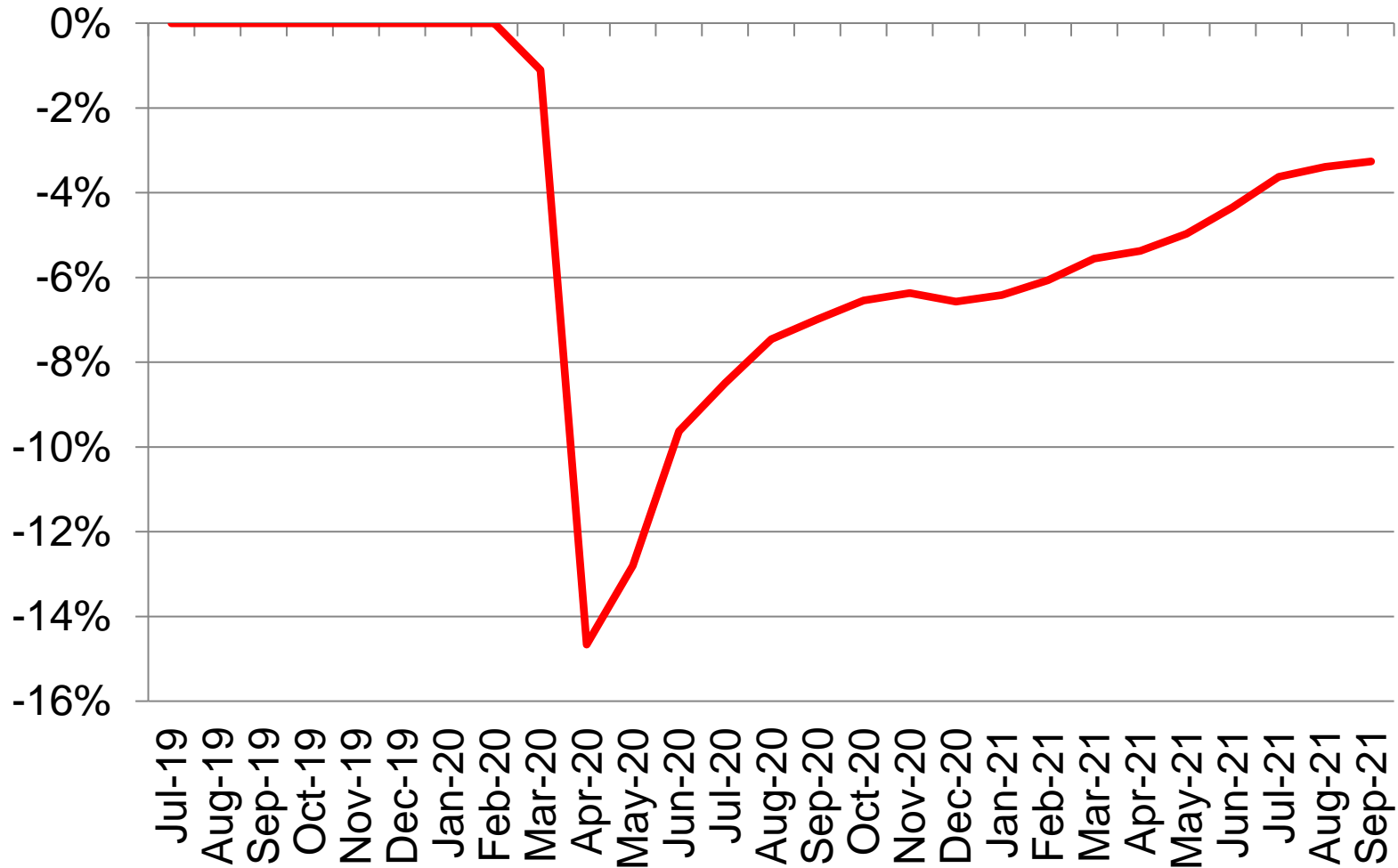
Change in Payroll Employment

(Source: Bureau of Labor Statistics)



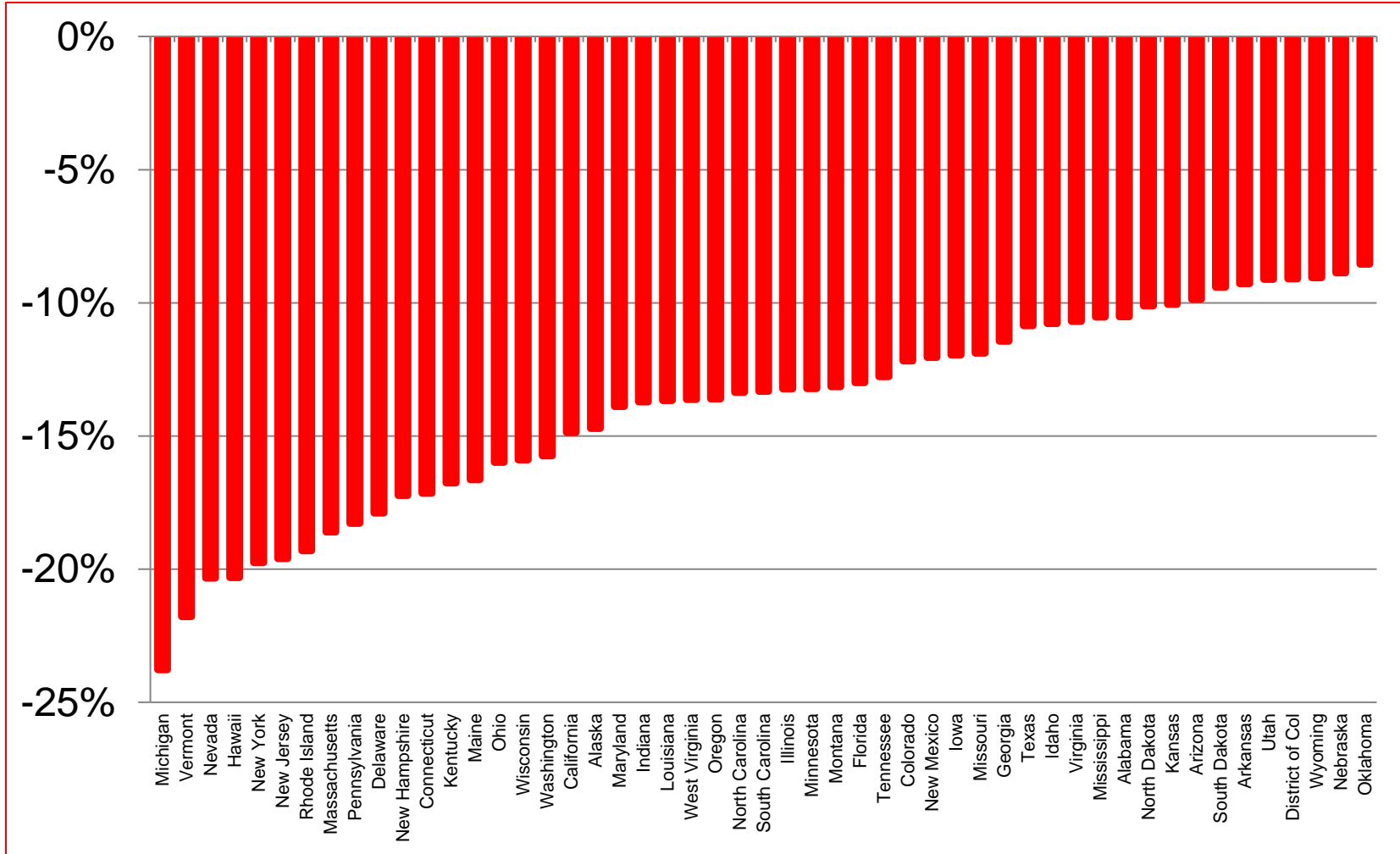
Employment Below Peak

(Source: Bureau of Labor Statistics)



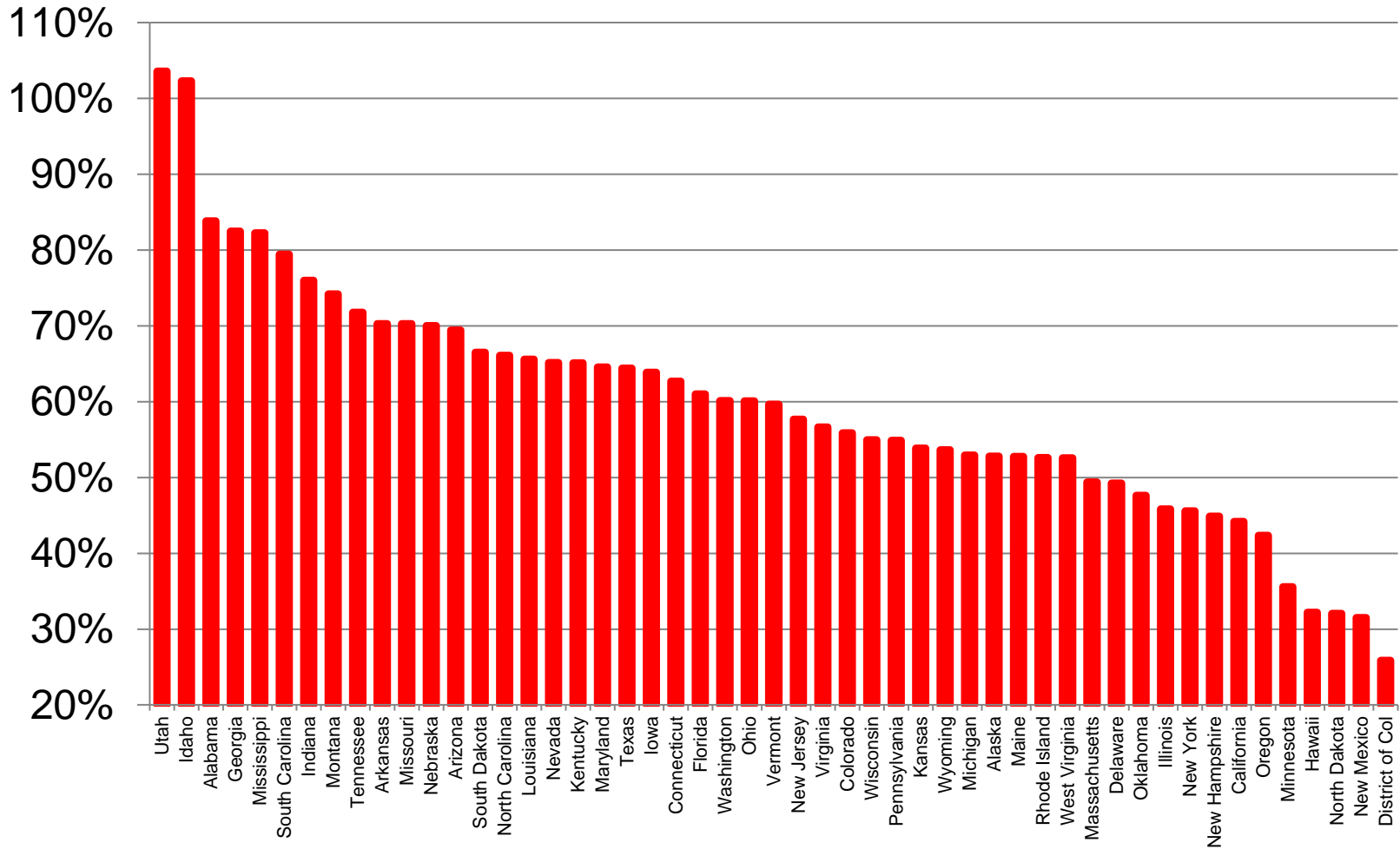
Drop from Peak

(Source: Bureau of Labor Statistics)



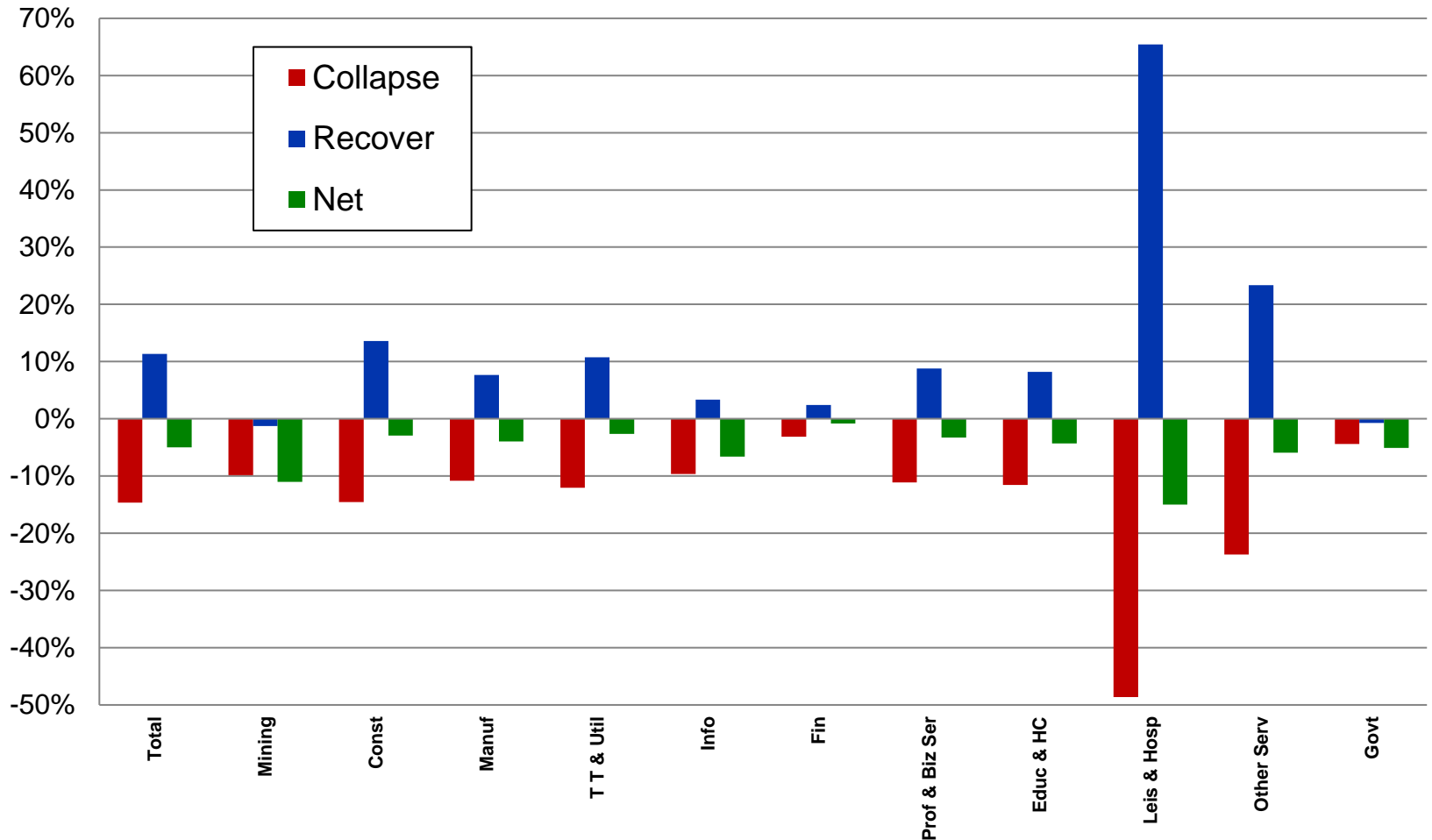
Recover from Bottom

(Source: Bureau of Labor Statistics)

