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U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
23-Mar-2020	Chicago Fed Nat Activity Index	Feb	NA	NA	-0.25
24-Mar-2020	Markit US Manufacturing PMI	Mar P	40.0	47.0	50.7
24-Mar-2020	Markit US Services PMI	Mar P	42.5	48.5	49.4
24-Mar-2020	Markit US Composite PMI	Mar P	NA	NA	49.6
24-Mar-2020	New Home Sales	Feb	750k	750k	764k
24-Mar-2020	Richmond Fed Manufacturing Index	Mar	-15.0	-4	-2.0
25-Mar-2020	Durable Goods Orders	Feb P	-2.0%	-0.9%	-0.2%
25-Mar-2020	Durables Ex Transportation	Feb P	-0.8%	-0.4%	0.8%
25-Mar-2020	FHFA House Price Index MoM	Jan	0.4%	NA	0.6%
26-Mar-2020	Advance Goods Trade Balance	Feb	-$64.9b	-$63.8b	-$65.9b
26-Mar-2020	Wholesale Inventories MoM	Feb P	-0.4%	NA	-0.4%
26-Mar-2020	GDP Annualized QoQ	4Q T	2.1%	2.1%	2.1%
26-Mar-2020	GDP Price Index	4Q T	1.3%	NA	1.3%
26-Mar-2020	Initial Jobless Claims	21-Mar	370k	NA	281k
26-Mar-2020	Kansas City Fed Manufacturing Activity	Mar	-8.0	NA	5.0
27-Mar-2020	Personal Income	Feb	0.4%	0.4%	0.6%
27-Mar-2020	Personal Spending	Feb	0.2%	0.3%	0.2%
27-Mar-2020	PCE Deflator MoM	Feb	0.0%	0.1%	0.1%
27-Mar-2020	PCE Core Deflator MoM	Feb	0.1%	0.2%	0.1%
27-Mar-2020	U. of Mich. Sentiment	Mar F	89.0	94.0	95.9

*Consensus from Bloomberg

Bracing For Impact – U.S. Recession Already Here

The profound global economic impact of the Covid-19 pandemic and financial market dislocations are starting to come into focus with every economic indicator release. What we are seeing in parts of the United States and across Europe is global commerce grinding to a sudden halt, like a freight train roaring down the track needing to lock its brakes in an emergency stop. The speed of this global shutdown in commerce is really unprecedented in modern times and the depth of the drop, including here in the United States, is expected to be gut wrenching. It's going to feel like the initial drop on the largest roller coaster in the park with your stomach a little queasy and in your throat.

Why is this pandemic creating such a big hit to the U.S. economy? First, it's the global nature of the 2020 recession. Second, it is the speed, scope, and spread of the virus shutdowns. Third, it is the dramatic financial market reaction and dislocations that are rapidly destroying household wealth and retirement funds.

Markets were completely blindsided by this Covid-19 economic and financial shock and not well positioned going into it. It's hard to imagine now, but U.S. corporate bond and equity valuations were rich and volatility near record lows only a month ago. Today global equity markets are entering a nasty bear market with declines of 30-40% in the U.S. and Europe from just a month ago. Stock market volatility, according to the VIX, has already exceeded the worst days of the 2008 financial crisis, something most analysts thought we would never see again in our lifetimes. Even more troubling for the economic outlook, money market liquidity shortages and corporate credit concerns are rapidly reemerging to an extent not seen since the Great Recession.

The Federal Reserve has had to take extraordinary action yet again over the last few weeks to help keep bank credit flowing and money market and bond markets functioning as normally as possible throughout this crisis. The Fed has dropped the Fed funds target rate to just above zero, restarted and ramped up Treasury bond and MBS purchases, turbocharged its daily overnight and term-repo offerings, encouraged banks to borrow from the emergency lending Discount Window, and dropped bank's reserve requirement ratio to zero to help keep bank credit flowing to households and businesses. The Fed also activated emergency credit facilities and swap lines not used since the financial crisis era more than a decade ago. It launched a Commercial Paper Funding Facility, and a Money Market Mutual Fund Lending Facility this week, and created U.S. dollar swap agreements with a number of global central banks to help ease the shortage of U.S. dollars abroad.

