MID-YEAR ECONOMIC UPDATE

21 July 2020
Pandemic economics, recession and beyond

US economy free fall has ended
- Supply, demand and financial shocks
- Depression like shocks, no Depression
- Household consumption levelled off around June 24
- US economy is in recession that should last 3 quarters

Policy response
- Robust fiscal and monetary policy response
- Main Street Lending Programme
- Until there is a vaccine there will be no meaningful recovery

Shape of recovery
- Nike™ shaped Swoosh recovery
- Elongated and frustrating in some industries
- Housing and Auto manufacturing to lead
- Large firms pickup activity US Q3, RSM Q2
- Mid-market picks up US Q4, RSM Q3
- Real damage to household spending

Source: RSM US LLP
Pandemic economics, recession and beyond

**US employment**
- Mass unemployment: 52 million experienced some form of unemployment & loss of income, 11.1% unemployment, 18% under employment, 10% is optimal outcome by end of 2020

**US savings rate at 23.2%**
- Upper income earners: pull back spending by 10.8%
- Low income earners: pull back spending by 1.9%

**Government Transfers key to propping up economy**
- Implies long period of fiscal aid will be necessary
- Fiscal cliff coming in July 2020

**Inflation**
- Disinflation/deflation in the near to medium term
No Vaccine, No Recovery: Q2’20 GDP Forecast

Source: Congressional Budgetary Office

US real GDP growth & second quarter estimates

- 2001 Dot.com Bust
- 2007-09 Great Recession
- Q2 2020 "NowCast" estimates of decline in real GDP
  - RSM Monthly GDP Index = 9%
  - NY Fed NowCast = 14%
  - Atlanta Fed GDPNow = 34%

Source: BEA; NBER; Bloomberg; RSM US
Percentage difference in nominal and real GDP

Between Congressional Budgetary Office’s May 2020 and January 2020 projections

Quarterly Loss of Nominal GDP  Quarterly Loss of Real GDP

Source: Congressional Budgetary Office
Percentage difference in nominal and real GDP

Between Congressional Budgetary Office’s May 2020 and January 2020 projections

Source: Congressional Budgetary Office
Possible economic recovery scenarios

- **V-shaped recovery**
- **W-shaped recovery**
- **L-shaped recovery**
- **Swoosh-shaped recovery**

Source: World Economic Forum/RSM US
The RSM US Middle Market Business Index in June is statistically higher compared to May.
Labor market catastrophe

Weekly and cumulative initial jobless claims & continuing jobless claims since the COVID-19 outbreak

<table>
<thead>
<tr>
<th>Week ending</th>
<th>Initial jobless claims</th>
<th>Cumulative initial jobless claims</th>
<th>Continuing jobless claims</th>
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<td>3/14/20</td>
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<td>16.6 mn. claims</td>
<td>10.3 mn. claims</td>
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<td>16.6 mn. claims</td>
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<td>73.3 mn. claims</td>
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</tbody>
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Source: BLS; Bloomberg; RSM US

Source: World Economic Forum/RSM US
Mobility trends the U.S.

Source: Apple Mobility
Global Mobility Trends

Mobility Trends
Change in routing requests since January 13, 2020

- Italy +87%
- Germany +57%
- United States +53%
- United Kingdom +17%

Source: Apple Mobility
Mobility Trends in Austin

Source: Apple Mobility
Consumer Spending

In the United States, as of July 08 2020, total spending by all consumers decreased by 6.8% compared to January 2020.

Source: Apple Mobility
Percent Change in All Consumer Spending

In the United States, as of July 08 2020, total spending by high-income consumers decreased by **10.8%** compared to January 2020.
Income and Spending

Percent Change in All Consumer Spending

In the United States, as of July 08 2020, total spending by low-income consumers decreased by 1.9% compared to January 2020.

