

ASK THE EXPERTS

The COVID-19 Economy—Slowdown or Shutdown?



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THE CORONAVIRUS AND THE ECONOMY

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topics

1. THE ECONOMY BEFORE THE VIRUS
2. THE “MANDATED” RECESSION
3. HOW BAD THE DOWNTURN?
4. THE FEDERAL RESCUE
5. WHEN THE RECOVERY?
6. WHAT KIND OF RECOVERY?
7. LONG-RUN IMPACTS

THE ECONOMY WAS VERY GOOD PRIOR TO THE VIRUS

1. RECORD LENGTH OF ECONOMIC GROWTH
2. GROWTH RATE (REAL GDP) OF 2%
3. RISING REAL WAGES
4. LOW UNEMPLOYMENT
5. LOW INFLATION

THE UNPRECEDENTED “MANDATED” RECESSION

“TYPICAL” RECESSION STARTS BY SOME “EXCESS” IN THE ECONOMY

THIS RECESSION BEGUN BY NEED TO LIMIT SOCIAL INTERACTION IN
ORDER TO CONTAIN AND CONTROL THE VIRUS

PS: “OFFICIAL” RECESSION WILL BE “CALLED” BY AN INDEPENDENT
ECONOMIC THINK-TANK

HOW BAD OF A RECESSION?

DEEP BUT SHORT

52% OF NON-FOOD RETAILERS ARE NOW CLOSED

2ND QUARTER THE WORST – QUARTERLY REAL GDP DOWN 20-30%

JOBLESS RATE IN DOUBLE DIGITS

IN THIRD QUARTER, SMALL DIP, NO CHANGE, OR SMALL RISE

GROWTH – COULD BE STRONG – IN FOURTH QUARTER

DETOUR: COMPARISON TO THE ASIAN FLU OF 1957-58

U.S. SUFFERED 116,000 DEATHS WITH HALF THE POPULATION AS TODAY

NO MANDATED SHUTDOWNS, BUT MANY BUSINESSES CLOSED DUE TO
MASSIVE ILLNESS

HELPED SPARK THE 1957-58 RECESSION: IN WORST QUARTER, REAL
GDP DROPPED 10%

THE FEDERAL RESCUE

FEDERAL GOVERNMENT MOVED FAST TO ASSIST THE ECONOMY

“FISCAL POLICY”: \$2.2 TRILLION OF ASSISTANCE TO HOUSEHOLDS AND BUSINESSES

“MONETARY POLICY”: LOWER INTEREST RATES

\$4 TRILLION LENDING PROGRAM

LIKELY MORE TO COME, INCLUDING DIRECT AID TO STATE & LOCAL GOVERNMENTS

DOWNSIDE OF FISCAL POLICY – BORROWING – MOVING GROWTH FROM FUTURE TO NOW

DOWNSIDE OF MONETARY POLICY – HIGHER INFLATION – BUT TODAY UNLIKELY

WHEN THE RECOVERY?

BALANCING HEALTH AND THE ECONOMY

COST OF CONTAINING THE VIRUS HAS BEEN CURTAILING THE ECONOMY

BENEFIT OF CURTAILING THE ECONOMY HAS BEEN SAVING LIVES

WANT BENEFITS TO EXCEED THE COSTS

RESEARCH SHOWS SHUTDOWN OF THE ECONOMY CAN BE SHORTER THE LOWER IS
THE INFECTION RATE

WE HAVE SEEN THE INFECTION RATE DROP SIGNIFICANTLY

WHAT KIND OF RECOVERY?

THE ALPHABETICAL OPTIONS: L, W, V, U

HOPE FOR "V", BUT MORE LIKELY "U"

AS MUCH AS A YEAR UNTIL PRE-VIRUS CONDITIONS RETURN

IMPORTANT: NORTH CAROLINA "BRAND" NOT DAMAGED

POTENTIAL CHANGES IN THE POST-VIRUS WORLD

“TELE” IN EVERYTHING: WORK, SCHOOL, MEDICAL

GLOBALIZATION RE-VISITED

SUPPLY-CHAIN RE-VISITED

LIVING IN DENSE CITIES RE-VISITED

Economic Outlook

Mark Vitner, Managing Director & Senior Economist

April 16, 2020

Together we'll go far



Economic Outlook

- The U.S. economy had strong momentum at the start of the year but has likely fallen into recession due to shutdowns related to the COVID-19 outbreak. Real GDP is expected to decline in both the second and third quarters.

Quantifying the Contraction

- There were few obvious imbalances prior to the COVID-19 outbreak, which should help insulate the U.S. economy from a severe downturn. There is some risk of financial contagion from the equity selloff and corporate debt.

Notable Impacts

- With the leisure & hospitality industry abruptly shut down, layoffs have soared. Job losses extend well beyond the hospitality sector, however, and unemployment is likely to spike over the next few months.

What Kind of Recovery?

- The abrupt shutdown of economic activity combined with the absence of imbalances in the most cyclical parts of the economy has given rise to hopes of a V-shaped recovery. It may now be that simple, however.

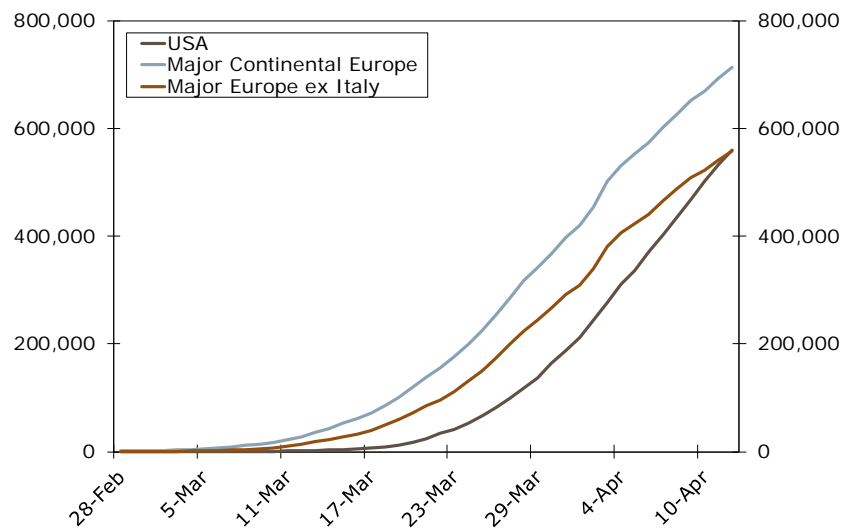
North Carolina

- North Carolina is poised to lose 426,000 jobs in 2020, the bulk of which will be lost in the second quarter. A recovery should take hold this summer and the state should recoup 60% of its job losses by yearend 2021.

The U.S. saw a spike in cases as testing ramped up, but new cases have begun to level off. Attention is beginning to shift to when the economy can ‘re-open’.