Global GDP growth is forecast at a near stagnant 0.1% for 2020. Global growth below 2.0% is often considered a global recession by economic forecasters. We now expect serious economic contractions in Europe, Japan, and the United States. European GDP is expected to plummet 2.8% year on year. Japan is forecast to drop 1.5% with the U.S. declining 1.2% this year. On a Q4/Q4 basis U.S. GDP will likely drop 3.0% 2020.

How will this U.S. recession compare to others in the past? We now expect a relatively deep and sharp 10 month recession from March through December of this year. The peak-to-trough drop in GDP of 3.0% will put it in fourth place of all post-war recessions. Not as severe as the 3.9% drop in the Great Recession, or recessions of 1958 and 1973, but well above the average post-war recession where GDP drops about 2.0%. However, the duration of this recession is expected to be shorter than the last one at 10 months and on par with the median of all post-war U.S. recessions. The Great Recession lasted a whopping 18 months.

Job losses will be substantial, we expect around 5 million net jobs could be lost with the unemployment rate peaking at around 6.5%. The drop in real consumer spending is also expected to be among the largest in the post-war period. We are forecasting real consumer spending will drop 3.2% peak-to-trough in the 2020 recession, about the drop in real consumer we saw in the 1981-82 recession and well above the median drop of 0.5% in consumer spending in all post-war recessions.

For now these recession estimates are just place holders and will be refined as the virus spreads and the economic and financial damage is tallied. What we do know today is that investors and households need to brace for the impact of a sharp decline in U.S. GDP and consumer spending in the second quarter. We estimate GDP will drop by at least 8.1% at an annualized rate in Q2 with consumer spending dropping by 8.5%. We also expect 16.1% decline in non-residential fixed investment as well. Declines of this magnitude are at the levels seen during the worst quarter of the 2008-2009 recession.

To be sure, there is still a lot of uncertainty around our economic and financial future. We are still awaiting critical information about the ultimate duration and spread of the virus across the U.S. and around the world. While the Federal government and others are just now preparing a large fiscal stimulus response. The Trump Administration and Congress are working on a fiscal package worth around $1.2 trillion with $750 billion expected to be sent to households in the form of a check or checks to help households pay their bills as working hours and employment plummets in the months ahead. There is also some relief for small businesses that are expected to feel the brunt of the shelter in place orders and shutdowns rolling across the country. The package includes $300 billion in small business loans, $200 billion in stabilization funds, and the IRS will allow fillers to delay their income tax payments and filings until July. The near-term economic and financial outlook is indeed a dismal one, but as with all recessions and pandemics in the past we will emerge from this one as well. For the time being, try and stay healthy and safe. I wish everyone well in these trying times.