Source: Apple Mobility
In Austin, as of July 08 2020, total spending by all consumers decreased by **2.5%** compared to January 2020.
Impacts on domestic air travel: weekly flight frequency

Despite a recent revival, air travel has a long way to go before reaching levels seen before the pandemic brought a steep drop in traffic. Data shows daily travelers passing through TSA checkpoints.

United States dinner reservations

Year on year change in seated diners at restaurants on the OpenTable network

Note: Data through July 18, 2020. Only states or cities with 50+ restaurants in the sample are included.
US hotel occupancy rate

U.S. Hotel occupancy rate
Weekly through July 11, 2020


Source: STR
US home purchases

Year over year change in mortgage applications for purchasing a single-family home

Note: Data through July 10, 2020

Source: Mortgage Bankers Association Purchase Index
Financial shock

Bloomberg Financial Conditions Plus = -0.085
Bloomberg Financial Conditions Index = -1.66

Source: RSM US, Bloomberg
Global manufacturing sentiment: rebound

Global Manufacturing Sentiment: Rebound

Source: RSM US, Bloomberg
Housing Led Recovery

Source: Bloomberg, RSM US

1.5 Million at an Annualized Pace

Source: RSM US, Bloomberg
Housing Led Recovery: Improved Affordability

Home Affordability Index (LHS)  
First Time Homeowners Affordability Index (RHS)

Source: Bloomberg, RSM US
Fiscal policy response: 11.4% of GDP

**Phase 1**
US$8.5 billion
- Medical
- Scientific
- R&D
- SBA Catastrophe Fund

**Phase 2**
US$105 billion
- Unemployment insurance
- Sick leave

**Phase 3**
US$2.2 trillion
- Made up of:
  - £500bn cash payout to individuals
  - $350bn in small business loans
  - $425bn bailout for industry
  - $454bn backstop for the Fed

**Phase 4**
US$484 billion
- PPP
- EDIL
- Small business
- Hospitals
- Testing R&D
Bridge to the new economy
Austin Economic Data: Consumer Spending

Percent Change in All Consumer Spending

In Austin, as of July 08 2020, total spending by all consumers decreased by 2.5% compared to January 2020.

Key messages:

- Economic risks: prolonged global recession
- >50% of risk managers expect an increase in bankruptcies
- 40% concerned about another global outbreak of Covid-19
- High unemployment
Texas Economic Data: Small Business Open

Percent Change in Number of Small Businesses Open

In Texas, as of July 11 2020, the number of small businesses open decreased by 18.7% compared to January 2020.

Key messages:
- Economic risks: prolonged global recession
- >50% of risk managers expect an increase in bankruptcies
- 40% concerned about another global outbreak of Covid-19
- High unemployment
Austin Economic Data: Apparel Spending

Based on perceptions of 350 of the world's top risk professionals:
- Economic risks: prolonged global recession
- >50% of risk managers expect an increase in bankruptcies
- 40% concerned about another global outbreak of Covid-19
- High unemployment

Key messages:

In Austin, as of July 08 2020, apparel and general merchandise spending by all consumers decreased by 12.5% compared to January 2020.
Austin Economic Data: Entertainment Spending

Based on perceptions of 350 of the world's top risk professionals

- Economic risks: prolonged global recession
- >50% of risk managers expect an increase in bankruptcies
- 40% concerned about another global outbreak of Covid-19
- High unemployment

Key messages:

In Austin, as of July 08 2020, arts, entertainment, and recreation spending by all consumers decreased by **55.1%** compared to January 2020.
Austin Economic Data: Grocery Spending

In Austin, as of July 08 2020, grocery spending by all consumers increased by 24.2% compared to January 2020.

Key messages

- Economic risks: prolonged global recession
- >50% of risk managers expect an increase in bankruptcies
- 40% concerned about another global outbreak of Covid-19
- High unemployment
Austin Economic Data: Transportation Spending

Based on perceptions of 350 of the world's top risk professionals:

- Economic risks: prolonged global recession
- >50% of risk managers expect an increase in bankruptcies
- 40% concerned about another global outbreak of Covid-19
- High unemployment

Key messages:

In Austin, as of July 08 2020, transportation spending by all consumers decreased by 52.9% compared to January 2020.
Austin Economic Data: Job Postings

In Austin, as of July 10, 2020, total job postings decreased by 35.5% compared to January 2020.

