Response + Recovery
The Allegheny Conference COVID-19 Webinar Series

TODAY:
“Making Sense of Current Economic Conditions and Business Preparedness for Reopening.”
Program

• Welcome
• Presentation
• Q&A Session
• Wrap-Up

Welcome:
Kyle Chintalapalli
Vice President, Business and Economic Development, Allegheny Conference/
Pittsburgh Regional Alliance

Presenters:
Guhan Venkatu
Vice President for Regional Analysis, Federal Reserve Bank of Cleveland

Vera Krekanova
Chief Strategy and Research Officer, Allegheny Conference

Q&A Moderator:
Kyle Chintalapalli
Welcome

Kyle Chintalapalli
Allegheny Conference on Community Development/Pittsburgh Regional Alliance
Economic Conditions

Guhan Venkatu

Allegheny Conference on Community Development
Webinar | May 15, 2020

The views expressed herein are those of the author and not necessarily those of the Federal Reserve Bank of Cleveland or of the Board of Governors of the Federal Reserve System.
US economic activity fell sharply in first quarter

Quarterly Real GDP Growth
Quarter-over-quarter percent change, SAAR

-8.4%

• Worst since 2008:Q4 (-8.4% a.r.)
• Followed significant financial market disruptions
  • Lehman Brothers bankruptcy
  • Federal takeover of AIG
• What was longest expansion on record likely over
  • ½ year longer than the expansion of 1990s

Source: Bureau of Economic Analysis via Haver Analytics
Public and private projections suggest Q2 will be worse

Quarterly Real GDP Growth
Quarter-over-quarter percent change, SAAR

- Public/private projections anticipate declines of 40% (a.r.) in Q2
- CBO 4/24 Projection:
  - Q2: -40% | Q3: +24% | Q4: +11%
  - Full Year 2020: -6%
- Q2 projection would be worst in post-WWII period
  - 1958:Q1: -10% ⇒ Also a pandemic period

Source: Bureau of Economic Analysis via Haver Analytics
US unemployment rate reached new record in April

Unemployment Rates

- Highest unemployment rate in post-WWII period
- Largest monthly increase in series history (since ’48)
  - +15.9M individuals unemployed in April
  - 23.1M currently counted as unemployed
- Possible bright spot: ~80% classified as temp. layoff
- Number employed: 133.4M
  - -22.4M (-15.9 unemployed + -6.4 leaving labor force)
- LFPR falls to 60.2% (-2.5 pp) ⇒ Lowest since 1973

Source: Bureau of Labor Statistics via Haver Analytics
Last data point: Mar 2020.
Stress is most acute for those that don’t have a college degree

Unemployment Rates by Educational Attainment
Percent of labor force participants over age 25

- Less than HS: 21.2
- HS graduate: 17.3
- Some college: 15.0
- BA or higher: 8.4

Source: Bureau of Labor Statistics via Haver Analytics
Last data point: Apr 2020.
US employment declined by a breathtaking 20.5M jobs in April

By Sector

• **Leisure/Hospitality:** -7.7M (38%)
  – Restaurants: -5.5M

• **Education/Health Services:** -2.5M (12%)
  – Health Care: 1.4M | Child Care: 0.3M | Private Education: 0.5M

• **Professional/Business Services:** -2.1M (10%)
  – Temporary Help: 0.8M | Services for Buildings/Dwellings: 0.3M

• **Retail:** 2.1M (10%)
  – Clothing: -0.7M | Motor Vehicles: -0.3M | Warehouse Clubs/Supercenters: +0.1M

• **Manufacturing:** -1.3M (6%) ⇒ Largely Durable Goods Mfg.

• **Government, Construction:** ~ -1M (5%) ⇒ Largely Local Government (Schools)
Lasting Labor Market Changes Post COVID-19

David Autor

• Risks surrounding in-person services till there is a vaccine
  – De-densification of work places, shopping malls, restaurants

• Automation accelerating event
  – Manufacturers finding that they can get more done with fewer workers
  – Knowledge workers can do more through telecommunications

• Re-allocation of activity towards larger firms
  – Crisis could weed out more small- and medium-sized enterprises
  – Tend to be better capitalized/less labor-intensive

• Changes in demand for certain services
  – Reduced business travel (decline in hospitality and other types of service jobs)
  – More telecommuting (reduced demand for cleaning, food service, security work)
  – Shrunken retail sector
UI claims have surged since mid-March

Initial Unemployment Claims
Since March 15, 2020 (eight week sum), percent of labor force participants in Feb 2020

United States: 22
Source: Department of Labor via Haver Analytics
Data for week ending: May 9, 2020.