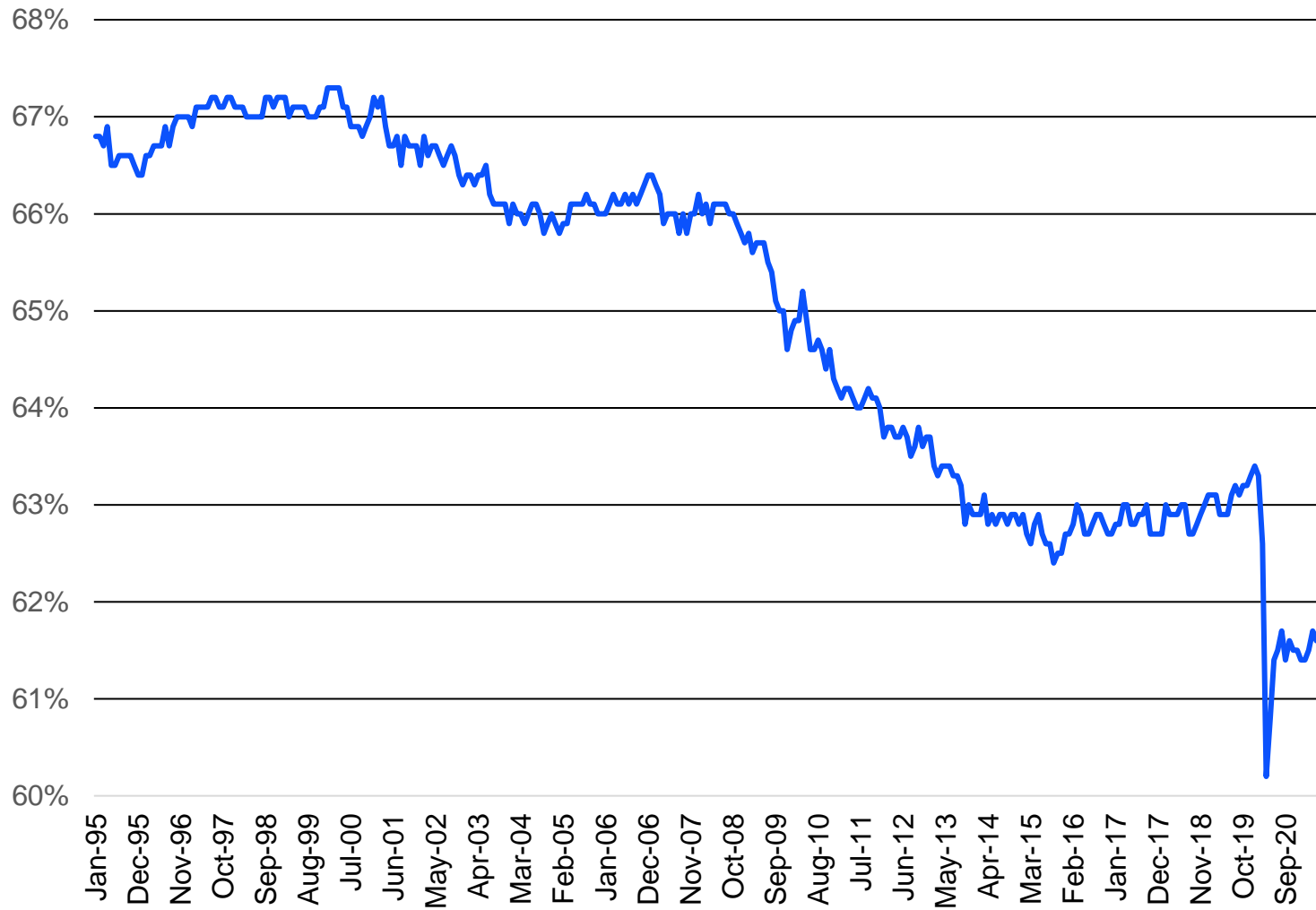


US Employment by Sector (post-Covid)

(Source: Bureau of Labor Statistics)



Labor Force Participation



Topic #4:

And finally – *return of inflation!*

Prices:

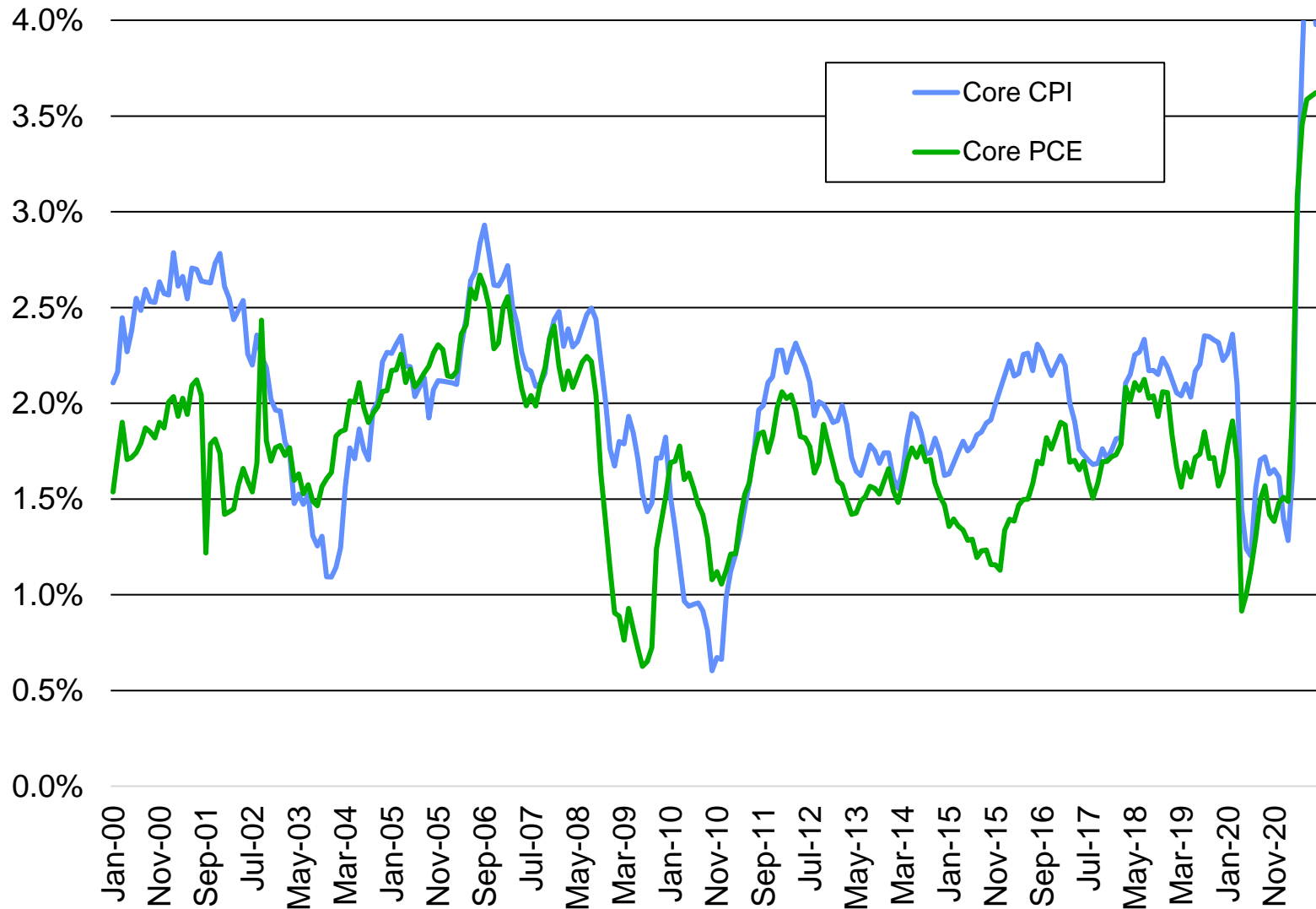
Still talk of Deflation/Inflation?

(source: Bureau of Labor Statistics)

- CPI was up 0.9% in October – after being up 0.4% and 0.3% in September and August.
- Core CPI up 0.6% in October – after being up by 0.2% and 0.1% in September and August.
- Overall CPI up 6.2% over last 12 months. Core up 4.6% over same period.
- Supply chain disruptions, hoarder behavior was at play in food prices in early 2020, easing in recent months.
- Energy component up by 30.0% over the last 12 months.

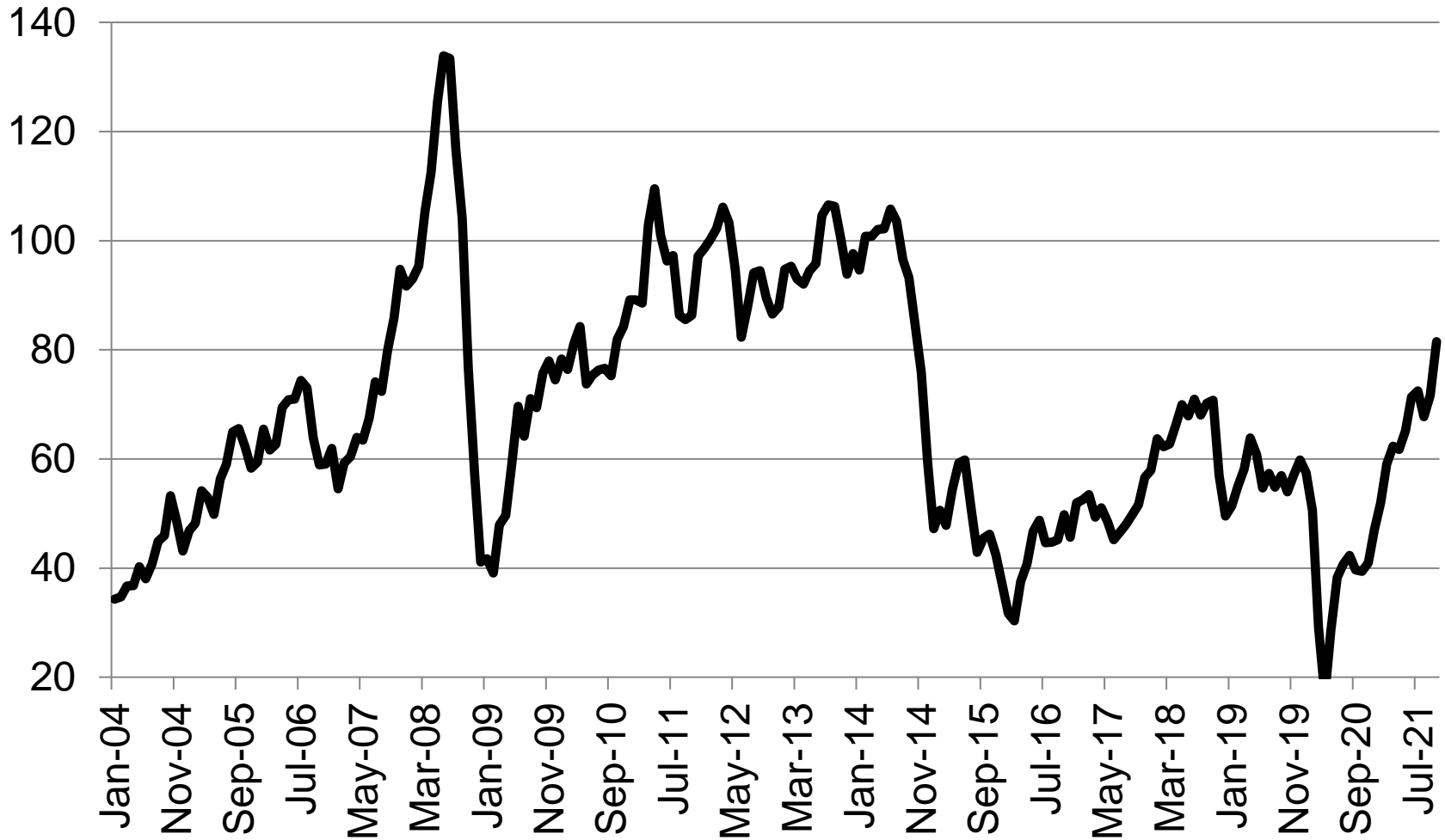
CPI & PCE: Core

(source: US Department of Labor)



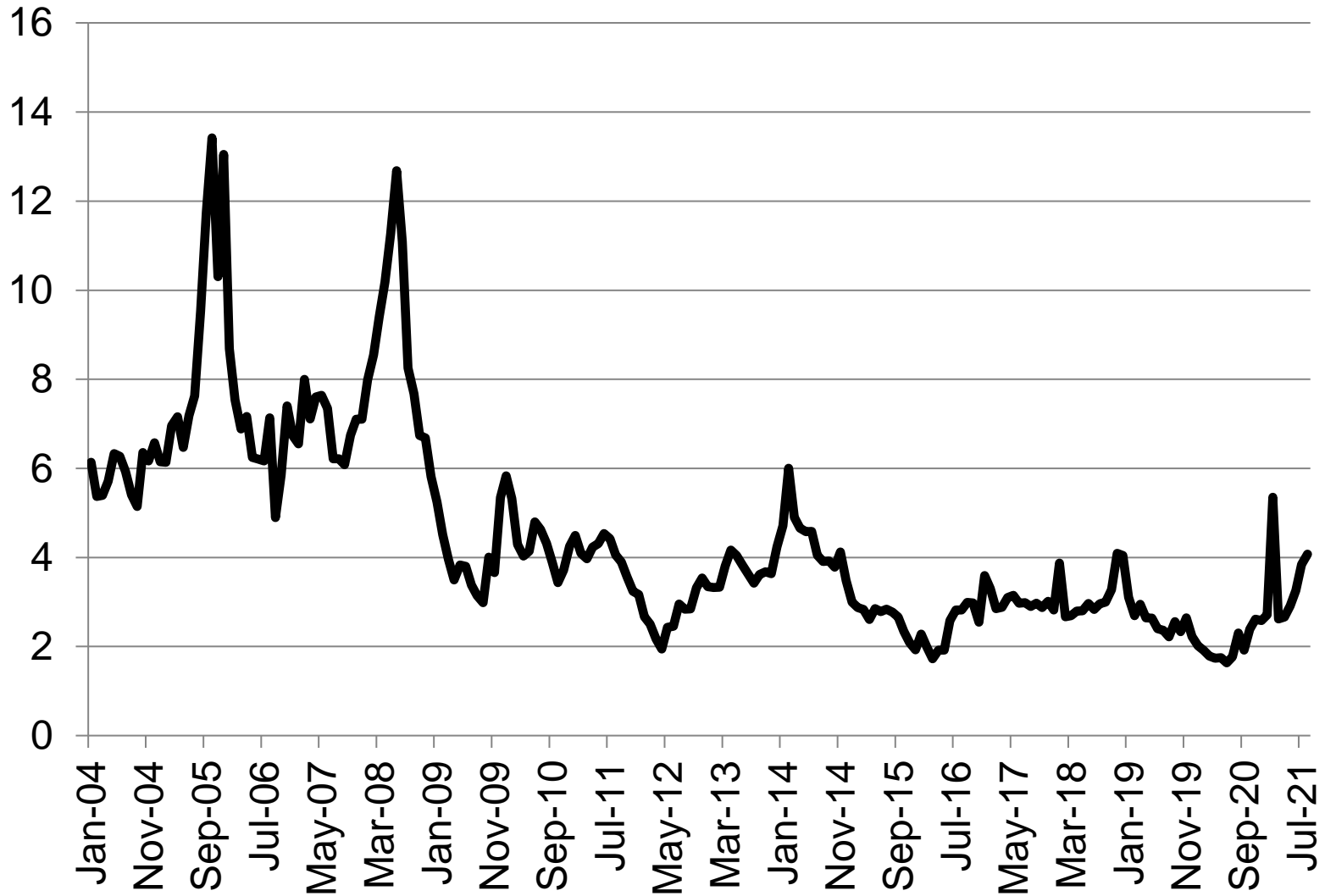
Crude Oil: West Texas Intermediate

(Source: US Energy Information Administration)



