The views and opinions expressed herein are those of the author. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.
The Story

1) The Pre-Virus Economy

- GDP was growing at a steady pace
  - Strong consumer spending and rebound in residential investment, albeit soft business investment and still some weakness in manufacturing
- Employment was expanding and the unemployment rate was at its lowest level since the late 1960s
- The softer sentiment of late 2018/early 2019 was dissipating

2) Enter COVID-19

- December/January: Supply chain frictions emanating from China
- February: Continued supply challenges mostly from manufacturers/retailers
- March: Labor supply and consumer demand shocks

3) Now where are we? And where might we go?
National Economy, Pre COVID-19
The economy was chugging along

Real Gross Domestic Product

% Change, SAAR

Q4: 2019
US: 2.1%

Source: Bureau of Economic Analysis, Federal Reserve Board /Haver Analytics
PCE makes up about 2/3 of GDP

GDP Composition 2019

- Nonresidential Investment
- Residential Investment
- Personal Consumption Expenditures
- Government
- Inventories

Source: Bureau of Economic Analysis/Haver Analytics
Where does that spending go?

Composition of Household Consumption Expenditures in 2019

- Housing and Utilities
- Medical Care Services
- Transportation Services
- Recreation Services
- Food Services and Accommodations
- Financial Services and Insurance
- Other Services

Source: Bureau of Economic Analysis
Economy was adding jobs consistently

Source: Bureau of Labor Statistics/Haver Analytics
So not surprisingly, unemployment falling

Unemployment Rate (Percent)

Civilian Unemployment Rate

February 2020
US: 3.5%

Source: Bureau of Labor Statistics, Federal Reserve Board of Governors/Haver Analytics
Residential investment finally rebounded

% Change, SAAR

Q4: 2019
6.2%

Source: Bureau of Labor Statistics/Haver Analytics
But business investment had been soft

Source: Bureau of Economic Analysis via Haver Analytics
State growth was more or less in line with the last few years

Source: Bureau of Labor Statistics/Haver Analytics
Enter COVID-19
COVID-19: Economic effects

Let’s start in March (not February)

• It’s a direct supply shock: Temporary reduction in labor
  – Social distancing measures
  – Virus spread/safety

• It’s a direct demand shock: For nondurables (e.g. travel, tourism, restaurants)

• Knock-on demand effects: Still highly uncertain
  – Demand declines
    • Unemployed/furloughed workers reduce spending; stock market declines affect spending; businesses have lower demand; uncertainty reduces purchases
  – Consumer demand shifts
    • Restaurant supplies convert to grocery? Dining out convert to takeout? In-person retail shifts to online? (But: some not convertible; wait staff still affected; online retailers struggle to staff warehouses and find transportation…)
  – Energy/other commodity price declines
Unemployment claims skyrocketed in the U.S....

United States Unemployment Insurance Initial Claims

Week ending 2/29: 217,000  
Week ending 3/7: 211,000  
Week ending 3/14: 282,000  
Week ending 3/21: 3,307,000  
Week ending 3/28: 6,867,000  
Week ending 4/4: 6,606,000

Source: Department of Labor/Haver Analytics
...and in Virginia and West Virginia

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<th>Week ending</th>
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<th>West Virginia Thousands</th>
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Source: Department of Labor/Haver Analytics
U.S. employment fell…but it will fall more

Monthly Change
March: -701
February: 275
January: 214

Source: Bureau of Labor Statistics/Haver Analytics
U.S. unemployment rose…but it will rise more

Source: Bureau of Labor Statistics, Federal Reserve Board of Governors/Haver Analytics
Consumer sentiment plummeted

Source: University of Michigan via Haver Analytics
Manufacturing indices will soften further…

Richmond Manufacturing Survey and ISM Manufacturing Survey

Manufacturing Composite Index (Left Axis)
ISM Manufacturing (Right Axis)

(C)urrent Index
March 2
February -2
January 20

Manufacturing Composite
ISM Manufacturing
2
49
-2
50
20
51

Source: Federal Reserve Bank of Richmond/Institute of Supply Management/Haver Analytics
….as will service sector indices
How bad could it get?