• 2.0M filings from 3/15 to 5/9
• ~ 31% of PA’s Feb. labor force (6.6M)
• Filings have fallen from >400K in last 2 weeks of March to under 100K in week ending 5/9
Pennsylvania

• PA has paid out roughly $5.3B so far
  – Standard state benefits of $3.9B + FPUC benefits of $1.4B
  – 3X 2019 payments and more than that paid in all of 2009 (GR)
  – State system designed to replace about ½ of income
    • Additional $600 benefit raises replacement rate above 100%

• Still significant backlog
  – Labor and Industry Department says 3 of 10 claims are still unprocessed
  – PUA payments not expected to begin till last week
  – E-mail inquires currently take about a month to address

• UI trust fund likely exhausted
  – Started 2020 with $3.4B; debt from GR recently repaid
# COVID Crisis-Related Lending Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Purpose</th>
<th>Dollar amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paycheck Protection Program (PPP)</td>
<td>The Paycheck Protection Program (PPP) was established by the CARES Act and implemented by the SBA to support the payroll and operations of small businesses through the issuance of government-guaranteed loans that include a forgiveness feature for borrowers who satisfy the requirements of the PPP. The FRS established a PPP Liquidity Facility (PPPLF) to extend credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value.</td>
<td>$360B</td>
</tr>
<tr>
<td>Main Street Lending Program (MSLP)</td>
<td>The Federal Reserve designed the MSLP to support small and medium-sized businesses that were unable to access the PPP or that require additional financial support after receiving a PPP loan. Main Street loans are not forgivable.</td>
<td>$600B</td>
</tr>
<tr>
<td>Primary &amp; Secondary Market Corporate Credit Facility (PMCCF/SMCCF)</td>
<td>The Federal Reserve established the Primary Market Corporate Credit Facility (PMCCF) to support large companies through the purchase of eligible corporate bonds from, and lending through syndicated loans to, large companies. PMCCF loans are not forgivable.</td>
<td>$750B</td>
</tr>
</tbody>
</table>
PA ranks 10th in PPP funding per small business through 5/1

**Paycheck Protection Program**
Thousands of dollars per small business in 2016

- PPP Total: $21B
  - Round 1: $16B
  - Round 2: $5B
- Ranks 6th overall

Sum of states: 86
Source: Small Business Administration and Census Bureau's Statistics of US Businesses.
Business Bankruptcies

Mixed Picture, but Trajectory Expected to Worsen

• American Bankruptcy Institute
  – Both total bankruptcy and Chapter 7 (liquidation) filings fell in April

• National Association of Credit Management
  – Survey showed increase in number of respondents’ customers filing for bankruptcy to the highest level since 2009, but well below peak during financial crisis
  – Dollars of receivables beyond terms because customers have fallen behind on payments, rose to higher level than seen during financial crisis

• Bloomberg Bankruptcy Dashboard
  – Has risen close to the post GR-high for index, but remains below GR peak

Source: Goldman Sachs Research.
## Most economic measures took years to recover from GR

<table>
<thead>
<tr>
<th></th>
<th>Peak before GR</th>
<th>Reached Again</th>
<th>Duration</th>
</tr>
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<tbody>
<tr>
<td>Real GDP</td>
<td>2007:Q4</td>
<td>2011:Q2</td>
<td>2.5 years (14 qtrs.)</td>
</tr>
<tr>
<td>Real Personal Consumption Expenditures</td>
<td>November 2007</td>
<td>August 2010</td>
<td>2.75 years (33 mos.)</td>
</tr>
<tr>
<td>Real Private Nonresidential Fixed Investment</td>
<td>2008:Q2</td>
<td>2012:Q1</td>
<td>2.75 years (15 qtrs.)</td>
</tr>
<tr>
<td>Industrial Production</td>
<td>December 2007</td>
<td>June 2014</td>
<td>6.5 years (78 mos.)</td>
</tr>
<tr>
<td>US Employment</td>
<td>January 2008</td>
<td>May 2014</td>
<td>6.33 years (76 mos.)</td>
</tr>
<tr>
<td>PA Employment</td>
<td>April 2008</td>
<td>December 2014</td>
<td>6.67 years (80 mos.)</td>
</tr>
<tr>
<td>Pittsburgh Employment</td>
<td>May 2008</td>
<td>November 2011</td>
<td>3.5 years (42 mos.)</td>
</tr>
</tbody>
</table>
Consumer Sentiment

University of Michigan

• Will the initial efforts to reopen the economy blunt the six-week surge in unemployment claims to 30 million, or will the efforts to reopen the economy only result in a resurgence in coronavirus infections and a renewed and more lasting slump in confidence?

• When asked whether conditions would be good or bad through the next 12 months, the majority of consumers expected much smaller income gains, and the majority (68%) evaluated the overall state of the economy as representing “bad times financially.”