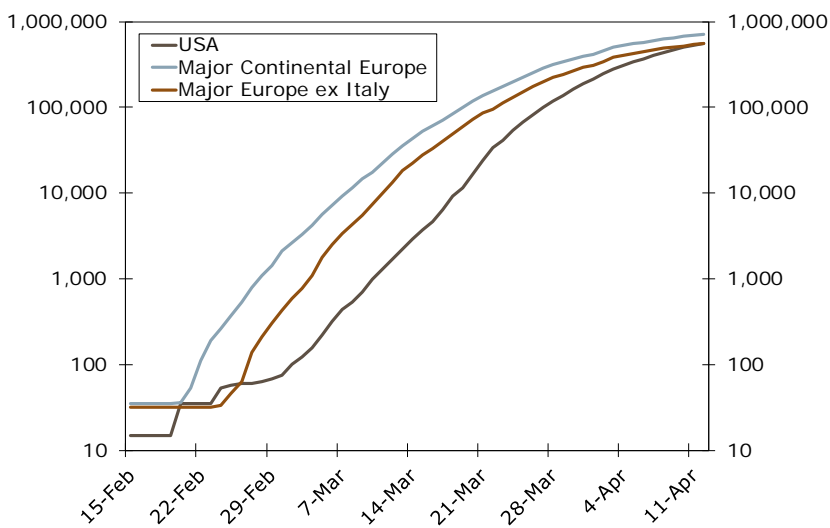
Linear Scale

COVID-19 Confirmed Cases



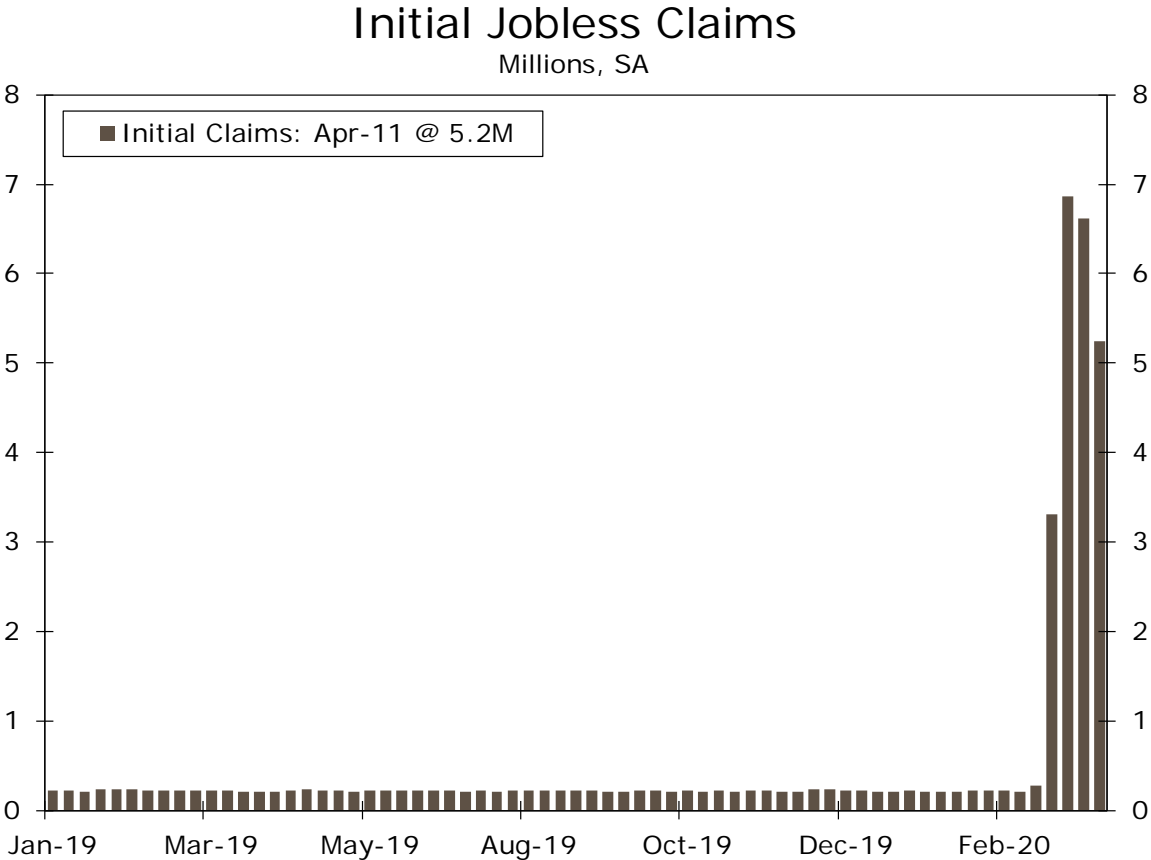
Log Scale

COVID-19 Confirmed Cases



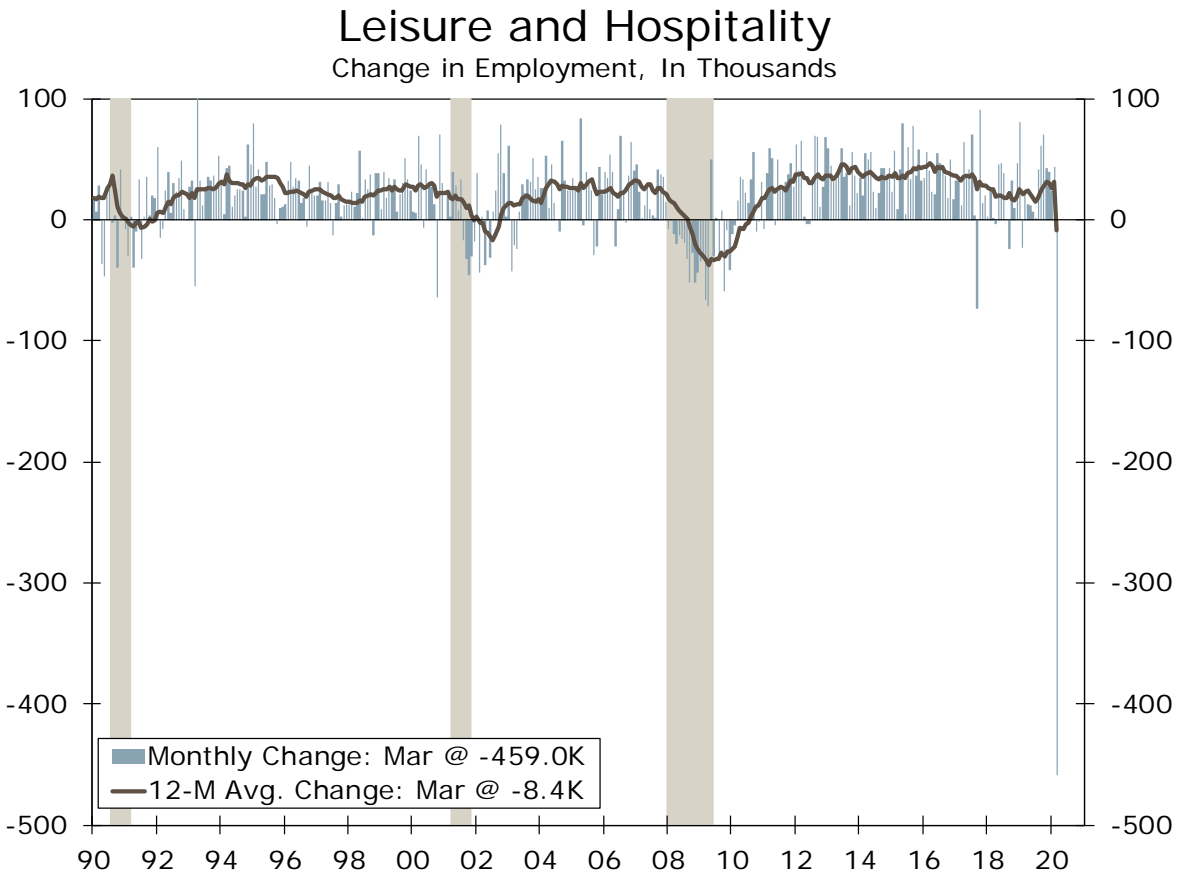
Source: World Odometers and Wells Fargo Securities

22 million people have already
filed unemployment claims,
over just the past four weeks.