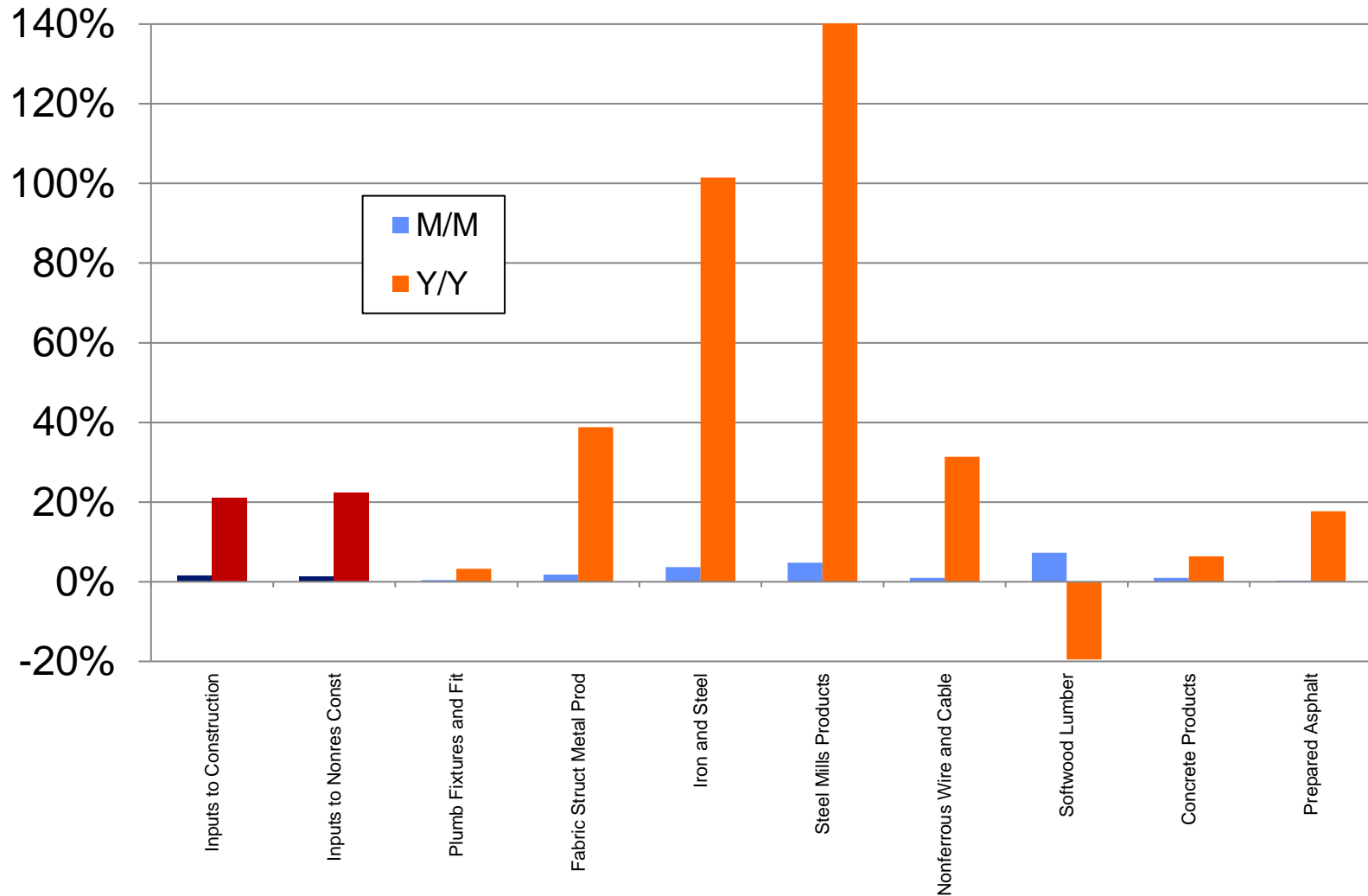
Natural Gas: Henry Hub

(Source: US Energy Information Administration)



Construction Cost w/o Energy

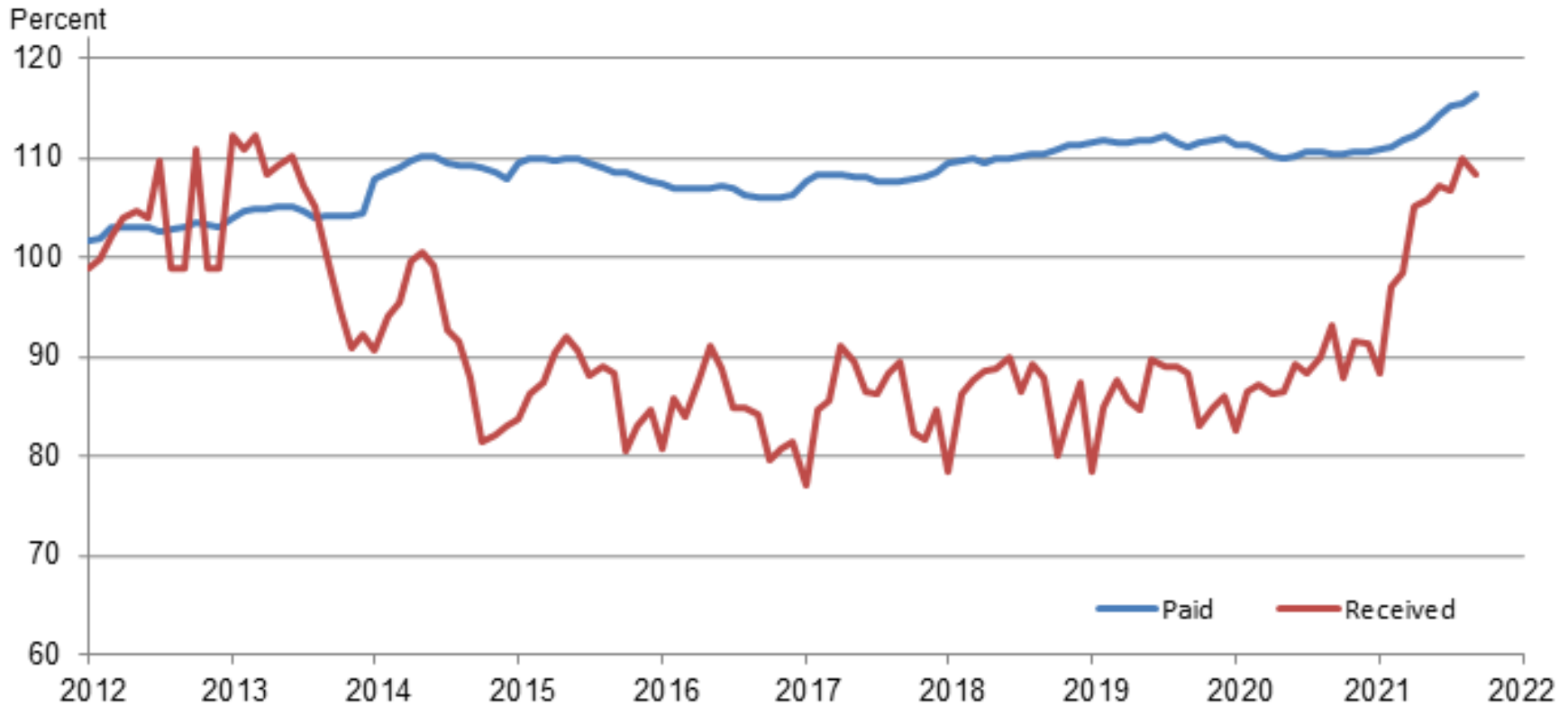
(Source: BLS PPI & ABC)



Agricultural Prices

(Source: USDA)

Crop Farm Received and Paid Indexes, All Items by Month – United States: 2011=100



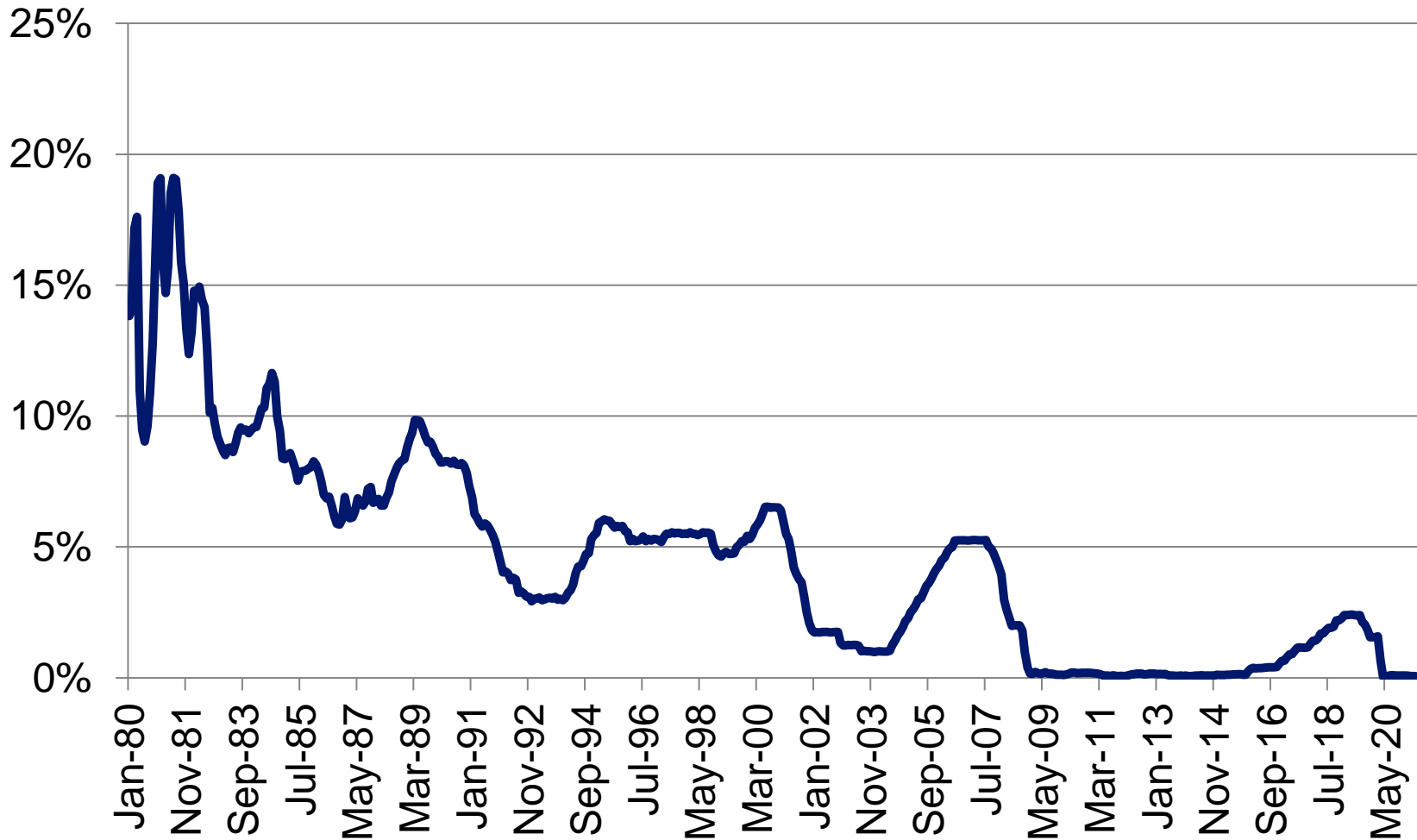
Topic #5:

After starting to unwind three rounds of QE . . .
. we went to zero in March 2020.

. . . now, we “talk taper” – do rates rise with
this shift?

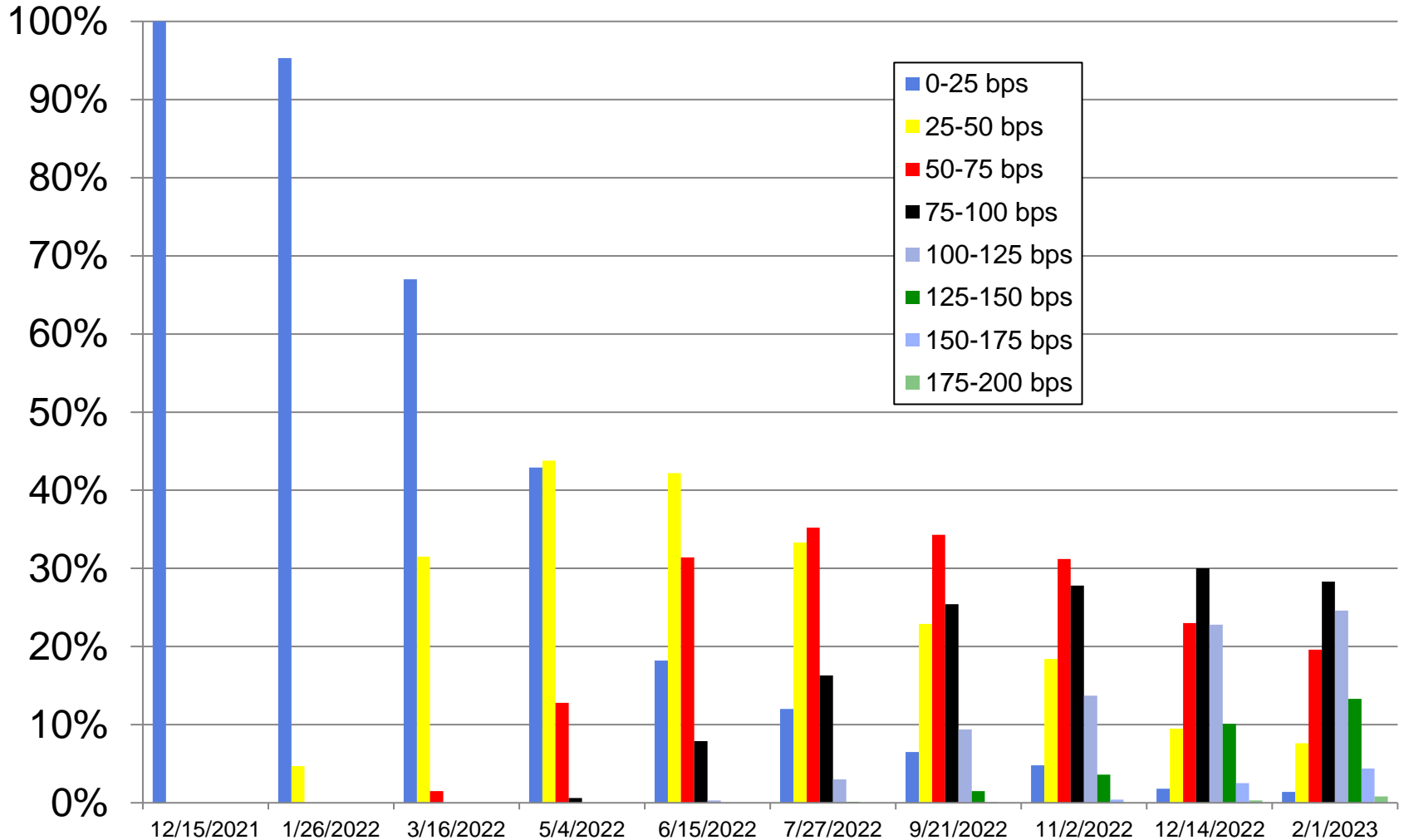
Federal Funds Rate 9 Up, 3 Down, back to ZLB

(Source: Board of Governors of Federal Reserve System)