• Moreover, when consumers were asked to explain their views on buying conditions for household durables, half of all consumers mentioned that they were postponing purchases due to uncertainty about future job and income prospects.

Scenarios suggest that infections will persist

University of Minnesota, Center for Infectious Disease Research & Policy

SCENARIO 1
Peaks and Valleys

SCENARIO 2
Fall Peak

SCENARIO 3
Slow Burn

320 businesses participated; responses collected between April 25 and May 4, 2020
Mixed Perspectives: Strong confidence in relatively fast recovery for some businesses, high uncertainty and inability to predict for others.
Employers with a **national** presence predict the **fastest reopening** of their businesses, **global** firms the slowest.

When do you expect your business to FULLY reopen in the Southwestern PA region?

- **Regional**
  - Already fully open: 12.4%
  - By mid-May: 18.6%
  - By end of May: 2.9%
  - By end of June: 4.1%
  - By end of July: 3.3%
  - By Labor Day: 15.3%
  - By Thanksgiving or later: 16.9%
  - By end of July: 18.6%
  - Whenever is safe: 7.9%
  - Not sure: 7.9%

- **National**
  - Already fully open: 7.7%
  - By mid-May: 10.3%
  - By end of May: 2.6%
  - By end of June: 5.1%
  - By end of July: 2.6%
  - By Labor Day: 30.8%
  - By Thanksgiving or later: 15.4%
  - By end of July: 15.4%
  - Whenever is safe: 10.3%
  - Not sure: 10.3%

- **Global**
  - Already fully open: 13.8%
  - By mid-May: 24.1%
  - By end of May: 6.9%
  - By end of June: 3.4%
  - By end of July: 6.9%
  - By Labor Day: 6.9%
  - By Thanksgiving or later: 13.8%
  - By end of July: 10.3%
  - Whenever is safe: 13.8%
  - Not sure: 13.8%
Differences in recovery timeframes are less distinct; with national firms being the least optimistic in returning to pre-pandemic outputs within 6 months.

Given current information, how long do you anticipate that it will take for your firm’s output to return to pre-crisis levels?

- 3 months from now: 44% Regional, 13.5% National, 13.8% Global
- 6 months from now: 38% Regional, 24.3% National, 20.7% Global
- 12 months from now: 16.8% Regional, 27.0% National, 24.1% Global
- Longer than a year from now: 24.1% Regional, 27.6% National, Not sure at this time
- Not sure at this time: 26.9% Regional, 10.8% National, 13.8% Global
Close to **90% of businesses** have **taken some measures** to adjust to the COVID-19 disruptions. Increasing cash reserves and curtailing expenditure, and adjusting staffing and operations levels were among the most frequently implemented.

![Bar chart showing measures taken by firms](chart)

**What measures has your firm taken to adjust to COVID-19 related**

- **Cash Reserves**
  - Applied for new forms of financing: Regional 61%, National 44%, Global 63%
  - Increased precautionary reserves: Regional 53%, National 41%, Global 57%
  - Increased use of existing credit lines: Regional 26%, National 26%, Global 37%
  - Delayed or cancelled planned capex: Regional 38%, National 44%, Global 34%
  - Delayed or renegotiated payables: Regional 31%, National 34%, Global 26%

- **Payments & Capex**
  - Reduced employee hours: Regional 25%, National 24%, Global 31%
  - Laid off workers temporarily: Regional 29%, National 22%, Global 29%
  - Furloughed workers: Regional 25%, National 31%, Global 32%
  - Cut employee pay: Regional 11%, National 9%, Global 12%
  - Laid off workers permanently: Regional 8%, National 5%, Global 8%
  - Ceased operations temporarily: Regional 1%, National 0%, Global 1%
  - Ceased operations permanently: Regional 1%, National 0%, Global 1%

- **Staffing**
  - Delayed or renegotiated payables: Regional 34%, National 34%, Global 34%
  - Reduced employee hours: Regional 31%, National 31%, Global 34%
  - Laid off workers temporarily: Regional 21%, National 21%, Global 21%
  - Furloughed workers: Regional 28%, National 28%, Global 28%
  - Cut employee pay: Regional 21%, National 21%, Global 21%
  - Laid off workers permanently: Regional 17%, National 17%, Global 17%
  - Ceased operations temporarily: Regional 21%, National 21%, Global 21%
  - Ceased operations permanently: Regional 21%, National 21%, Global 21%

**25**
Close to **77%** of all firms have sought new forms of financing but only **46%** were able to secure it. Firms with a national presence were the most successful, firms with a regional presence the least.

Has your firm been able to access additional financing to address any cash flow interruptions you may be facing?