Let’s try to scale things. For employment:

• There are 150m workers in the U.S. economy. About 1/5 of them are in sectors that have been pretty directly hit:
  – 12m retail workers outside grocery stores
  – 12m food services (e.g., restaurants)
  – 2m accommodation services (e.g., hotels)
  – 2.5m arts, entertainment, recreation

What about in VA and WV?
Share of employment in the hardest hit sectors

Employment by Industry

- Non-Food Retail
- Arts, Entertainment, Recreation
- Accommodation
- Food Services, Drinking Places
- Food Retail

Percent of Total Employment

Source: Bureau of Labor Statistics/Haver Analytics
Employment share by Industry

February 2020

Government
- U.S.: 15.3%
- Virginia: 18.2%
- West Virginia: 21.8%

Other Services
- U.S.: 3.9%
- Virginia: 5.0%
- West Virginia: 4.9%

Leisure & Hospitality
- U.S.: 10.8%
- Virginia: 10.2%
- West Virginia: 9.2%

Education & Health Services
- U.S.: 14.1%
- Virginia: 18.5%
- West Virginia: 18.5%

Professional & Business Services
- U.S.: 16.4%
- Virginia: 18.9%
- West Virginia: 18.9%

Financial Activities
- U.S.: 5.8%
- Virginia: 9.6%
- West Virginia: 9.6%

Information
- U.S.: 1.9%
- Virginia: 4.2%
- West Virginia: 4.2%

Trade, Transportation & Utilities
- U.S.: 16.0%
- Virginia: 18.2%
- West Virginia: 17.6%

Manufacturing
- U.S.: 8.5%
- Virginia: 6.0%
- West Virginia: 6.6%

Construction
- U.S.: 4.8%
- Virginia: 4.9%
- West Virginia: 4.9%

Natural Resources & Mining
- U.S.: 0.5%
- Virginia: 3.0%
- West Virginia: 6.6%

Source: Bureau of Labor Statistics/Haver Analytics
Let’s try to scale things. For consumption:

- Why focus on consumption? It’s 70% of GDP
- 55% of consumption (housing and utilities, medical services) might see more limited impact
  - Spending may even shift toward here (e.g. households spend more time at home, use more electricity, do home renovations, etc.)
- 25% of consumption will suffer more direct hits
  - Transportation
  - Recreation services
  - Food services and accommodations
- If that 25% falls by 2/3, total consumption will fall by 15% → hit to GDP in the neighborhood of 10%
Three policy “lanes” open now

Health policy (most important by far)
• Goal: bend the curve and get beyond the inflection point
• Economic policies are then left to address economic effects of health response (e.g. social distancing)

Fiscal policy: can be targeted
• Prevent needless bankruptcies/breaks in economic relationships
• Support directly to households

Monetary policy: supports economy more broadly
• Reduced interest rates to effectively zero
• Help keep financial markets functioning by providing liquidity (i.e. lending)
Parting thoughts

- Luckily, we came into this with a solid economy and a healthy banking system
- What’s next depends largely on health policy
  - When will it be safe to come back?
  - How do we come back? Phased approach, protocols?

No downturn ever hits everyone equally.
Please join our business (and other) surveys!

*Each month we ask for feedback from business executives located in our District. Respondents provide information on current business activity and expected changes for the next six months.*

*These data paint a picture of industry trends and help the Federal Reserve Bank of Richmond to be better informed about business conditions in our District. (Washington, D.C., Maryland, W.Virginia, Virginia, N. Carolina, and S.Carolina)*

*Your business is an integral part of our Fifth District community and we hope you will contribute.*

*If you would like to sign up please contact: Roisin.McCord@rich.frb.org
804-697-8702*

*View our survey data and reports online: https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions*
Questions?