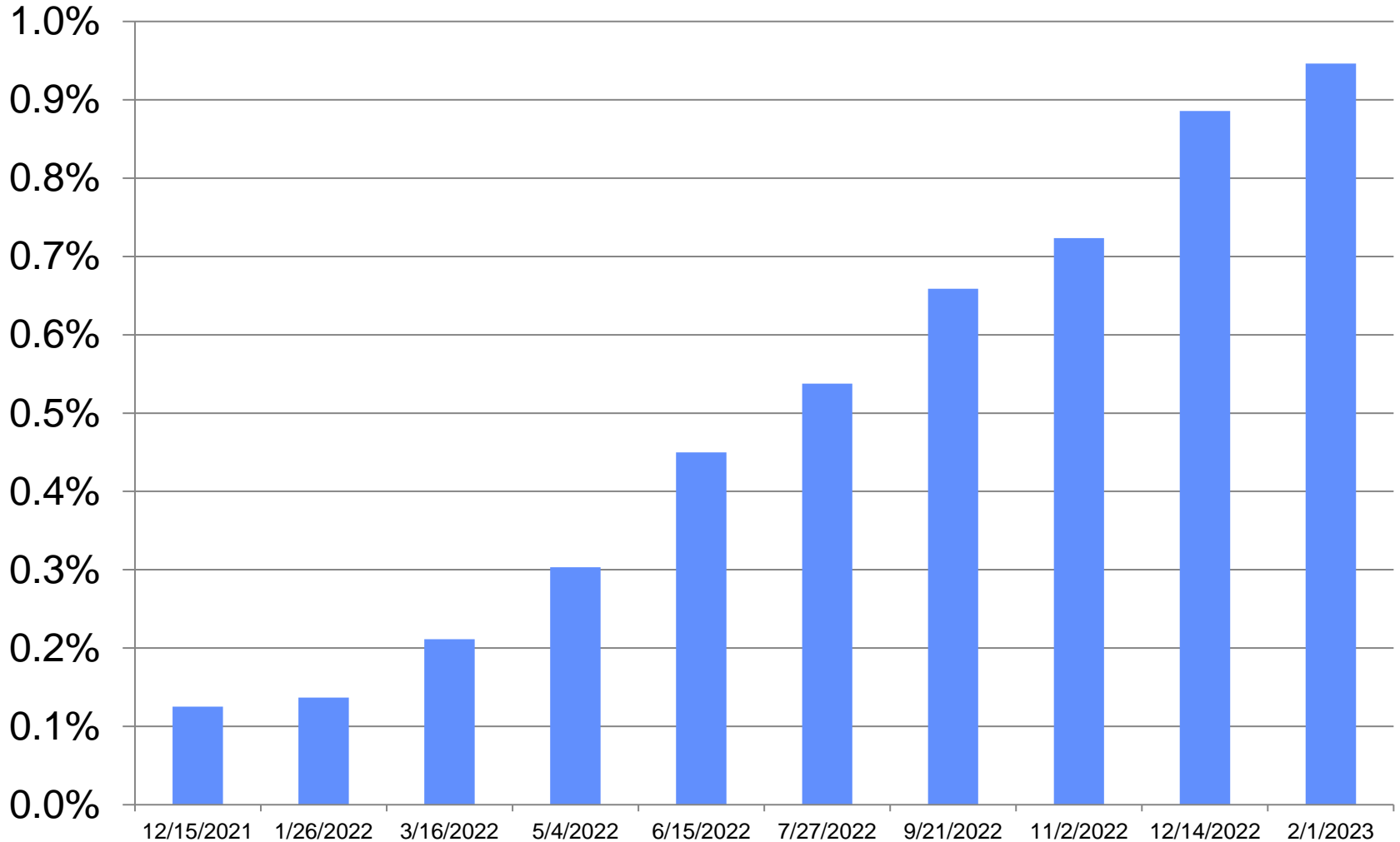
Market's FFR Outlook

(Source: CME Group)



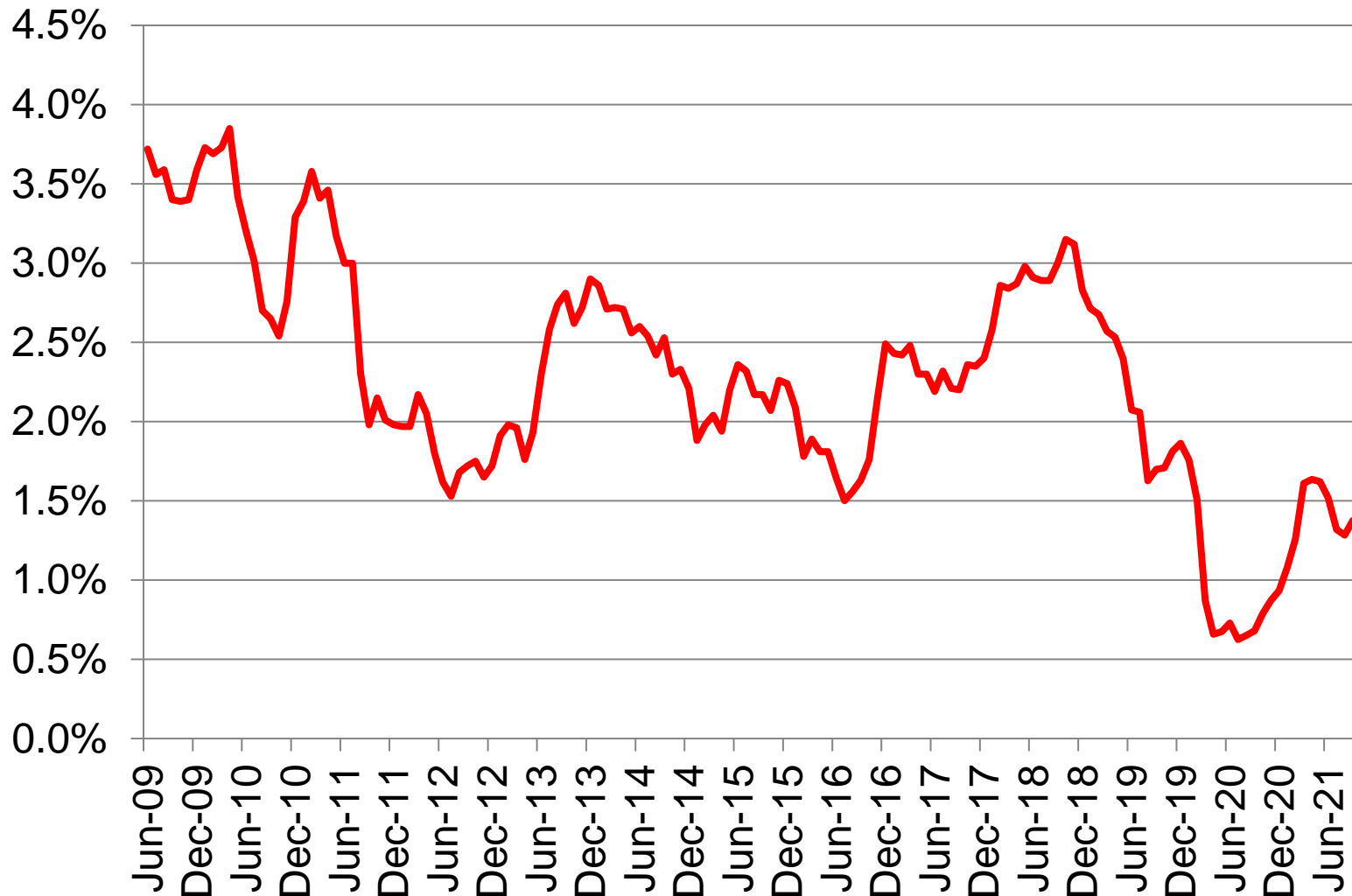
Market's "Expected FFR"

(Source: CME Group)



10-Year Treasury Bonds

(Source: Board of Governors of Federal Reserve System)

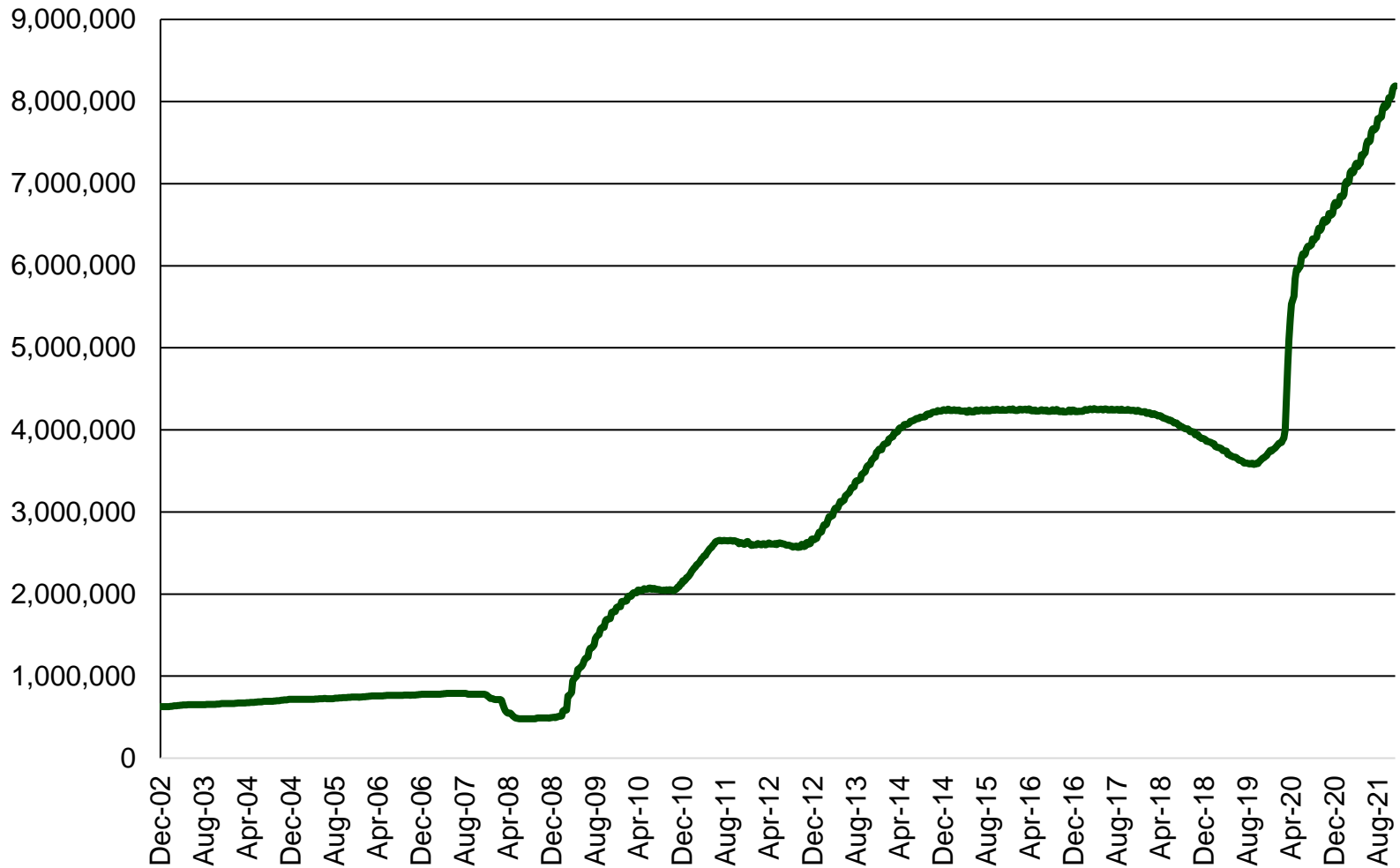


Federal Reserve Stimulus

- **March 15**
 - FFR to ZLB
 - Quantitative Easing
 - Incent Discount Window
 - Relax Capital Requirements (Buffers)
 - Extend U.S. Dollar Liquidity Swaps
- **March 17**
 - CPFF (Commercial Paper)
 - PDCF (Primary Dealers)
- **March 18**
 - MMLF (Money Market Mutual Funds)
- **March 23**
 - **QE expanded to CMBS**
 - PMCCF/CMMCCF (Corporate Credit)
 - TALF (Term Asset-Based Securities)
 - Backed by Treasury Funds
- **April 9**
 - PPP Loans
 - Main Street Business Debt (1 yr def)
 - **Municipal Liquidity (pop > 1MM)**

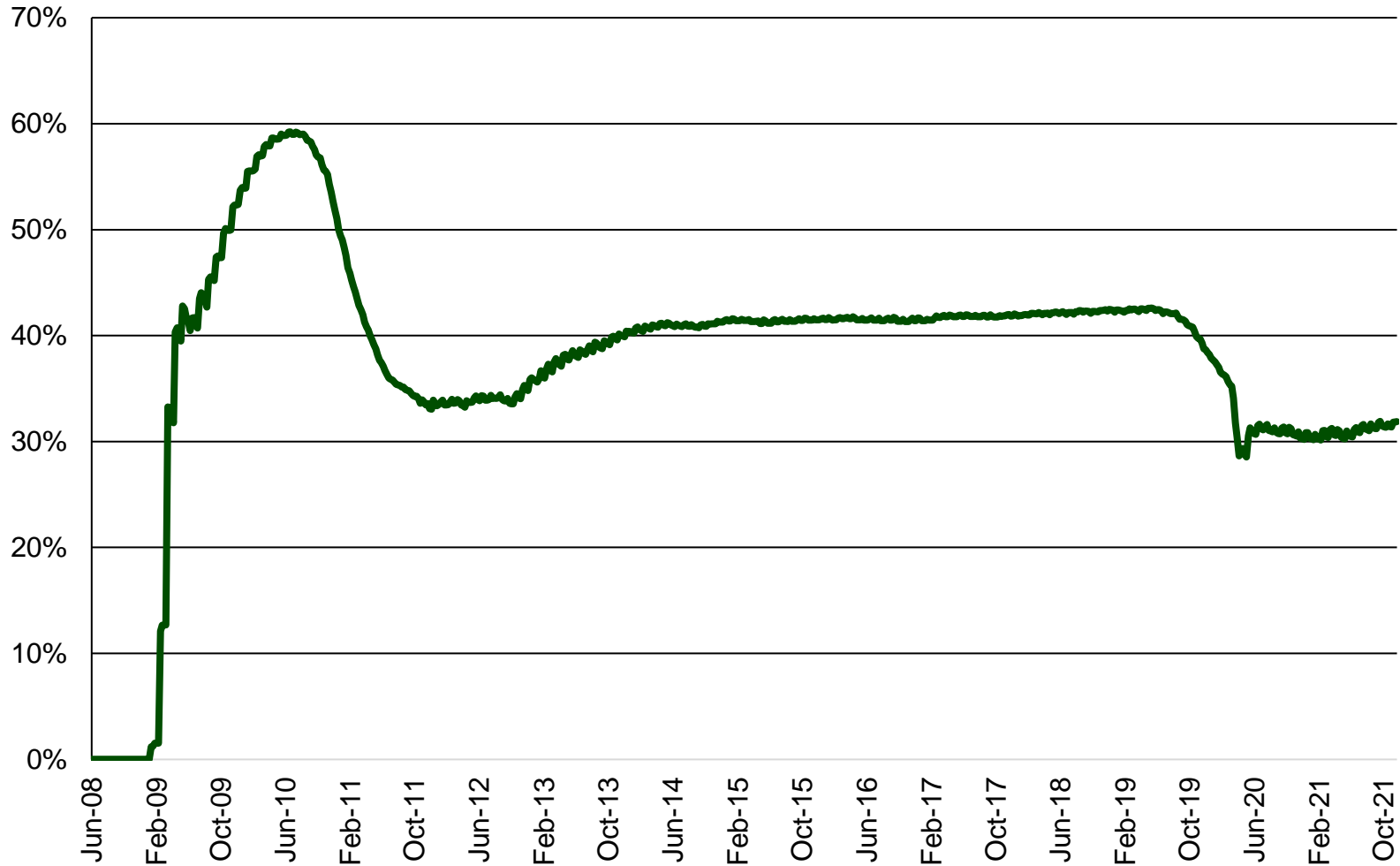
Fed: Securities Held Outright

(source: Board of Governors, Federal Reserve System, in \$MM)