Key Economic and Interest Rate Forecasts

	History				Forecast								Yr/Yr % chg or Annual Avg.			
Economic Data	**2019.1**	**2019.2**	**2019.3**	**2019.4**	**2020.1**	**2020.2**	**2020.3**	**2020.4**	**2021.1**	**2021.2**	**2021.3**	**2021.4**	**2018**	**2019**	**2020**	**2021**
Real GDP*	3.1	2.0	2.1	2.1	0.1	-8.1	-3.2	-1.1	2.6	2.2	2.1	2.2	2.9	2.3	-1.2	0.3
Personal Consumption Expenditures*	1.1	4.6	3.2	1.7	0.2	-8.5	-3.2	-1.0	3.0	2.4	2.6	2.5	3.0	2.6	-1.0	0.5
Non-residential Fixed Investment*	4.4	-1.0	-2.3	-2.3	-3.2	-16.1	-5.0	-2.7	1.5	2.5	3.2	3.0	6.4	2.1	-5.3	-0.8
Private Housing Starts (000s units)	1,213	1,256	1,282	1,449	1,497	1,350	1,285	1,255	1,220	1,200	1,212	1,245	1,208	1,300	1,347	1,219
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	16.6	13.5	14.0	14.6	14.9	15.0	15.2	15.5	17.2	16.9	14.7	15.2
Industrial Production*	-1.9	-2.3	1.1	0.1	-1.0	-10.7	-8.6	-6.1	2.0	2.3	2.5	1.8	3.9	0.8	-3.6	-1.6
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	152.3	150.4	149.3	148.3	147.5	147.2	147.3	147.6	146.6	150.9	150.1	147.4
Unemployment rate	3.9	3.6	3.6	3.5	3.6	4.3	4.9	5.5	6.1	6.5	6.5	5.9	4.4	3.7	4.6	6.3
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.8	-1.5	0.9	0.7	1.1	1.3	1.5	1.6	2.4	1.8	1.2	1.0
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.2	1.5	1.5	1.3	1.4	1.5	1.5	1.5	2.1	2.2	2.0	1.4
PPI (finished goods)* (percent)	-2.3	5.3	-2.1	3.2	1.9	-2.5	-0.5	-0.5	0.6	0.9	1.6	1.7	3.1	0.8	0.6	0.3
Trade Weighted Dollar (Fed BOG, major)	91.5	92.2	92.1	92.3	91.9	91.5	90.5	90.0	89.5	88.7	89.0	89.3	91.1	92.0	91.0	89.1
Crude Oil Prices -WTI ($ per barrel)	55	60	56	57	53	20	23	29	31	36	39	41	51	57	31	37

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

	History				Forecast								Annual Average			
Financial Data	**2019.1**	**2019.2**	**2019.3**	**2019.4**	**2020.1**	**2020.2**	**2020.3**	**2020.4**	**2021.1**	**2021.2**	**2021.3**	**2021.4**	**2018**	**2019**	**2020**	**2021**
S & P 500	2,721	2,882	2,958	3,083									2,449	2,911		
Dow Jones Industrial Average	25,147	26,096	26,676	27,537									21,745	26,364		
Federal Funds Rate (effective)	2.40	2.40	2.20	1.65	1.29	0.13	0.13	0.13	0.13	0.13	0.13	0.13	1.00	2.16	0.42	0.13
Treasury-3 Month Bills (yield)	2.44	2.35	2.03	1.61	1.32	0.21	0.20	0.22	0.21	0.20	0.20	0.21	0.95	2.11	0.48	0.20
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.31	0.41	0.43	0.44	0.44	0.44	0.44	0.46	1.40	1.97	0.64	0.44
Treasury-5 Year Notes (yield)	2.46	2.12	1.63	1.61	1.34	0.63	0.64	0.65	0.72	0.72	0.72	0.75	1.91	1.96	0.81	0.72
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.52	0.83	0.84	0.85	0.92	0.92	0.92	0.95	2.33	2.15	1.01	0.92
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.99	1.68	1.69	1.71	1.82	1.87	1.87	1.90	2.90	2.58	1.76	1.86
Prime Rate	5.50	5.50	5.31	4.83	4.41	3.25	3.25	3.25	3.25	3.25	3.25	3.25	4.10	5.29	3.54	3.25
Libor 3-Mo. U.S. Dollar	2.69	2.51	2.20	1.93	1.61	0.71	0.49	0.38	0.33	0.31	0.29	0.31	1.26	2.33	0.79	0.31
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.62	3.83	3.74	3.75	3.42	3.37	3.27	3.25	3.99	3.94	3.73	3.32
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.65	4.83	4.84	4.75	4.82	4.77	4.77	4.77	4.44	4.38	4.51	4.78

Source: Bank of the West Economics, Bloomberg, Federal Reserve