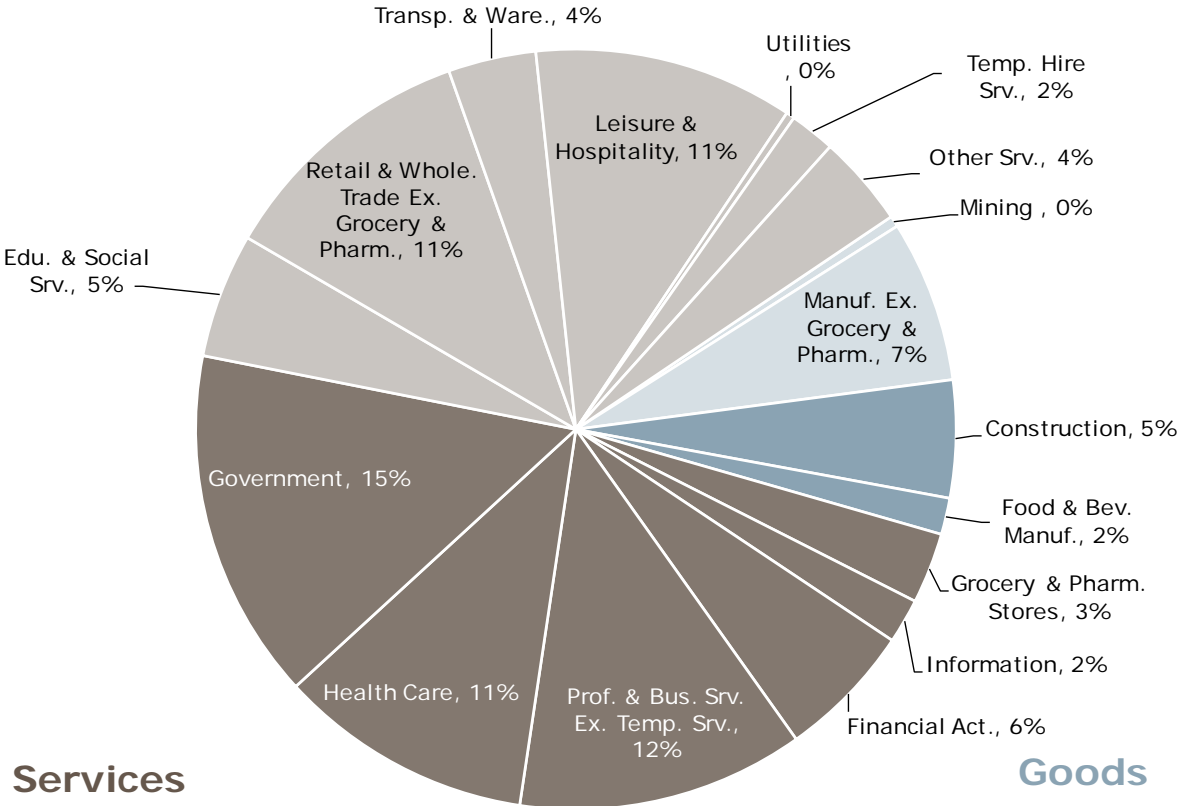
Source: U.S. Department of Labor and Wells Fargo Securities

The bulk of losses in March were in leisure & hospitality, but the losses in April will be widespread.



Source: U.S. Department of Labor and Wells Fargo Securities

A sizeable share of the workforce is in industries exposed to disruptions in activity due to the virus.



*Darker blue and gray shades represent less exposed categories of employment

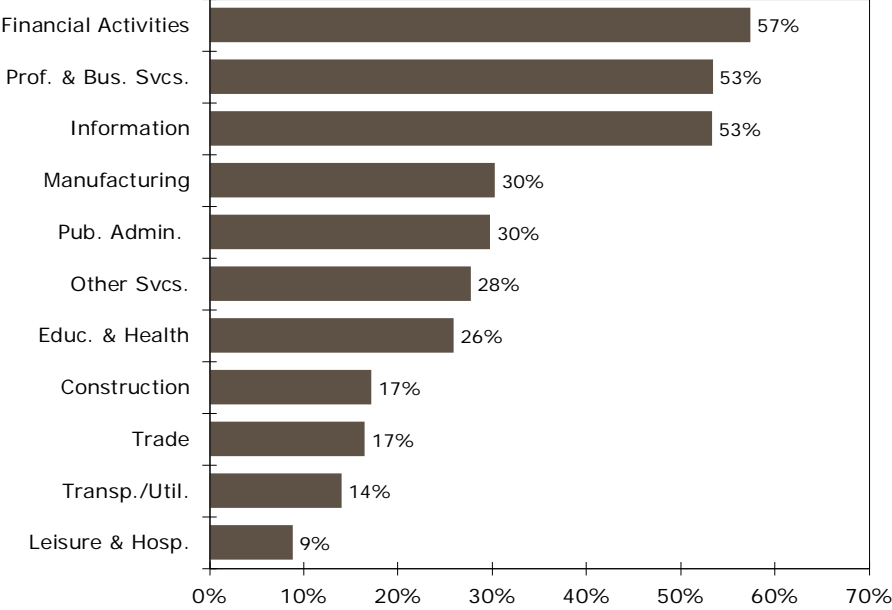
Source: U.S. Department of Labor and Wells Fargo Securities

Many workers in some of the hardest hit industries are unable to work from home and/or do not have access to paid leave and medical benefits.