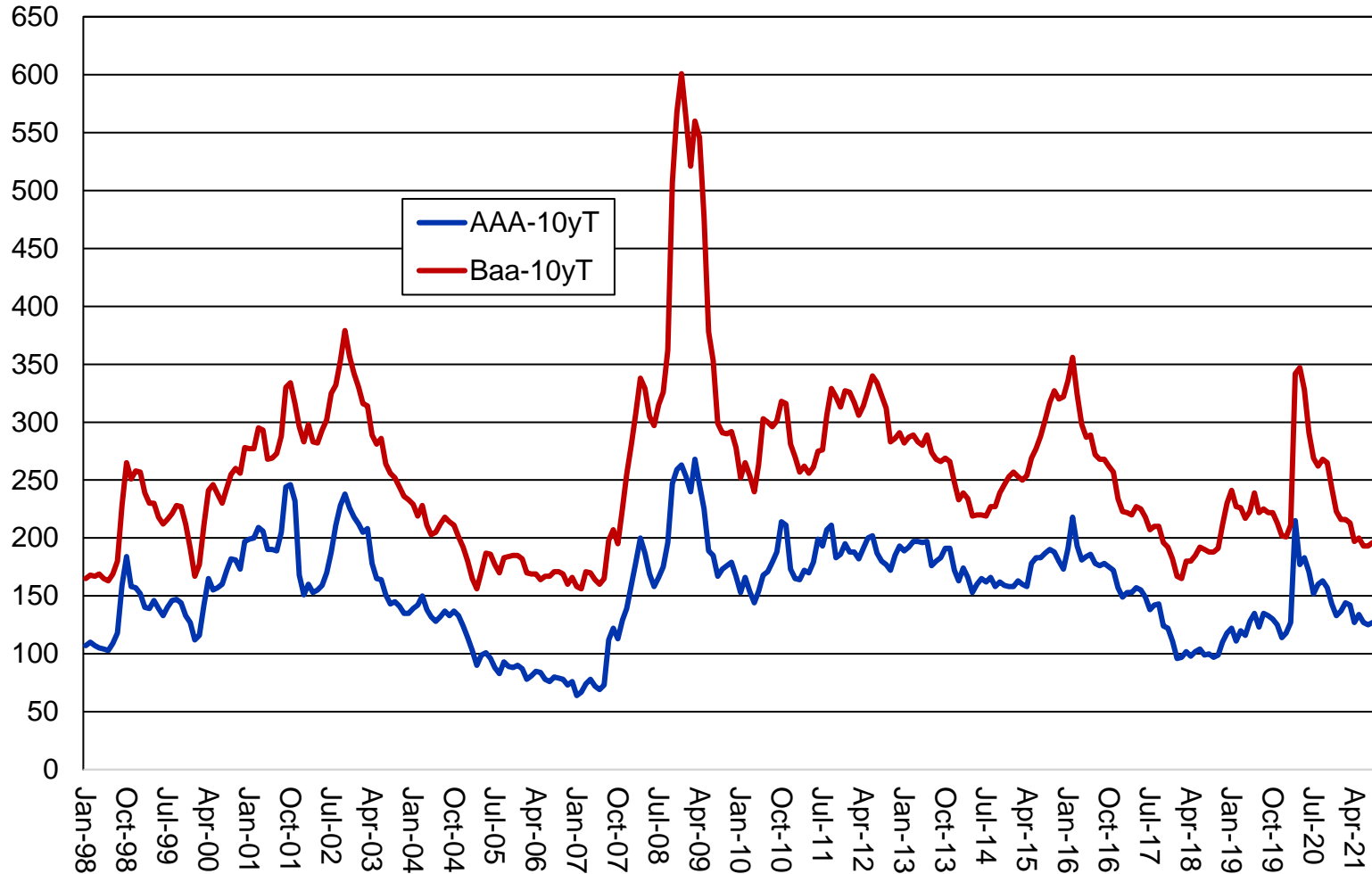
Fed: MBS as % of Holdings

(source: Board of Governors, Federal Reserve System, in \$MM)

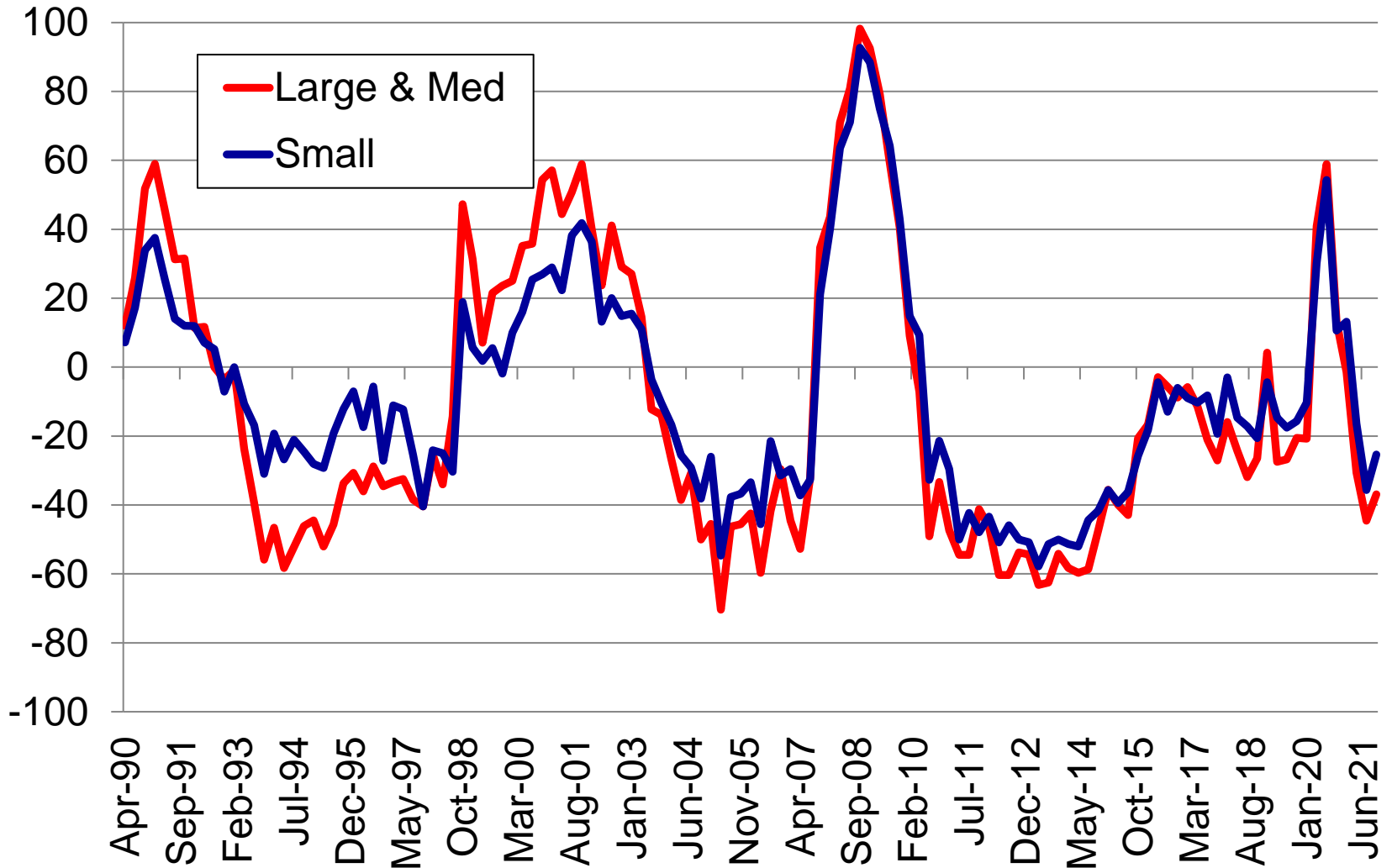


Corp to Treasury Spread (bps)

(source: Federal Reserve Bank of St. Louis)

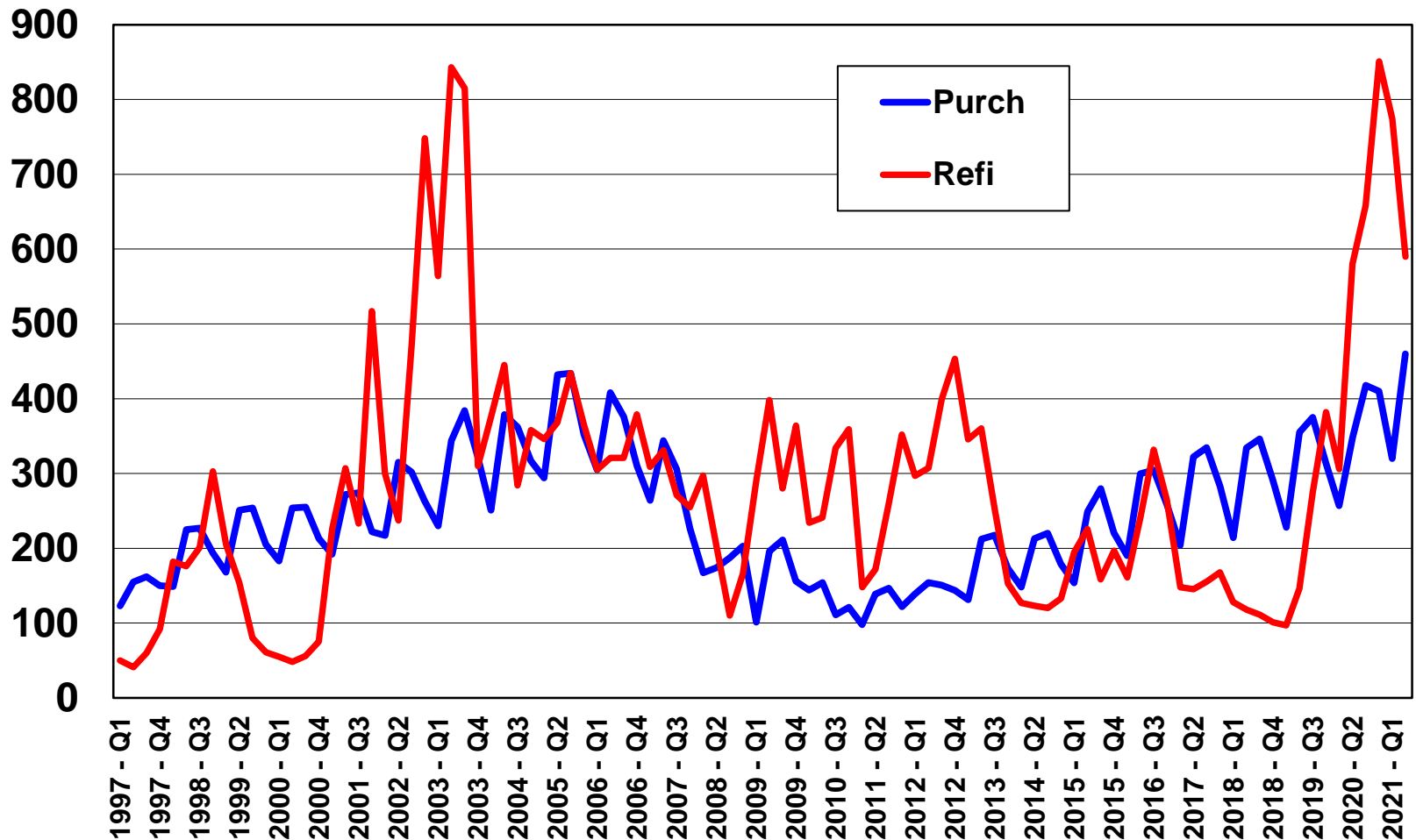


Loan Spread over COF Widening?



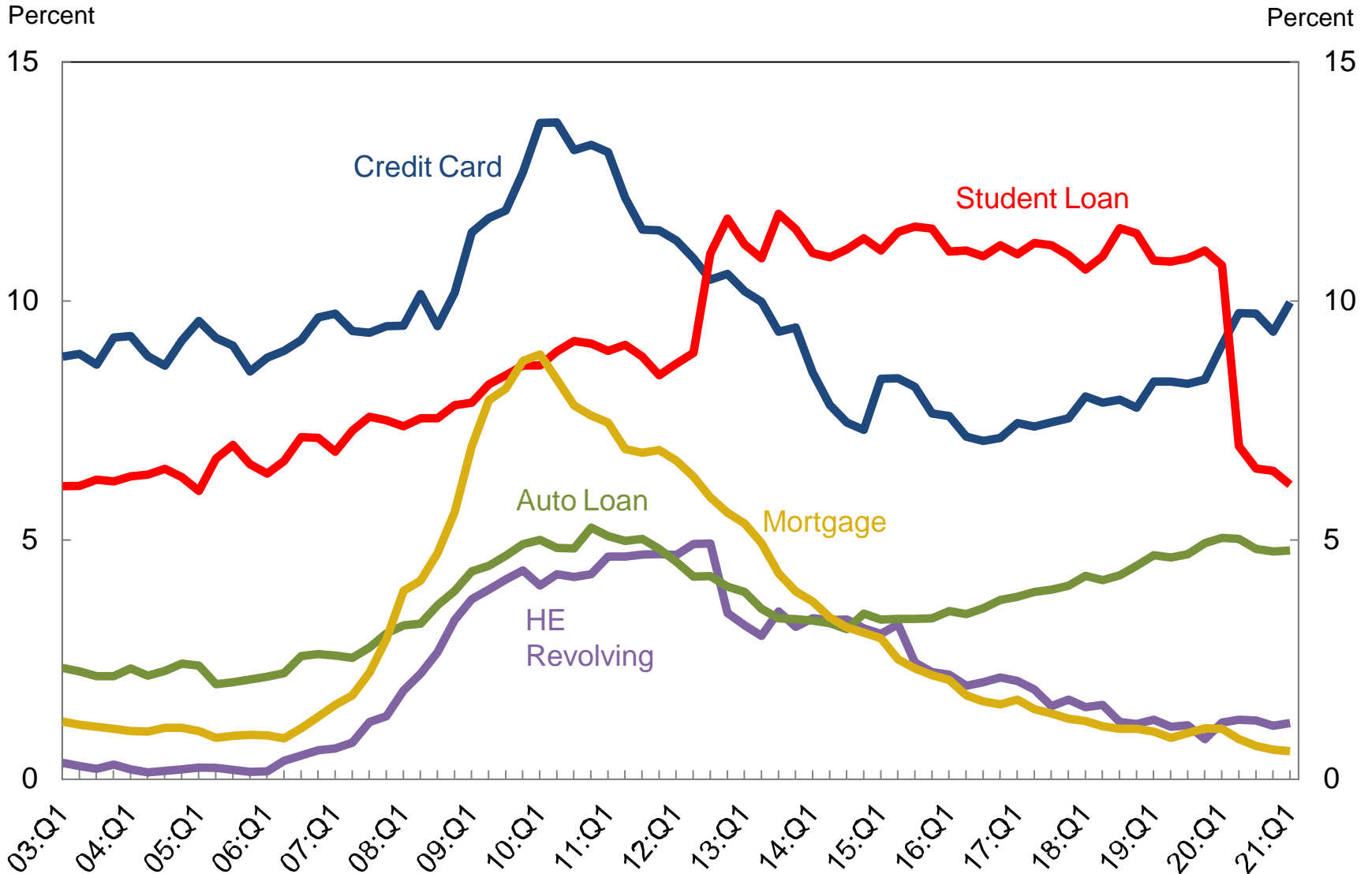
MBA Mortgage Activity: Purchase & Refinance

(Source: Mortgage Bankers Association)



