U.S. Economic Conditions

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The views herein are those of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Outlook themes

• Recently having strong fundamentals, the U.S. economy is now experiencing broad-based challenges due to COVID-19

• Unemployment has risen quickly and in several sectors that were key sources of job growth over the past year

• Financial markets have exhibited volatility, though Fed interventions have mitigated stress in several markets

• Inflation pressures are likely to be muted in the near term
Federal Reserve actions in response to COVID-19

• The target range of the federal funds rate is now 0.0 to 0.25 percent, with forward guidance to maintain rates until confident economy is on track

• Board issued guidance to encourage financial institutions to be flexible with borrowers affected by coronavirus

• Established facilities to support flow of credit to U.S. businesses, municipalities, households and abroad

• Purchases of Treasuries and MBS to support smooth market functioning
The U.S. economy entered the COVID-19 crisis with strong fundamentals and above trend growth.
Global growth had lost momentum and gained uncertainty before the COVID-19 began to disrupt economic activity.
Manufacturing activity stalled abruptly in March, and businesses report low expectations for the next 6 months

Sources: Institute for Supply Management, Federal Reserve Bank of Kansas City, Haver Analytics
Service sectors and other non-manufacturing activity also declined sharply upon shelter-in-place directives

Index, >50 = increasing, sa

ISM Nonmanufacturing (left)  KC Nonmanufacturing Index (right)
KC 6-mo Expectations Prior to Feb 2020 (right)  KC 6-mo Expectations as of Mar 2020 (right)

Sources: Institute for Supply Management, Federal Reserve Bank of Kansas City, Haver Analytics
Retail sales growth and consumption have recovered relatively quickly from previous adverse shocks.

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Sources: Census Bureau, Haver Analytics
U.S industrial production exhibits longer cycles typically, and so recovery is likely to be relatively slower.
Jobless claims for a single week in March increased by an unprecedented amount in the District and nationally.

Sources: Department of Labor, NBER, Haver Analytics
The Tenth District has a relatively high concentration employment in sectors sensitive to effects of COVID-19

% of total employment

Index

Mining and Logging  Professional & Business Services  Construction  Leisure & Hospitality  Manufacturing

United States (left)  10J (left)  Variability in Hours Worked (right)

Sources: BLS, Haver Analytics, Staffs’ calculations
Notes: Some industries are not listed
For the U.S., much of recent job growth was supported by sectors that now face significant challenges.
Low energy prices pose substantial challenges both for sector-level employment and for overall inflation.
Inflation is likely to remain subdued in the near term

Sources: BEA, NBER, Haver Analytics
Recent financial stress prompted Fed interventions in to several financial markets

Sources: Wall Street Journal, Goldman Sachs, Haver Analytics
Rates remain elevated broadly but diminished somewhat as the Fed increased its interventions into various markets
The interventions of the Federal Reserve have caused its balance sheet to grow above $5 trillion

Sources: Federal Reserve Board, Haver Analytics
Looking forward

• Federal Reserve actions and recent fiscal policy are aimed at providing relief from temporary challenge related to COVID-19

• However, this shock is likely to have persistent effects that will inhibit growth over the near- to medium-term

• Strong initial economic conditions, signs of stable inflation expectations and swift policy responses should support recovery