Job Flexibility

Capability to Work from Home

Percent of Total Workers, 2017

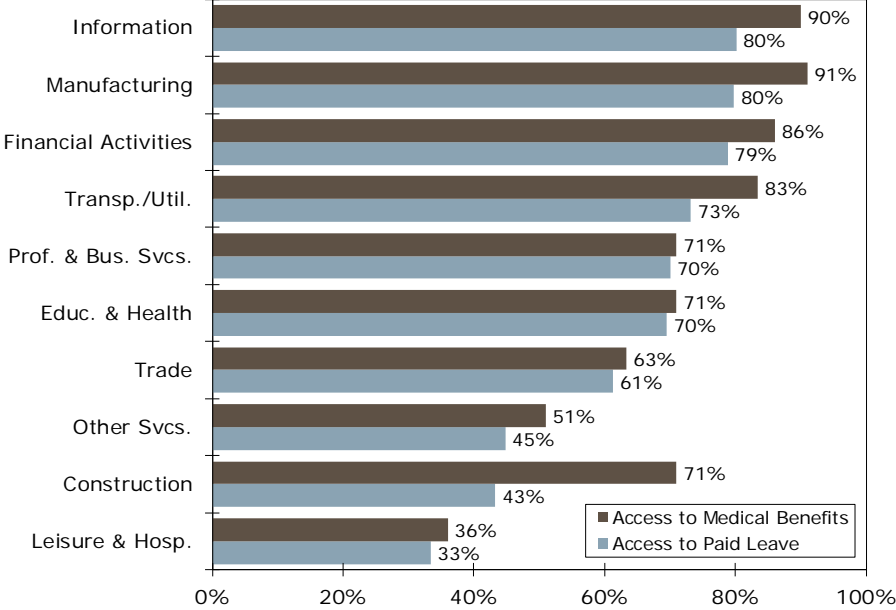


Source: U.S. Department of Labor and Wells Fargo Securities

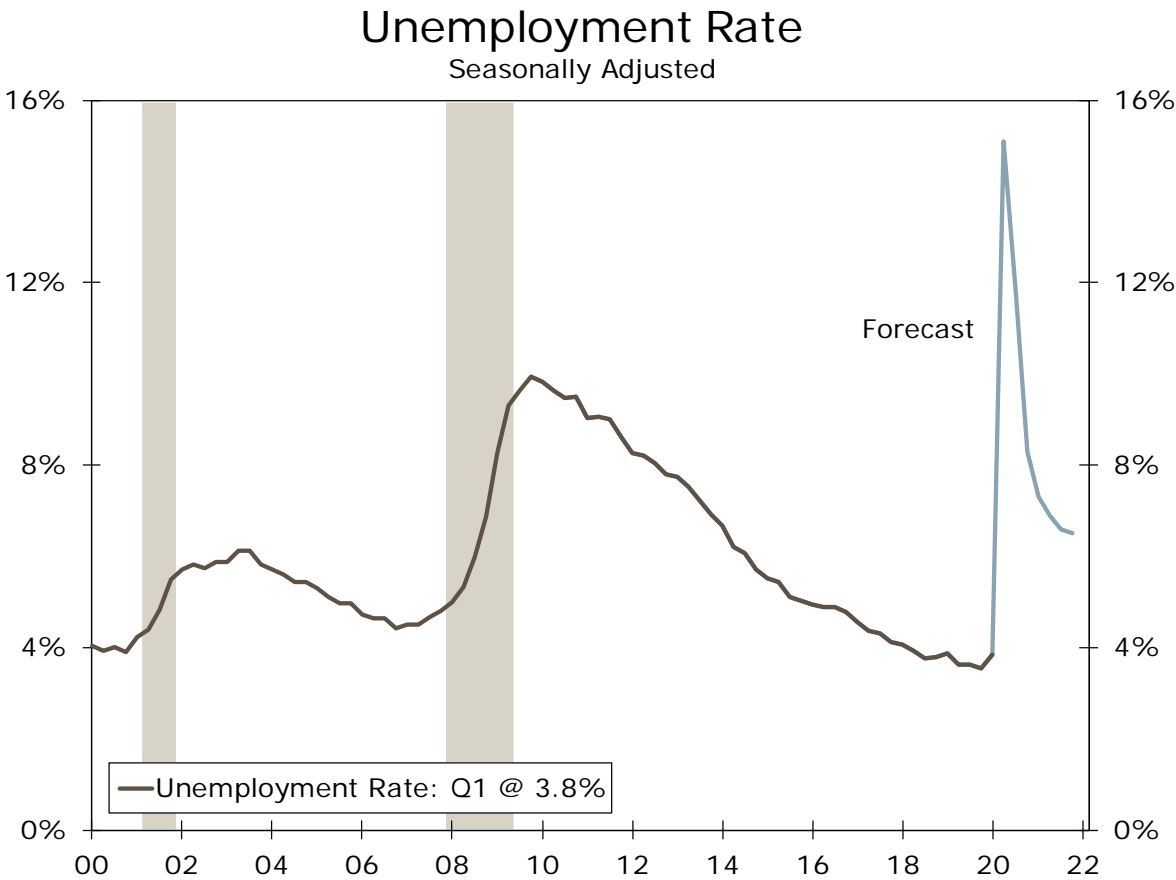
Job Benefits

Paid Leave Access & Employer-Sponsored Medical Benefits

Percent of Workers, Paid Leave=2017, Medical Benefits=March 2019

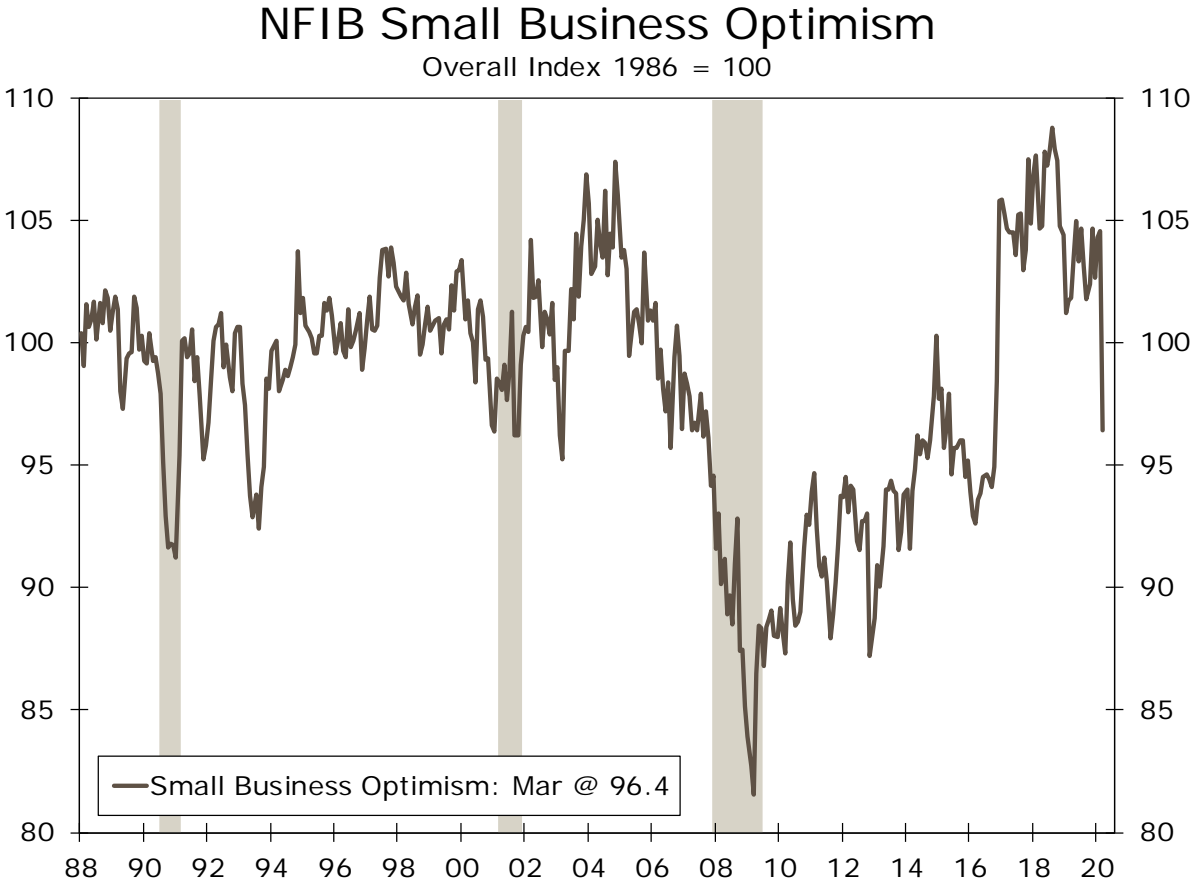


The unemployment rate is likely already in the double digits.



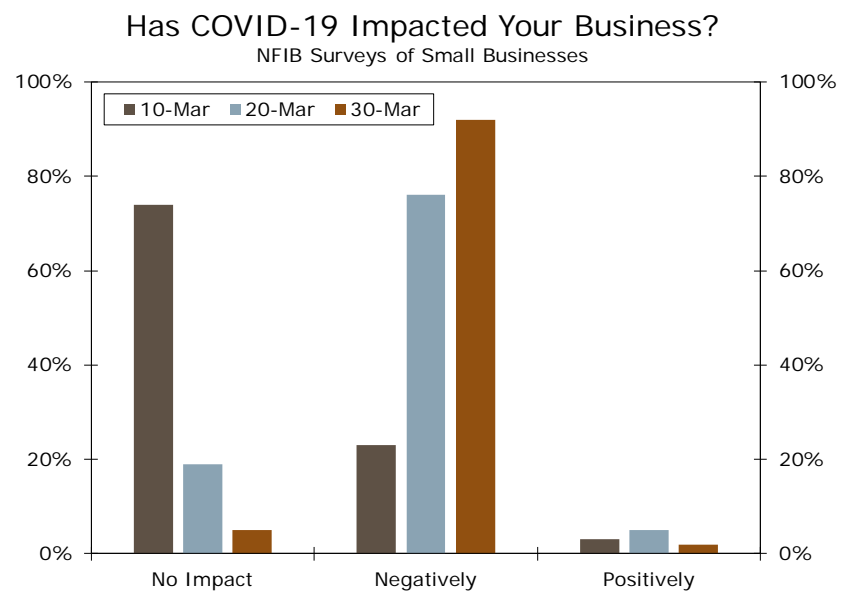
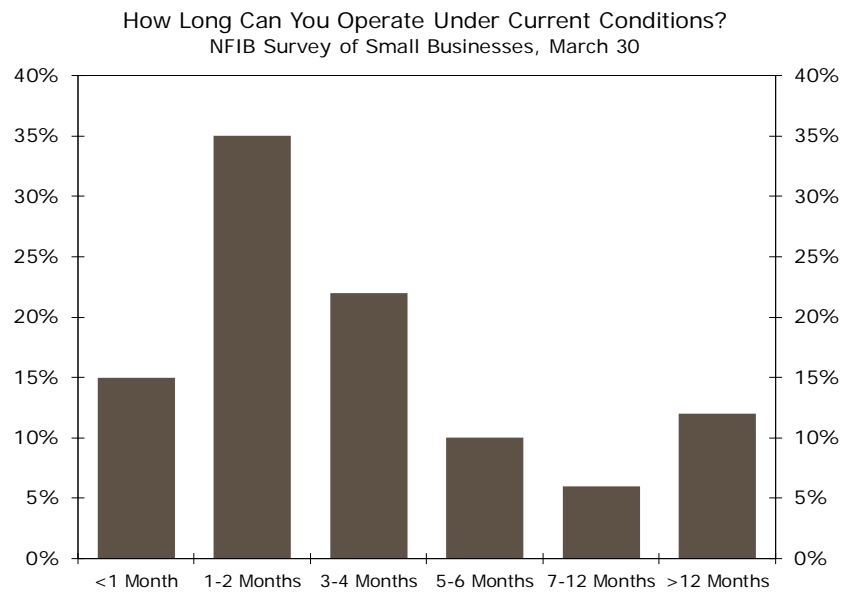
Source: U.S. Department of Labor and Wells Fargo Securities

The NFIB Small Business Optimism Index plunged in March.