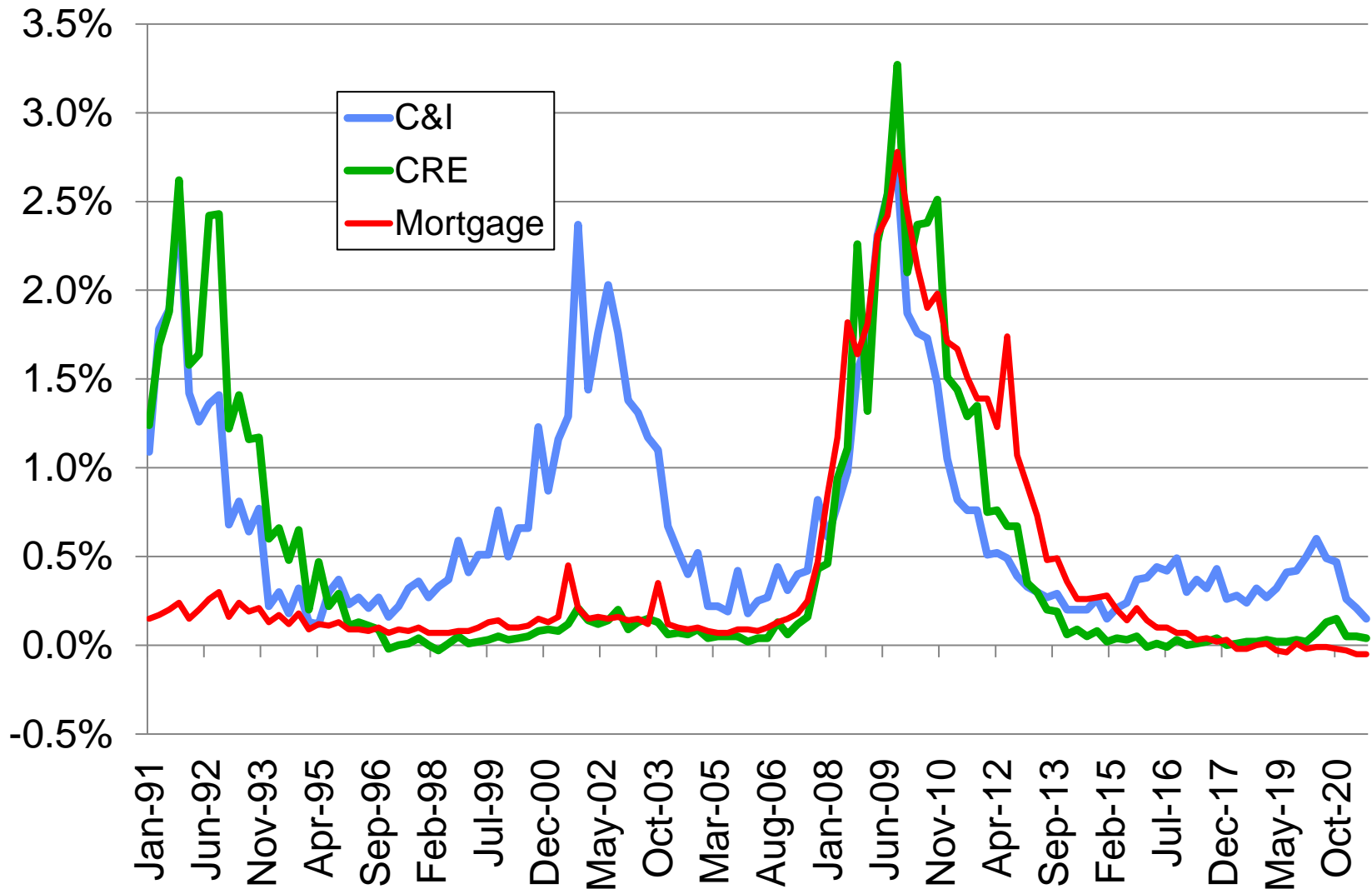
90+ Days Delinquent by Loan Type

(source: Federal Reserve Bank of New York Credit Panel/Equifax)



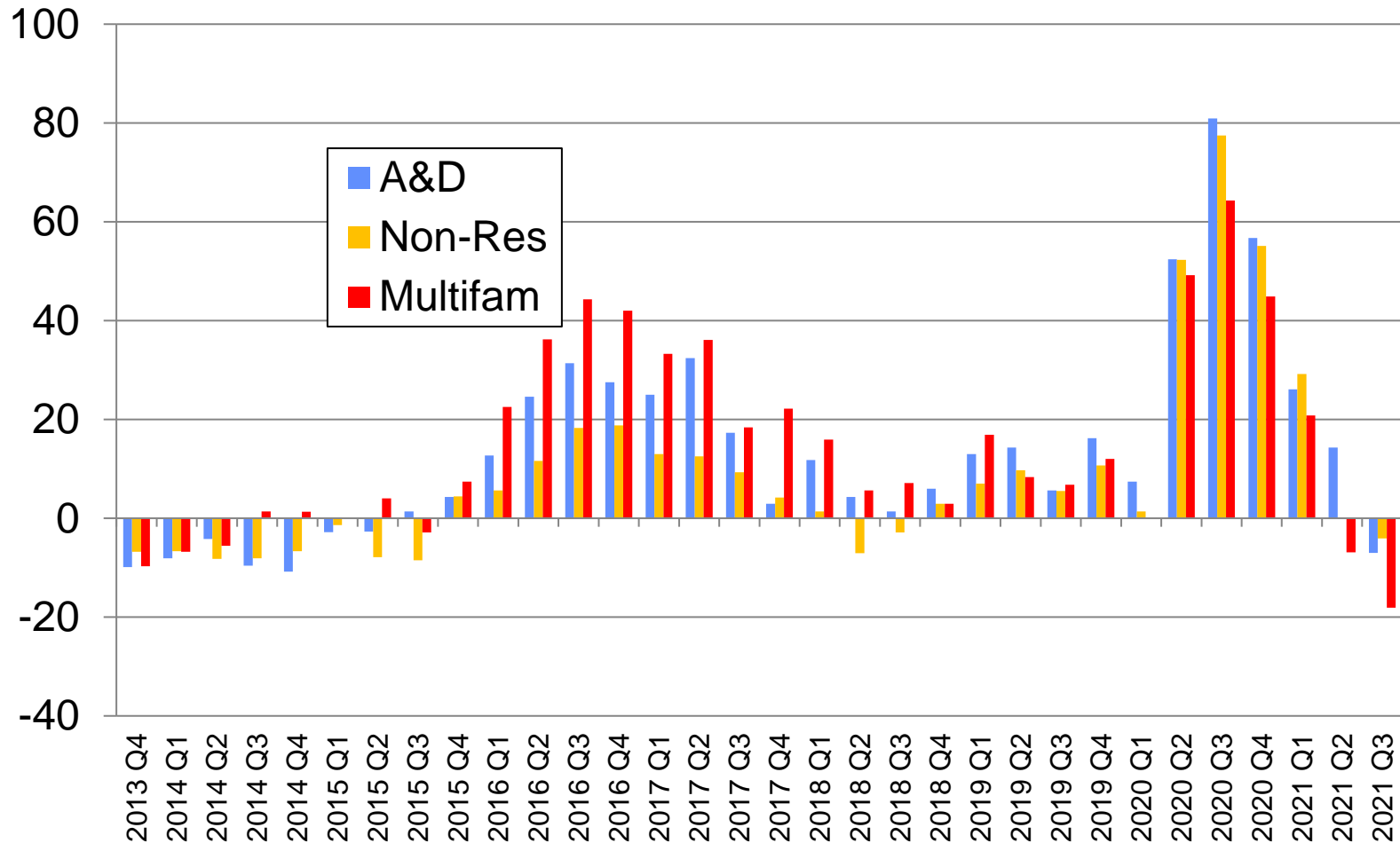
Charge Off Rates at Banks

(source: Board of Governors of the Federal Reserve System)



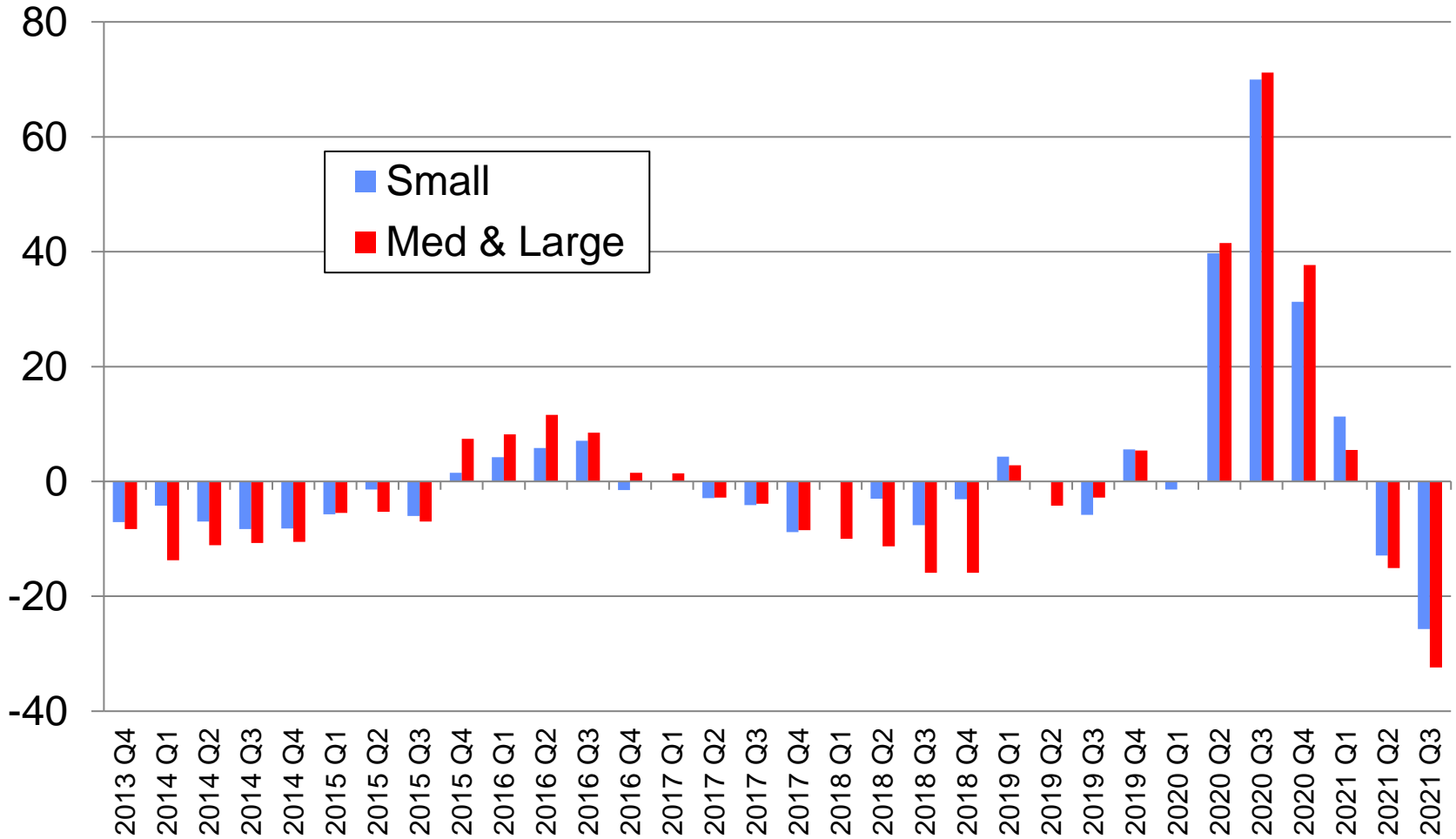
CRE Loan Standards: Net Tightening

(Source: Federal Reserve System, Senior Officers Lending Survey)



C&I Loan Standards: Net Tightening

(Source: Federal Reserve System, Senior Officers Lending Survey)



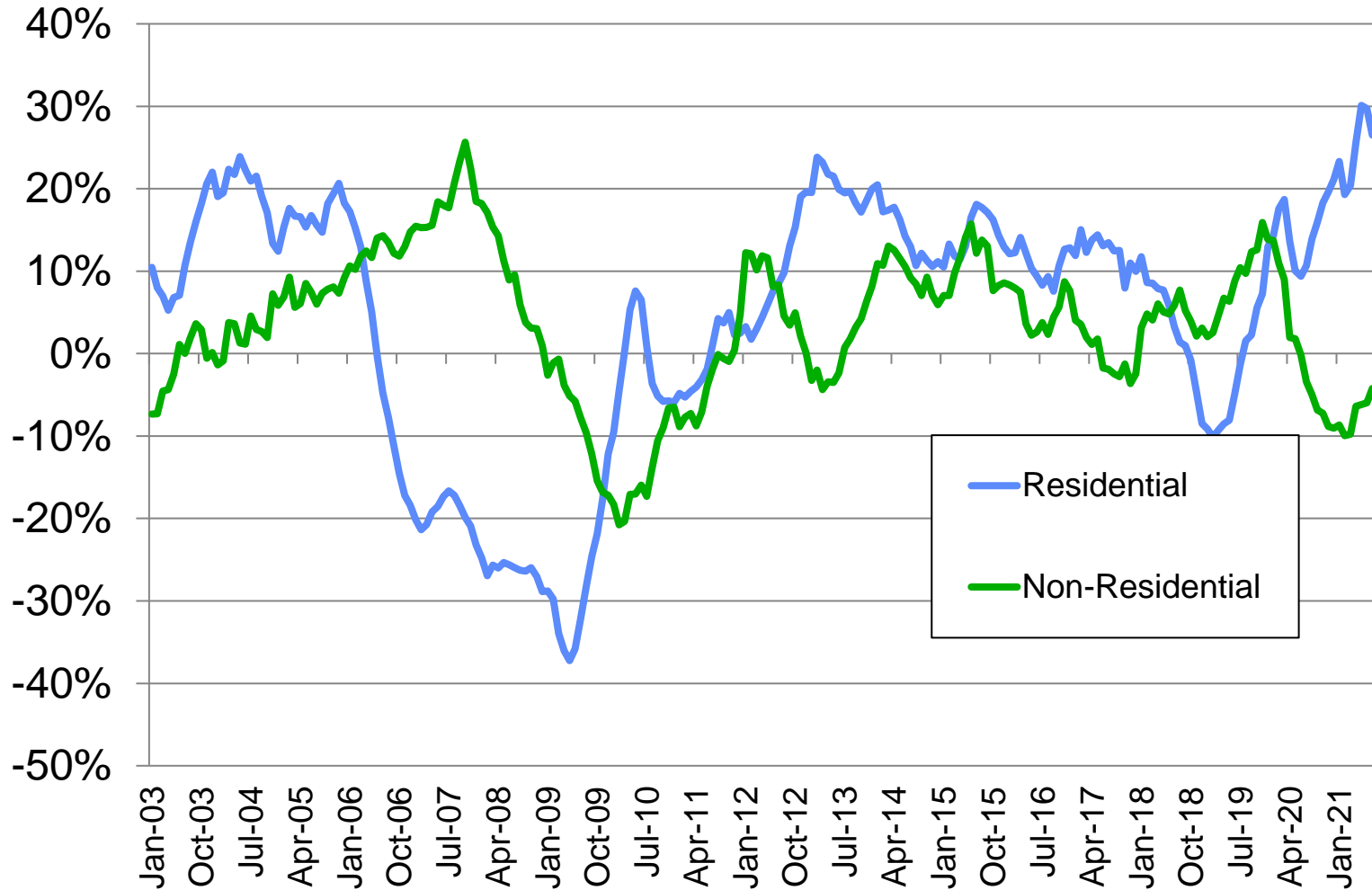
Topic #6:

Did Covid signal the death of “big box” and office?

And is housing market getting “frothy” again?