- Economic risks: prolonged global recession
- >50% of risk managers expect an increase in bankruptcies
- 40% concerned about another global outbreak of Covid-19
- High unemployment
Based on perceptions of 350 of the world's top risk professionals:

- **Economic risks:** prolonged global recession
- **50%** of risk managers expect an increase in bankruptcies
- **40%** concerned about another global outbreak of Covid-19
- High unemployment

**Key messages**

In **Austin**, as of July 11 2020, total small business revenue decreased by **33.3%** compared to January 2020.

- **Jan 20**: First U.S. COVID-19 Case
- **Mar 13**: National Emergency Declared
- **Mar 27**: CARES Act Enacted
- **Apr 15**: Stimulus Payments Start
Austin Economic Data: Small Business Revenue

Percent Change in Small Business Revenue

Visit Zip Code Map

-100% -80 -60 -40 -20 0 +20 +40 +60 +80 +100 +120 +150% NA

Total

○ All

Industry

○ Education & He...
○ Leisure & Hos...
○ Professional ...
○ Retail & Trans...

Bus. ZIP Income

In Austin, as of July 11 2020, education and health services small business revenue decreased by 15.2% compared to January 2020.

-15.2% Austin

-15.2%

01-Jan 01-Feb 01-Mar 01-Apr 01-May 01-Jun 01-Jul 20-Jul

15-Jan 01-Feb 15-Feb 01-Mar 15-Mar 01-Apr 15-Apr 01-May 15-May 01-Jun 15-Jun 01-Jul 20-Jul

Jan 20
First U.S. COVID-19 Case

Mar 13
National Emergency Declared

Mar 27
CARES Act Enacted

Apr 15
Stimulus Payments Start
World Economic Forum report

Based on perceptions of 350 of the world’s top risk professionals

Key messages
- Economic risks: prolonged global recession
- >50% of risk managers expect an increase in bankruptcies
- 40% concerned about another global outbreak of Covid-19
- High unemployment

Covid-19 Risks Outlook Report
Published 19 May 2020
Abrupt adoption of technology

- Overdependence
- Increased cyber security issues
- Lockdown affects people’s attitudes and behaviours
- Automation concerns
- Economic failure leading to negative well-being

Economic change

- World debt burden affects cash budgets
- Global economic relationship changes
- Consumer adverse consumption
- Prolonged global recession
- Lower investment in climate action

Societal anxiety

Environmental fallout

Source: World Economic Forum, May 2020
Prolonged global economic recession
Surge in bankruptcies and wave of industrial consolidations
Failure of industries or sectors in certain countries to properly recover
High levels of unemployment (especially youth)
Tighter restrictions on cross border movement of people and goods
Fiscal positions weakening in major economies
Protracted disruption of global supply chains
Economic collapse of an emerging market or developing economy
Cyber attacks/data fraud due to substantial shift in working patterns
Another global outbreak of Covid-19 or other infectious disease

Most likely outcomes for the world

Source: World Economic Forum, May 2020
It is no coincidence that before the great depression we were using horses and carts and afterward we were a car-based society, this is what is happening now with AI and digital technologies.

Andres Borg

Swedish former Minister of Finance
May 2020
Reimagined thinking

Source: Minds at Work, RSM UK
Reactivate strategies – agile working

Reassembling the current team

Requirements for the reactivate phase

- Sourcing new skills: interim, reassign, third-party?
- Scenario planning
- Business support
- Rolling forecasts
- Cash & funding management
- Product & skills analysis
- Furlough returns
- Self-isolation risks and working practices risks
- Support for reactivation
- Technology requirements and changes

Source: RSM UK