Source: NFIB and Wells Fargo Securities

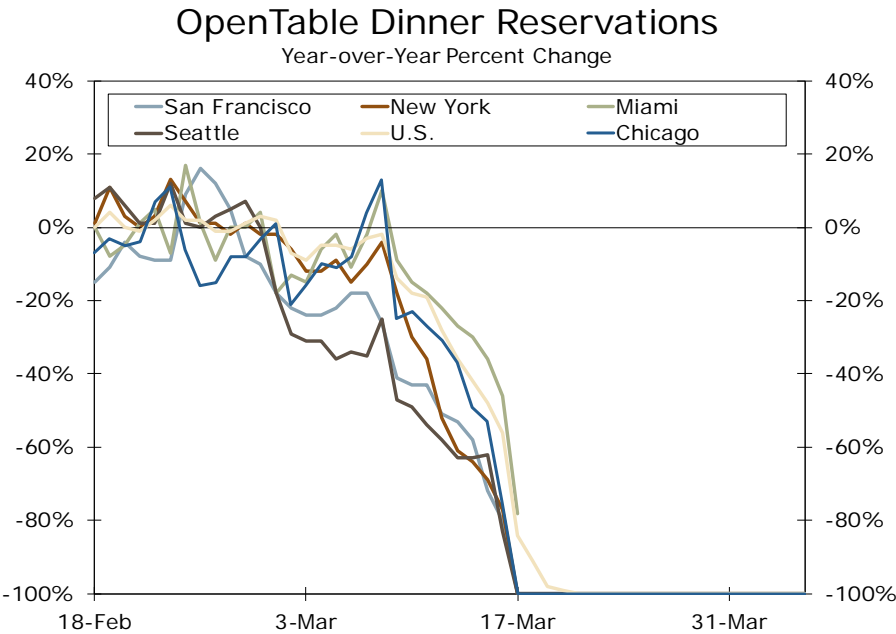
Most small businesses report only being able to last for a couple months under current conditions.



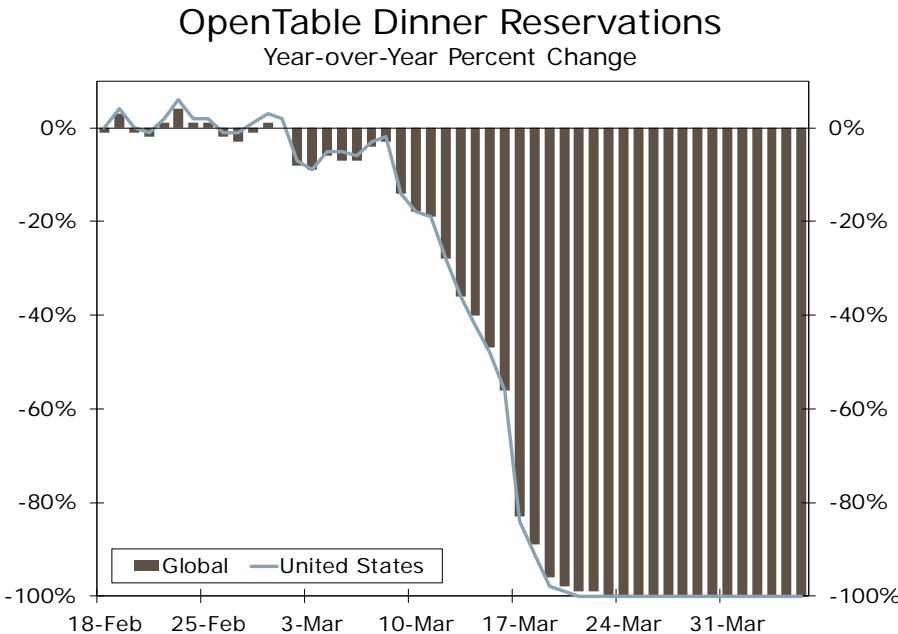
Source: NFIB and Wells Fargo Securities

Consumers pulled back on discretionary spending, even before restaurants were closed across much of the country. Take-out and delivery will offset a portion of this drop but we expect the drop in restaurant dining to be more than 80% in April.

U.S.



World



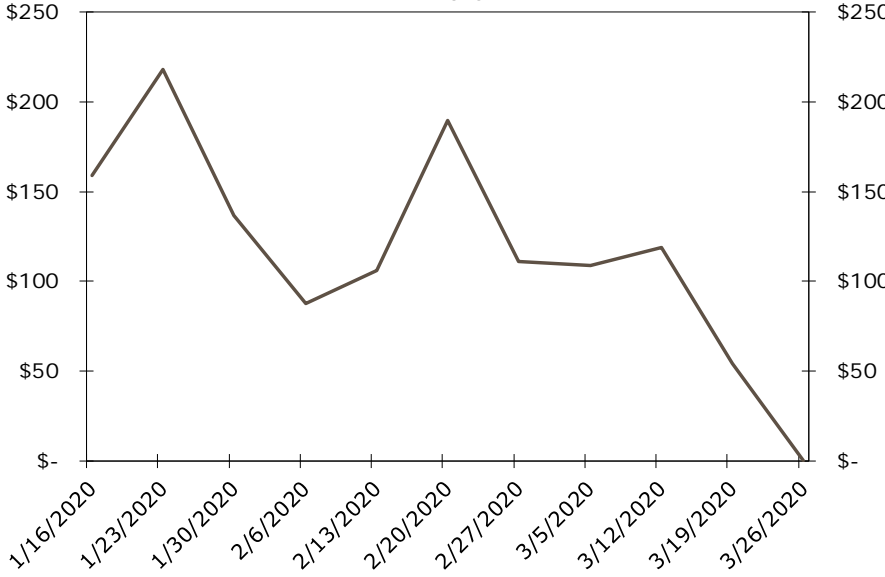
Source: OpenTable and Wells Fargo Securities

All sorts of data are showing massive declines, down to near zero. Many of these businesses were previously recession-resilient. The hotel occupancy rate in the U.S. is now below 30%.