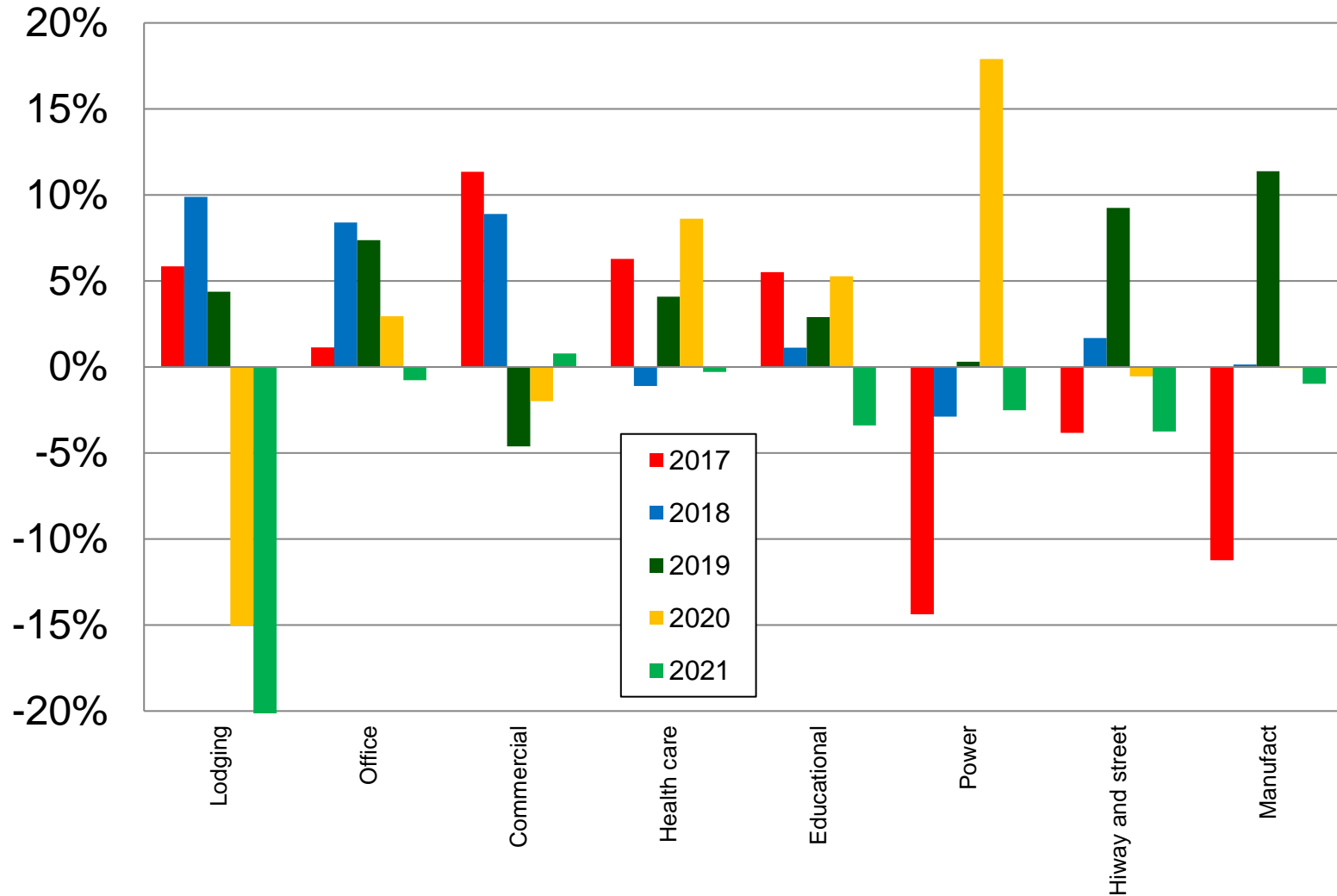
Construction Spending

(Source: U.S. Bureau of Census)



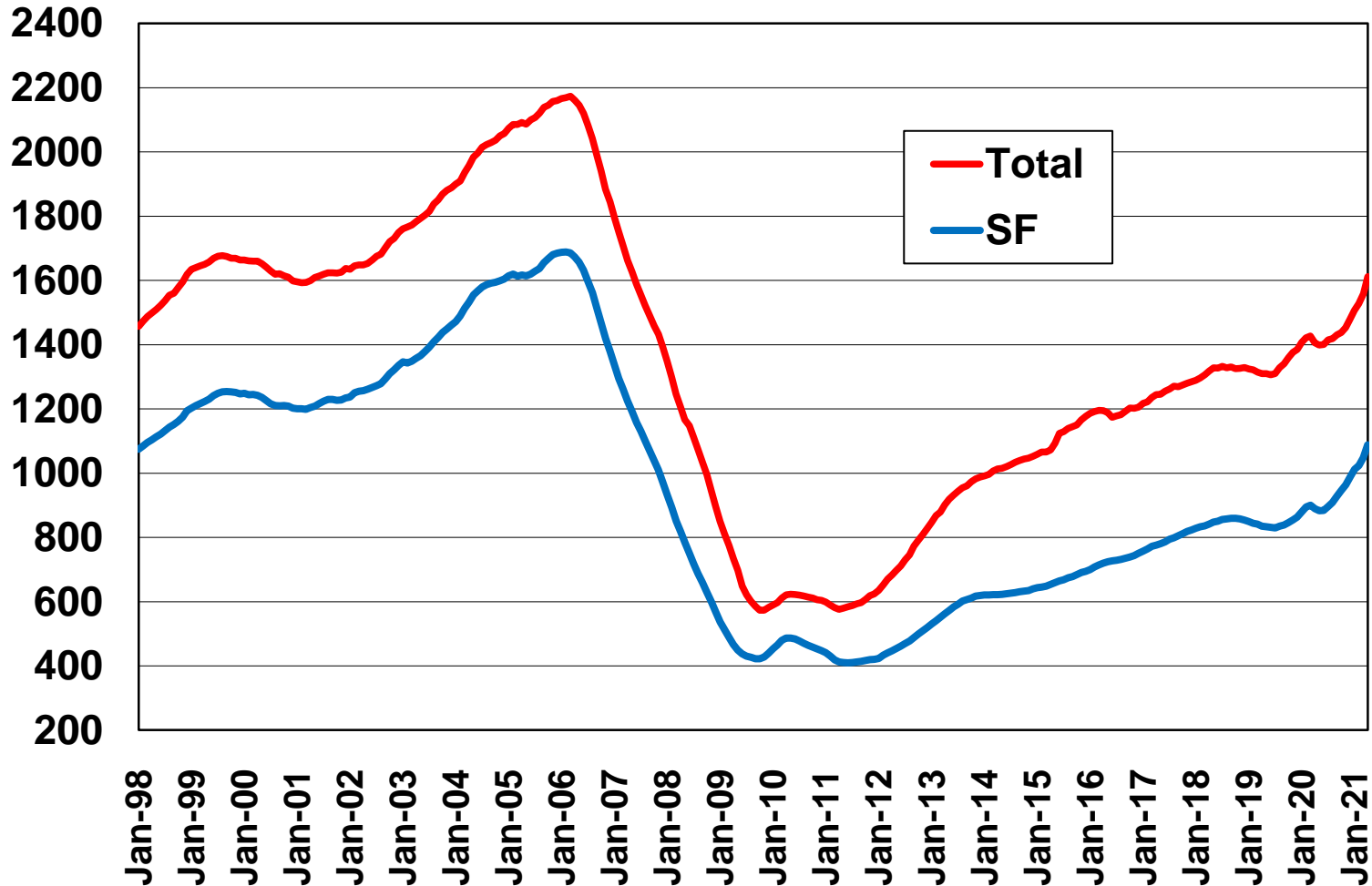
Non-Residential Construction

(Source: U.S. Bureau of Census)



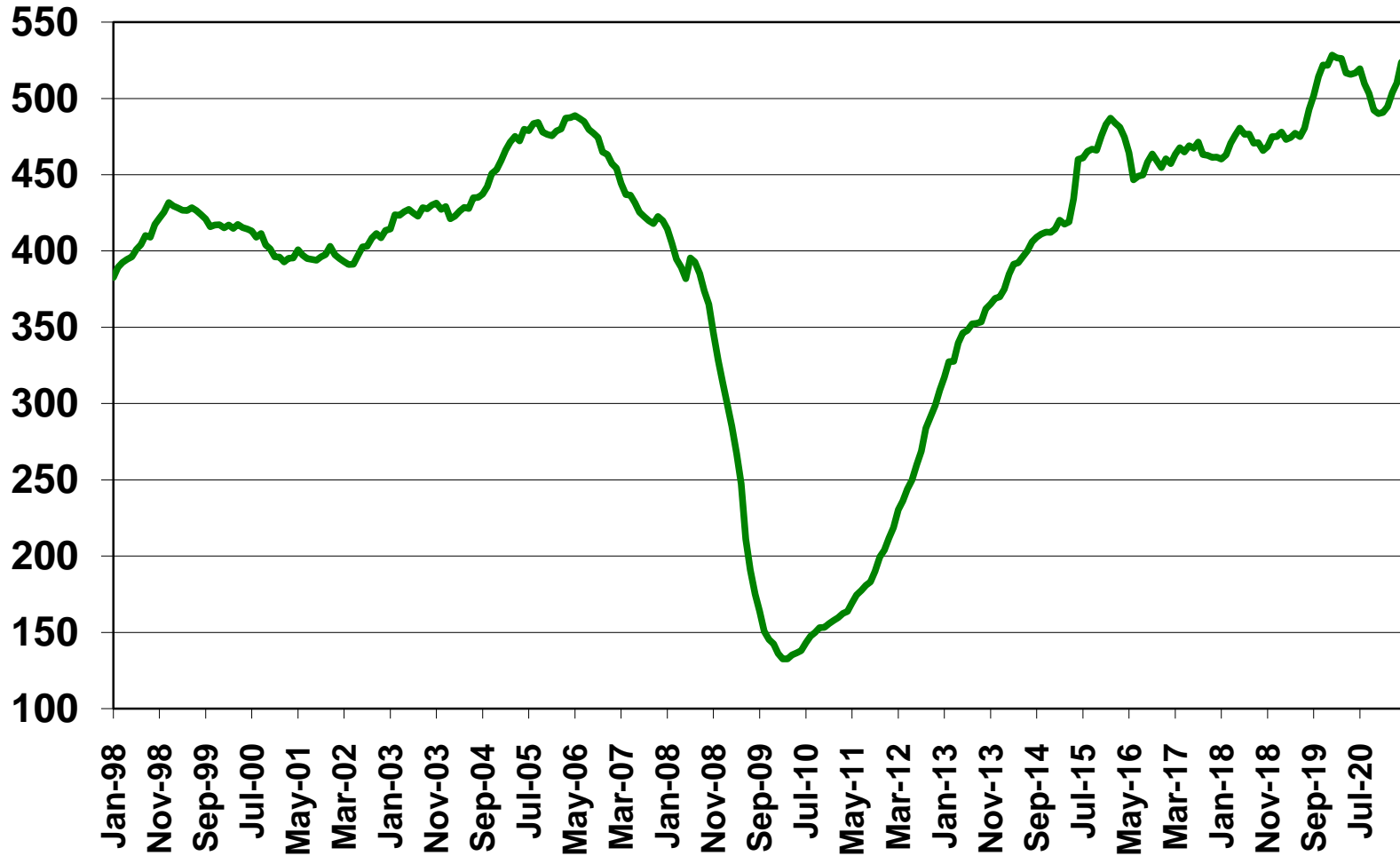
US Housing Permits: SF and Total

(source: U.S. Bureau of Census)



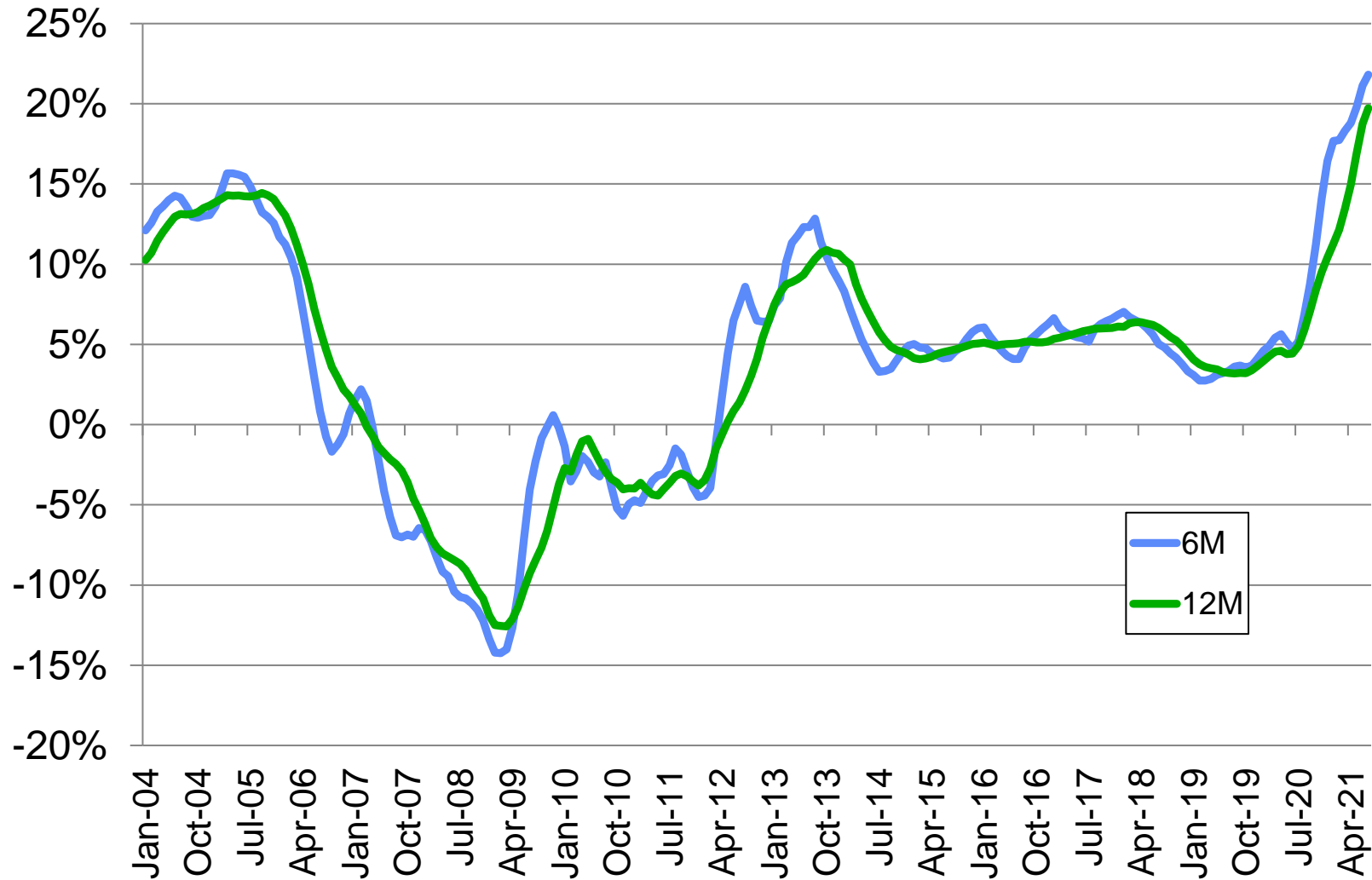
US Housing Permits: Multi-family

(Source: U.S. Bureau of Census)