- We sought access to additional financing and were able to secure it
- We sought access to additional financing but were unable to secure it
- We have not needed to seek additional financing

<table>
<thead>
<tr>
<th></th>
<th>All Firm</th>
<th>Regional</th>
<th>National</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>We sought access to additional financing and were able to secure it</td>
<td>23%</td>
<td>20%</td>
<td>22%</td>
<td>48%</td>
</tr>
<tr>
<td>We sought access to additional financing but were unable to secure it</td>
<td>31%</td>
<td>35%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>We have not needed to seek additional financing</td>
<td>46%</td>
<td>44%</td>
<td>64%</td>
<td>38%</td>
</tr>
</tbody>
</table>
Businesses are considering **multiple factors** in their decision-making about reopening. **Top 3 triggers** include the lifting of stay-at-home orders, preparedness of employees to behave safely in the workplace, and **clear guidance from policy makers**.

What specific "triggers" will influence the decision for your business' reopening?
Most businesses are **actively preparing** for reopening, but the **depth** of these efforts is still lacking. Firms with **global** and **national** presence are more active and likely to pursue a **broader range of strategies**.

### What measures has your firm been taking to prepare your business for reopening?

<table>
<thead>
<tr>
<th>Measure</th>
<th>All Firms</th>
<th>Regional</th>
<th>National</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing policies and procedures to prevent the virus spread in the workplace</td>
<td>74.1%</td>
<td>73.1%</td>
<td>74.8%</td>
<td>82.8%</td>
</tr>
<tr>
<td>Procuring masks and other protective equipment</td>
<td>71.2%</td>
<td>70.2%</td>
<td>72.4%</td>
<td>82.1%</td>
</tr>
<tr>
<td>Procuring necessary supplies/services to ensure effective workplace sanitation</td>
<td>65.5%</td>
<td>64.5%</td>
<td>71.8%</td>
<td>69.0%</td>
</tr>
<tr>
<td>Restructuring physical space to accommodate social distancing in the workplace</td>
<td>67.1%</td>
<td>65.0%</td>
<td>72.4%</td>
<td>72.4%</td>
</tr>
<tr>
<td>Restructuring staffing to better protect employees</td>
<td>67.6%</td>
<td>63.0%</td>
<td>72.0%</td>
<td>58.6%</td>
</tr>
<tr>
<td>Restructuring the entire business model to account for broader aspects of COVID-19 impact</td>
<td>21.6%</td>
<td>22.1%</td>
<td>23.1%</td>
<td>27.3%</td>
</tr>
</tbody>
</table>
Businesses, particularly smaller and regional firms, do not feel well-equipped to handle all the practicalities of stipulated conditions for reopening. Only about half of firms feel confident in their ability to recall laid off employees, ensure hospital-level sanitation and perform employee health screening.

What is your firm’s confidence level with the listed aspects of business preparedness for reopening?

Values denote the cumulative share of businesses that are “very confident” or “somewhat confident” in their ability to handle each task.
CONSUMER PERSPECTIVE: Most residents believe the Pittsburgh economy will not fully reopen until sometime in the summer, 60% also believe beginning to reopen early May is too soon.
CONSUMER PERSPECTIVE: Residents have mixed feelings about returning to work but are committed to behaving safely.

### Consumer Sentiment toward Returning to Work

- **I'm ready to return to my workplace**
  - Strongly Disagree: 22%
  - Disagree: 18%
  - Neutral: 12%
  - Agree: 17%
  - Strongly Agree: 31%

- **I feel comfortable going back to work in May**
  - Strongly Disagree: 36%
  - Disagree: 27%
  - Neutral: 10%
  - Agree: 10%
  - Strongly Agree: 17%

- **I'm willing to take any precautions & safety measures necessary**
  - Strongly Disagree: 4%
  - Disagree: 5%
  - Neutral: 5%
  - Agree: 20%
  - Strongly Agree: 66%

- **I trust my coworkers will behave safely**
  - Strongly Disagree: 9%
  - Disagree: 19%
  - Neutral: 12%
  - Agree: 34%
  - Strongly Agree: 26%
Q & A

Moderated by:

Kyle Chintalapalli
Allegheny Conference/
Pittsburgh Regional Alliance
Response + Recovery
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TODAY:
“Making Sense of Current Economic Conditions and Business Preparedness for Reopening.”
PITTSBURGH REGION RESPONSE TO COVID-19

AlleghenyConference.org/COVID-19
The Pittsburgh region is getting ready to reopen responsibly.

Visit readypittsburgh.com for a curated toolbox of resources to help businesses & organizations safely return to work.
Thank you for participating.

Stay tuned for upcoming programs in the Allegheny Conference’s Response + Recovery Webinar Series ...

and find an archive of our webinars and related materials at the region’s COVID-19 Response site:

AlleghenyConference.org/COVID-19