Leisure

U.S. Box Office Receipts

Millions

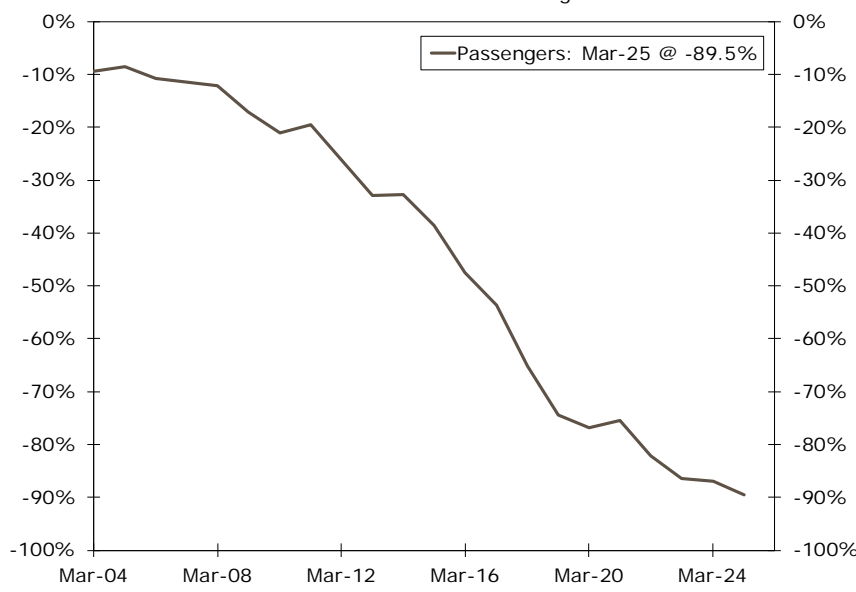


Source: Box Office Mojo, TSA and Wells Fargo Securities

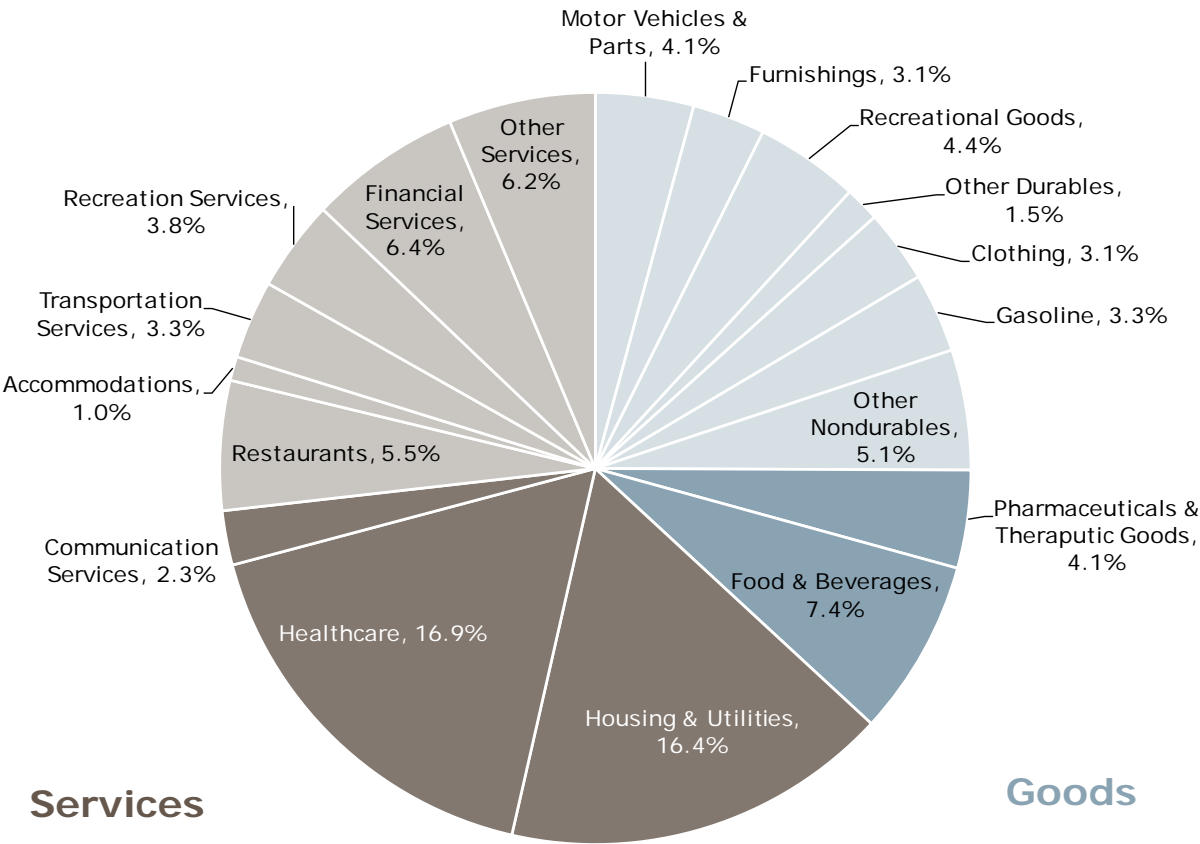
Travel

Number of People Passing through Airline Security

Year-over-Year Percent Change



Categories expected to see a pullback in spending due efforts to contain the novel coronavirus account for about half of consumer spending.



*Darker blue and gray shades represent less exposed categories of consumer spending