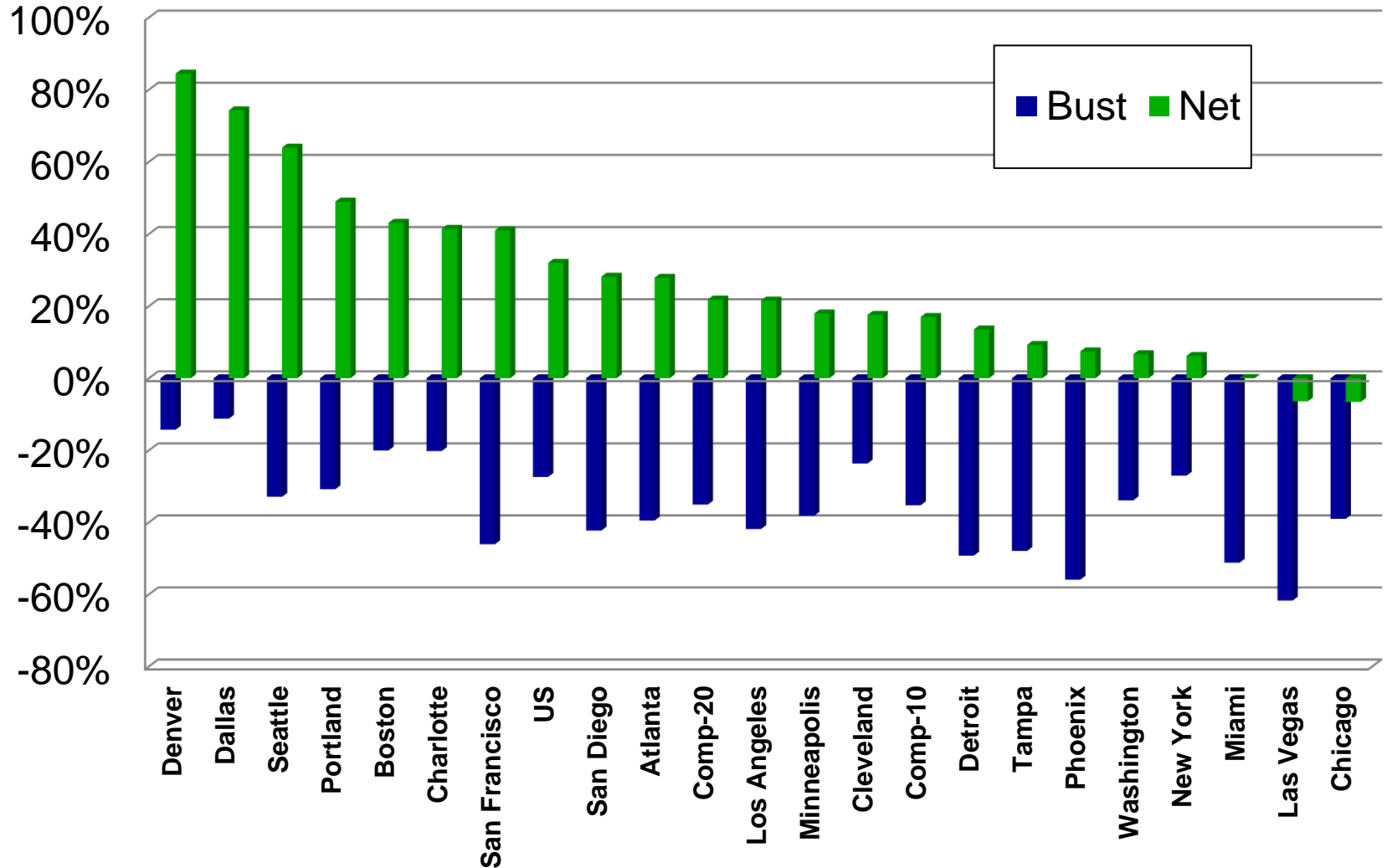
Case Shiller: National Index

(source: Standard & Poor's)



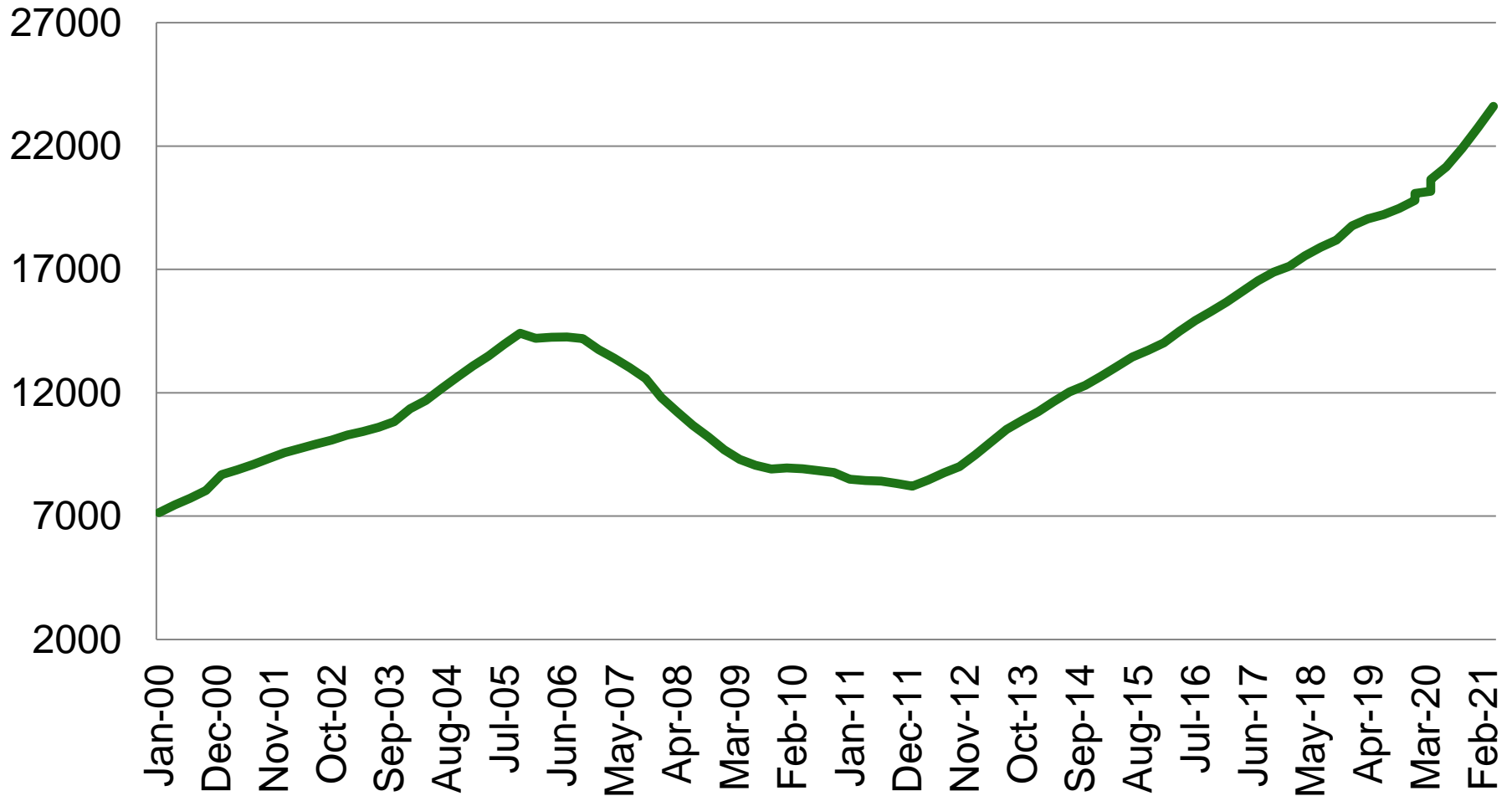
CS/S&P Home Price Index

(Source: S&P Case Shiller)



Household RE Equity

(Source: Board of Governors of Federal Reserve System)



Topic #7:

COVID-19 opened the flow on spending – where do we go from here? How will be pay for it?

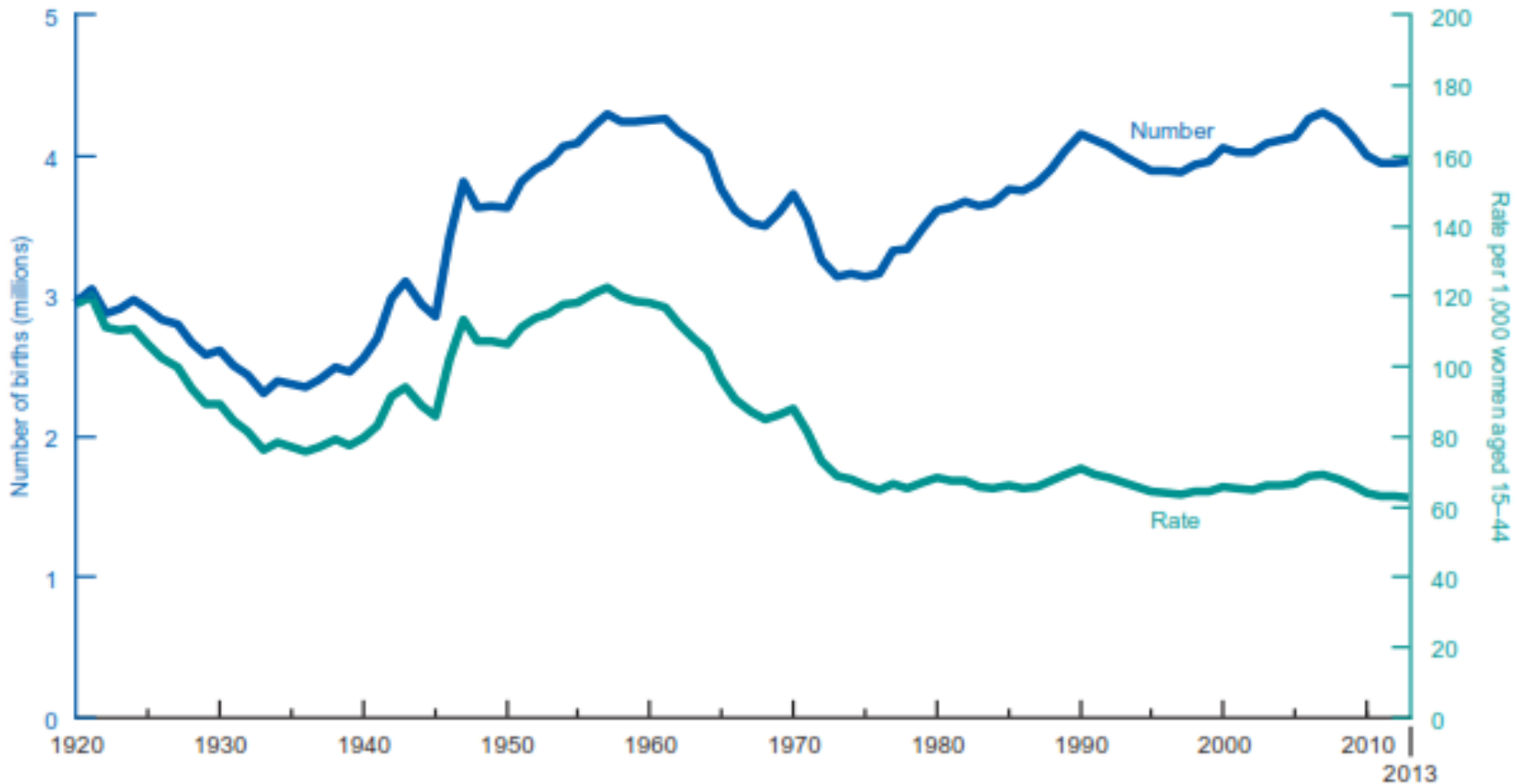
And what about the demographics – friend or foe?

Currents Issues in Fiscal Affairs

- **Federal:**
 - **Fiscal Outlook fundamentally shifted back by COVID**
 - **Next in Play: Infrastructure, Tax Changes: Rates & SALT**
 - **Always in Play: SCOTUS, “GREEN” ISSUES**
 - **Ongoing Play: Revising Trade – Little focus since 2020**
- **States:**
 - **Income and Sales Tax revenue plunge, then rebound.**
 - **Some State Revenues in Surplus**
 - **Deferred Income Tax collection shifts state revenues**
 - **Tax Reform Initiatives in other States slow, but SALT consideration weigh in**
 - **SE states domination biz location ranking, but not exclusive.**
- **Local:**
 - **RE valuation rising = tax revenues, fiscal distress moderating**
 - **Federal bailout of Munis with over 1MM in population**
- **The ZOOM Economy!!**

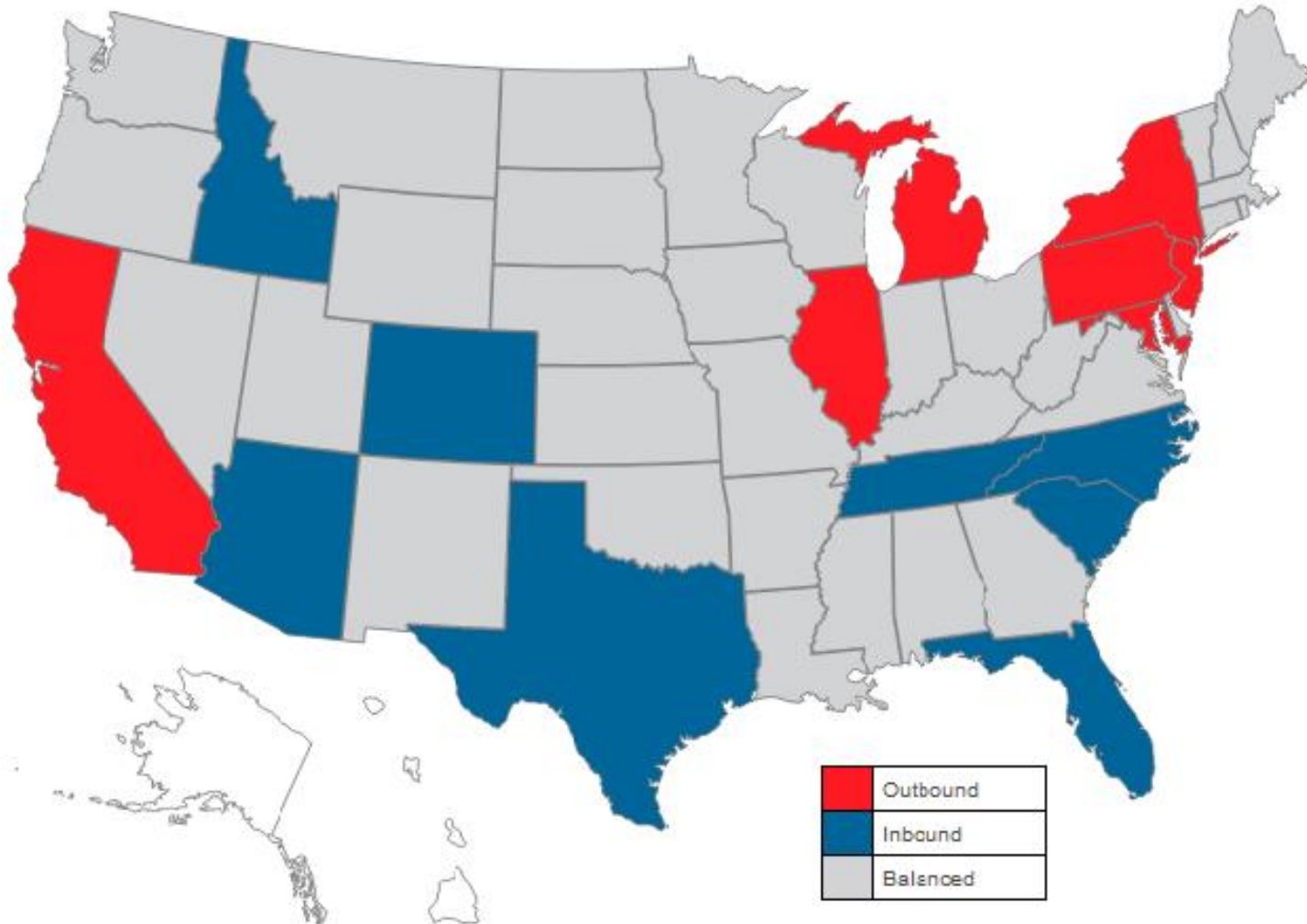
The Demographics: Boom & Bust

(Source: CDC, US Bureau of Census)



2020 Migration

(source: NAMS Report)



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