Source: U.S. Department of Commerce and Wells Fargo Securities

WELLS
FARGO

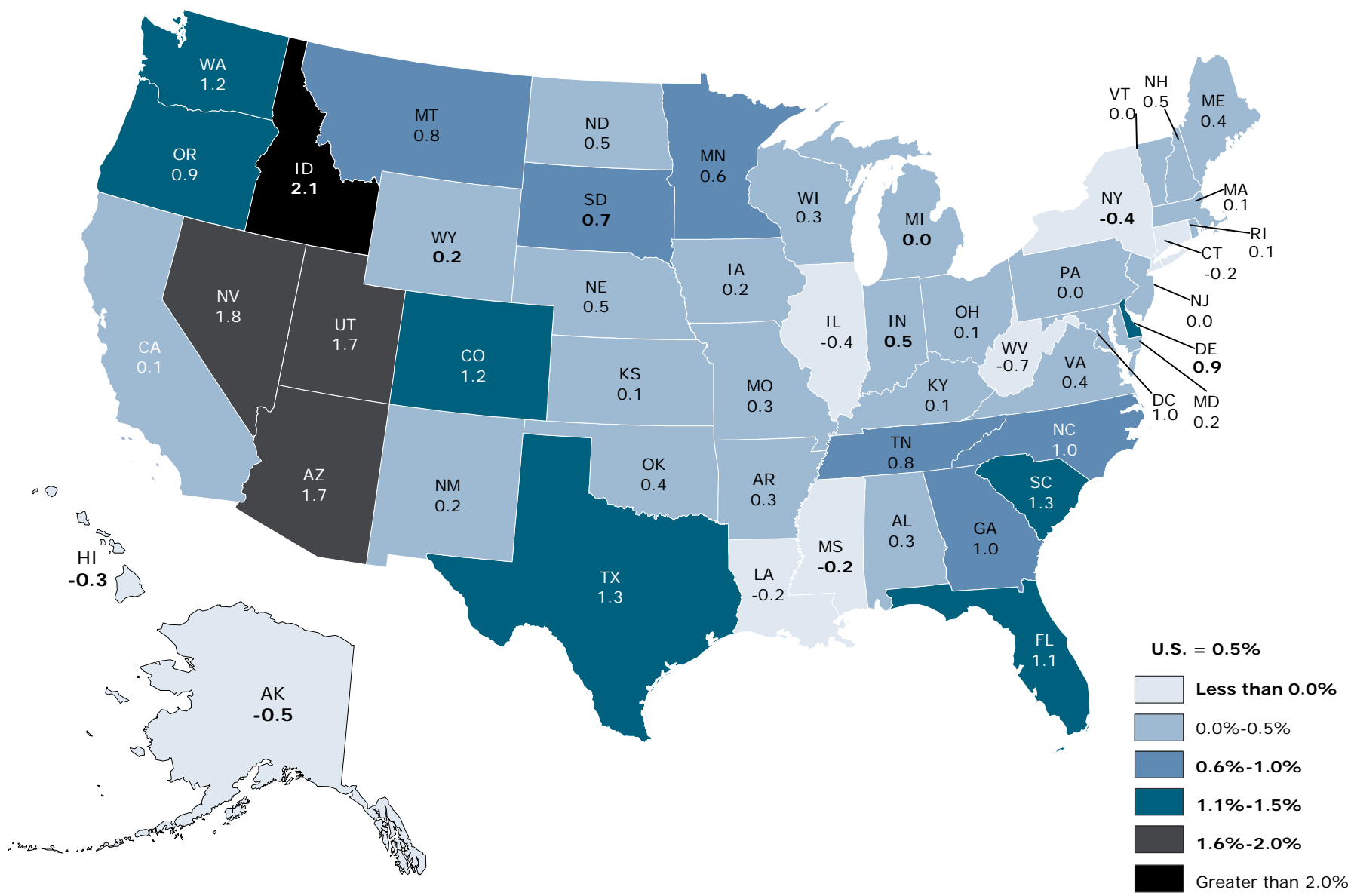
SECURITIES

Regional Commentary

Together we'll go far



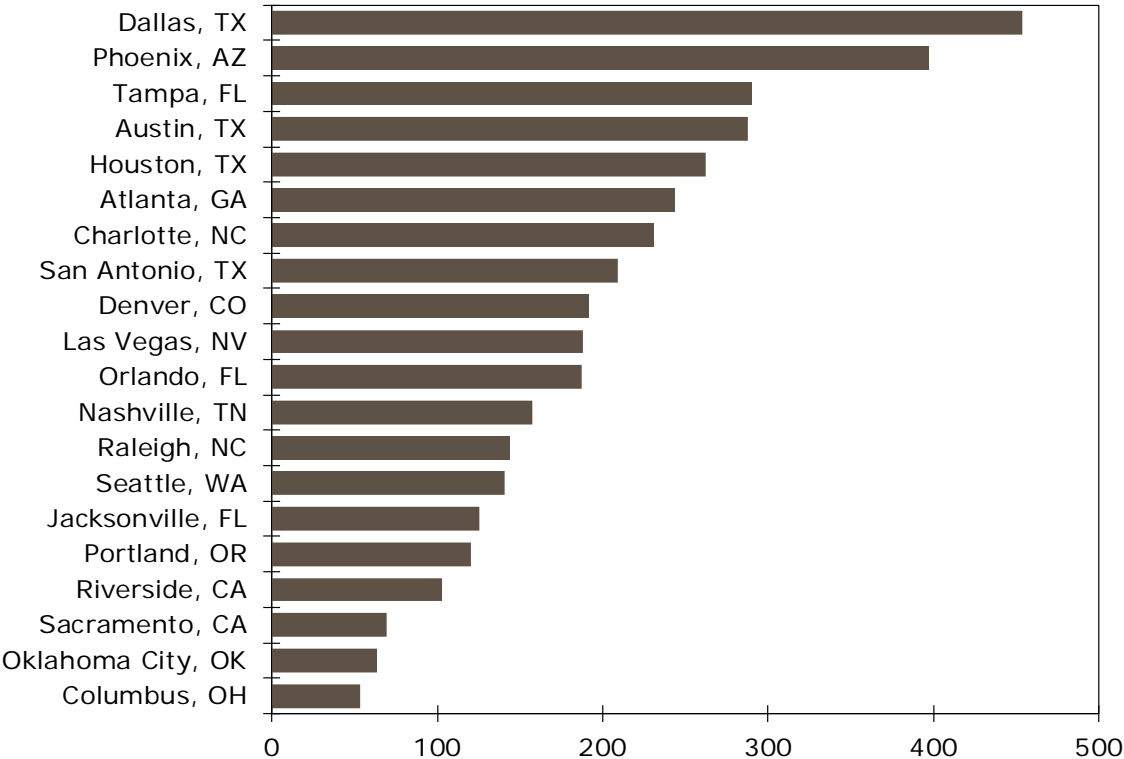
Population Growth by State – 2019



A handful of large urban areas accounted for a disproportionate share of economic growth this past decade, with creative jobs clustering in urban areas. The COVID-19 outbreak may challenge this growth model going forward but we suspect the trend toward urbanization will retain strong momentum in the coming decade.

Metro Area Net Domestic Migration: Top 20

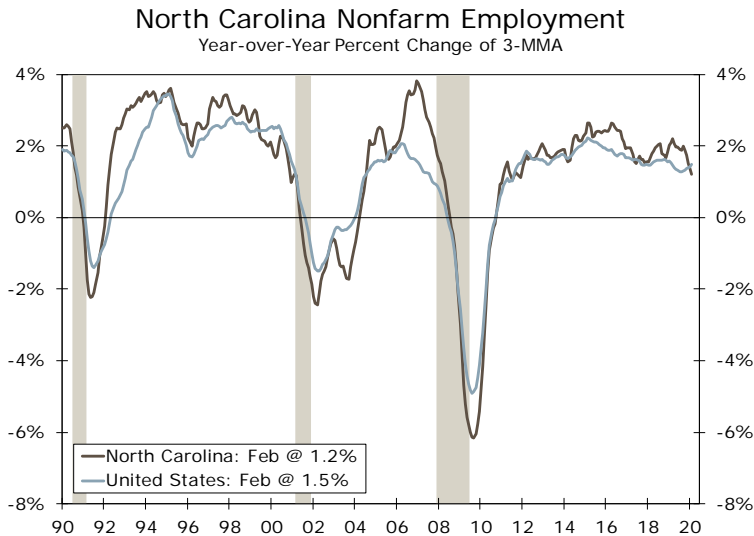
Cumulative Total in Thousands, 2010-2019



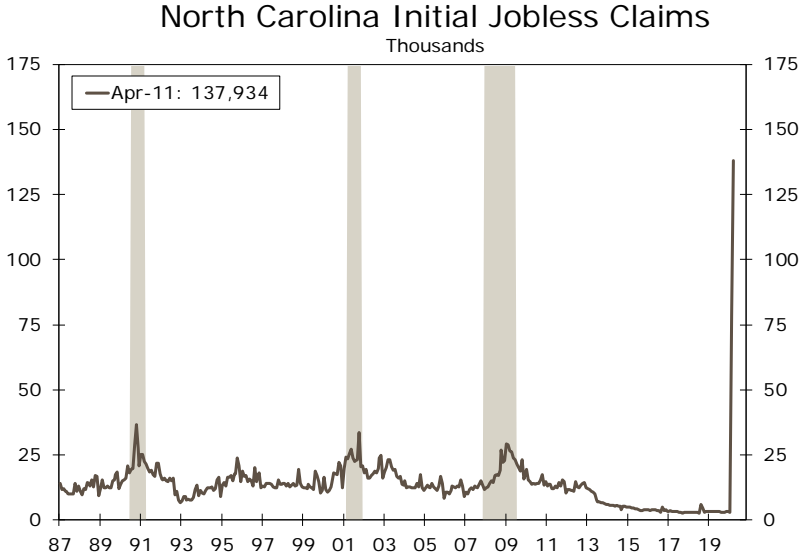
Source: U.S. Department of Commerce and Wells Fargo Securities

North Carolina's economy was "strong" but losing momentum prior to COVID-19. More than 540,000 claims have been filed in 4 weeks.

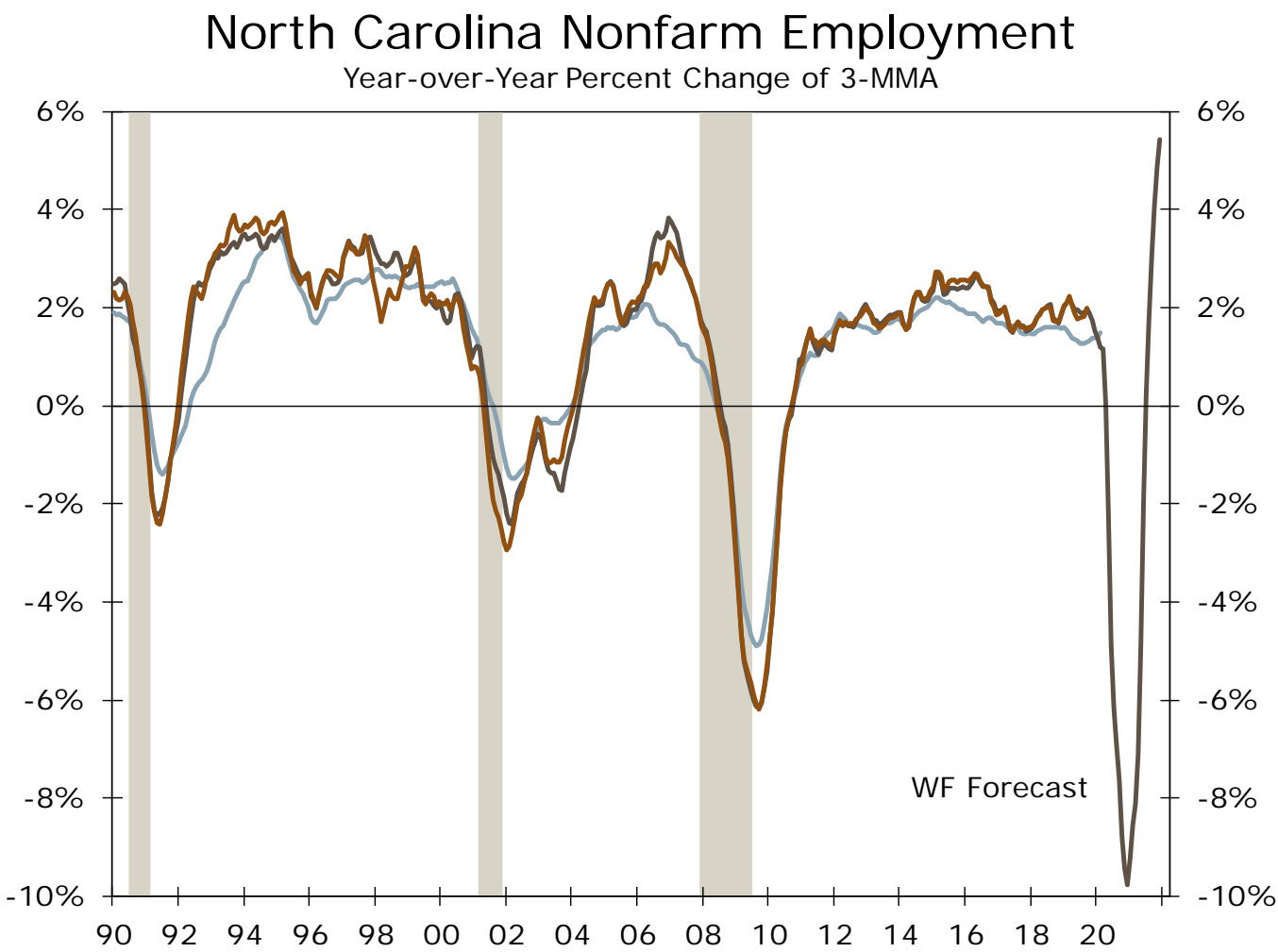
Employment Growth



Claims



Source: U.S. Department of Labor and Wells Fargo Securities



Source: U.S. Department of Labor and Wells Fargo Securities

Wells Fargo U.S. Economic Forecast																				
	Actual								Forecast								Actual		Forecast	
	2018				2019				2020				2021				2018	2019	2020	2021
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	2.6	3.5	2.9	1.1	3.1	2.0	2.1	2.1	-1.2	-22.3	7.2	4.8	2.8	2.5	2.2	2.4	2.9	2.3	-3.0	1.7
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.6	3.1	1.8	-1.5	-27.9	19.6	6.0	2.7	2.5	2.6	2.8	3.0	2.6	-2.8	2.9
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-1.0	-2.3	-2.4	-6.8	-22.5	-9.3	3.0	2.9	5.1	4.9	4.9	6.4	2.1	-8.0	0.2
Equipment	6.6	3.4	2.9	7.4	-0.1	0.8	-3.8	-4.3	-16.8	-33.0	-10.8	15.0	4.6	4.6	4.0	4.0	6.8	1.3	-12.9	1.3
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	3.6	4.7	2.8	4.4	-6.5	-2.8	-4.4	3.7	7.4	6.9	6.7	7.4	7.5	0.5	1.9
Structures	12.1	11.0	-2.1	-9.0	4.0	-11.1	-9.9	-7.2	-7.0	-25.5	-19.0	-7.5	-3.0	1.5	2.5	3.0	4.1	-4.3	-12.9	-5.9
Residential Investment	-5.3	-3.7	-4.0	-4.7	-1.0	-3.0	4.6	6.5	12.0	-30.0	-14.0	-5.0	3.0	5.0	6.0	6.5	-1.5	-1.5	-4.3	-2.4
Government Purchases	1.9	2.6	2.1	-0.4	2.9	4.8	1.7	2.5	2.2	1.8	1.5	1.2	1.0	0.2	-0.5	-0.9	1.7	2.3	2.1	0.7
Net Exports ²	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.1	1.5	2.1	2.2	-5.2	-2.0	-0.1	-0.1	-0.2	-0.1	-0.4	-0.2	0.5	-1.0
Inventories ²	0.1	-1.2	2.1	0.1	0.5	-0.9	0.0	-1.0	-1.9	-0.4	1.3	2.2	0.3	0.0	-0.1	-0.2	0.1	0.1	-0.6	0.6
Nonfarm Payroll Change ³	234	211	153	172	139	159	203	210	-71	-7000	3900	800	500	300	230	130	193	178	-593	290
Unemployment Rate	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.5	3.8	15.1	11.7	8.3	7.3	6.9	6.6	6.5	3.9	3.7	9.7	6.8
Consumer Price Index ⁴	2.2	2.7	2.7	2.2	1.6	1.8	1.8	2.0	2.1	1.0	0.8	0.7	0.9	1.9	2.1	2.0	2.4	1.8	1.2	1.7
Quarter-End Interest Rates ⁵																				
Federal Funds Target Rate	1.75	2.00	2.25	2.50	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.96	2.25	0.25	0.25
Conventional Mortgage Rate	4.44	4.57	4.63	4.64	4.28	3.80	3.61	3.72	3.45	2.90	2.90	2.95	3.00	3.05	3.15	3.20	4.54	3.94	3.05	3.10
2 Year Note	2.27	2.52	2.81	2.48	2.27	1.75	1.63	1.58	0.23	0.35	0.40	0.50	0.65	0.75	0.85	0.95	2.53	1.97	0.37	0.80
10 Year Note	2.74	2.85	3.05	2.69	2.41	2.00	1.68	1.92	0.70	1.00	1.15	1.25	1.30	1.35	1.45	1.50	2.91	2.14	1.03	1.40

Forecast as of: April 08, 2020

¹ Compound Annual Growth Rate Quarter-over-Quarter ² Percentage Point Contribution to GDP ³ Average Monthly Change
⁴ Year-over-Year Percentage Change ⁵ Annual Numbers Represent Averages

Source: IHS Global Insight and Wells Fargo Securities

A Sampling of Our Recent Special, Regional & Industry Commentary

Recent Special Commentary		
Date	Title	Authors
U.S. Macro		
March-31	COVID-19: A Black Swan or a Group of Black Swans?	Iqbal & Mathews
March-25	Social Distance Dating Advice	Quinlan, House & Seery
March-25	Forecast Update: A Much Deeper Contraction	Bryson
March-19	How Can We Quantify the Potential Loss in U.S. Income?	Pugliese & Mathews
March-19	Could Business Failures Cause A Banking Crisis?	Bryson & Mathews
U.S. Regional		
March-27	How will the Texas Economy Handle the Coming Storm?	Vitner & Dougherty
March-27	Widespread Closures Bring End to Florida's Economic Boom	Vitner & Dougherty
March-27	California Had Solid Momentum Prior to COVID-19	Vitner, Dougherty & Honnold
March-27	The Minnesota Economy and COVID-19	Vitner, Dougherty & Honnold
March-23	COVID-19 Puts Las Vegas on Lockdown	Vitner, Dougherty & Honnold
Global Economy		
March-31	Mexico: More Trouble in Store	McKenna
March-27	Canada Fighting Economic War on Multiple Fronts	Licis & Bennenbroek
March-25	COVID-19 Creating a Risk for EM Corporates	McKenna, Nelson & Bennenbroek
March-24	Eurozone Economy Approaching the Growth Cliff	Bennenbroek & Licis
March-18	Global Shocks Weigh on the Norwegian Economy	Licis & Bennenbroek
Interest Rates/Credit Market		
March-31	Where Will That \$2 Trillion Come from Anyway?	Bryson & Pugliese
March-26	Congress Unleashes the Fiscal Firehose	Pugliese & Mathews
March-23	The Fiscal Stimulus Bill: What Happens Next?	Pugliese & Mathews
March-23	The Fed Goes Nuclear	Bryson
March-18	Is the Federal Reserve Out of Ammunition?	Bryson & Pugliese
Real Estate & Housing		
April-01	Commercial Real Estate Chartbook	Vitner & Dougherty
March-26	COVID-19 Undercuts The Housing Recovery	Vitner, Dougherty & Honnold
January-09	Housing Chartbook: January 2020 & Outlook	Vitner, Dougherty & Honnold
December-18	Commercial Real Estate Chartbook	Vitner, Dougherty & Honnold
December-05	Housing Maintains Solid Momentum Headed into 2020	Vitner, Dougherty & Honnold

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