

Response + Recovery

The Allegheny Conference
COVID-19 Webinar Series

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



UPMC HEALTH PLAN

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

W e l c o m e

Kyle Chintalapalli

Allegheny Conference on Community
Development/Pittsburgh Regional
Alliance

Guhan

Ventaku

Federal Reserve Bank of Cleveland

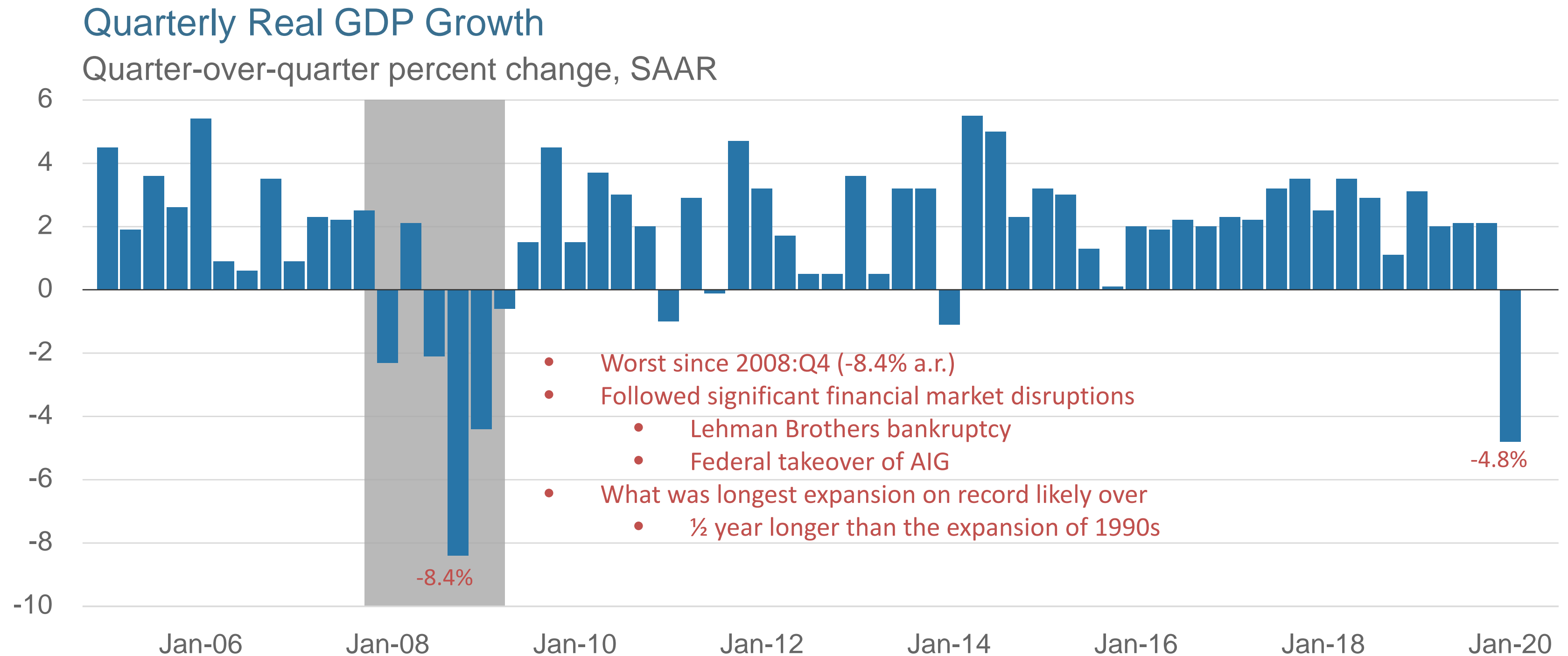
Economic Conditions

Guhan Venkatu

Allegheny Conference on Community Development
Webinar | May 15, 2020

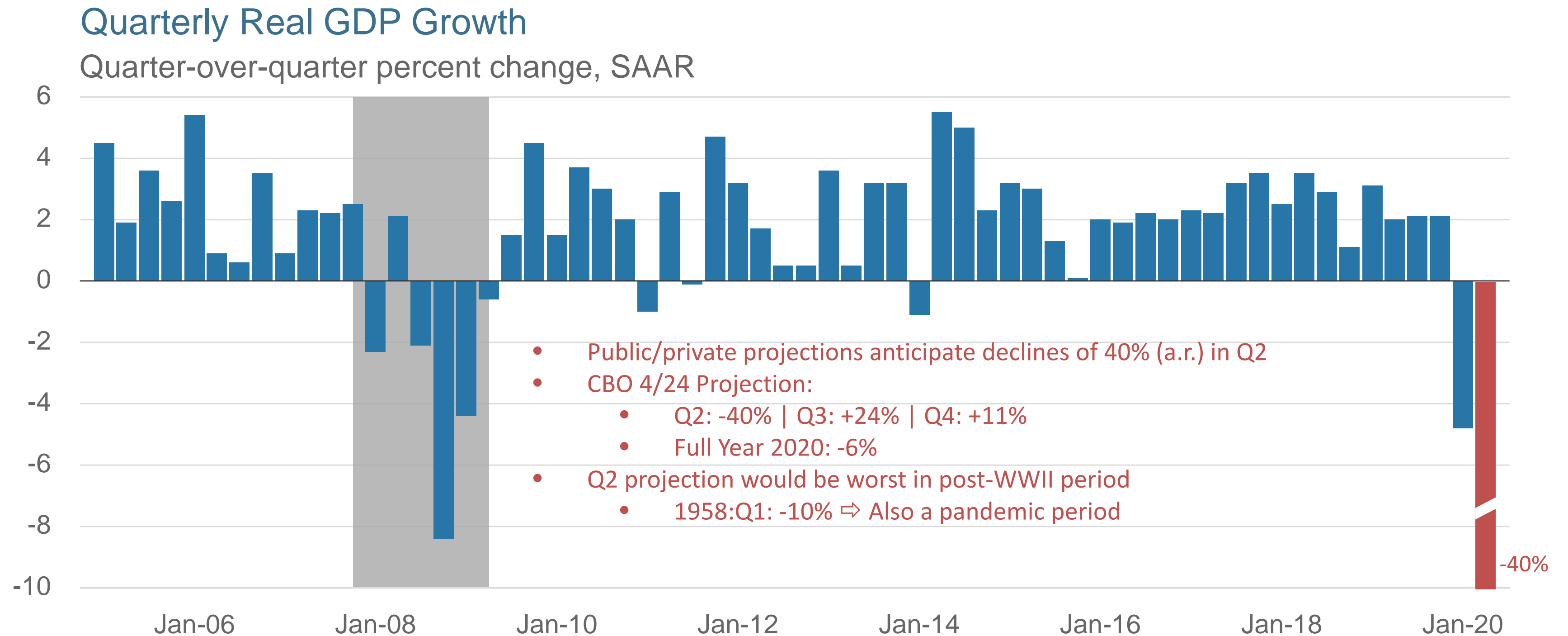
The views expressed herein are those of the author and not necessarily those of the Federal Reserve Bank of Cleveland or of the Board of Governors of the Federal Reserve System.

US economic activity fell sharply in first quarter



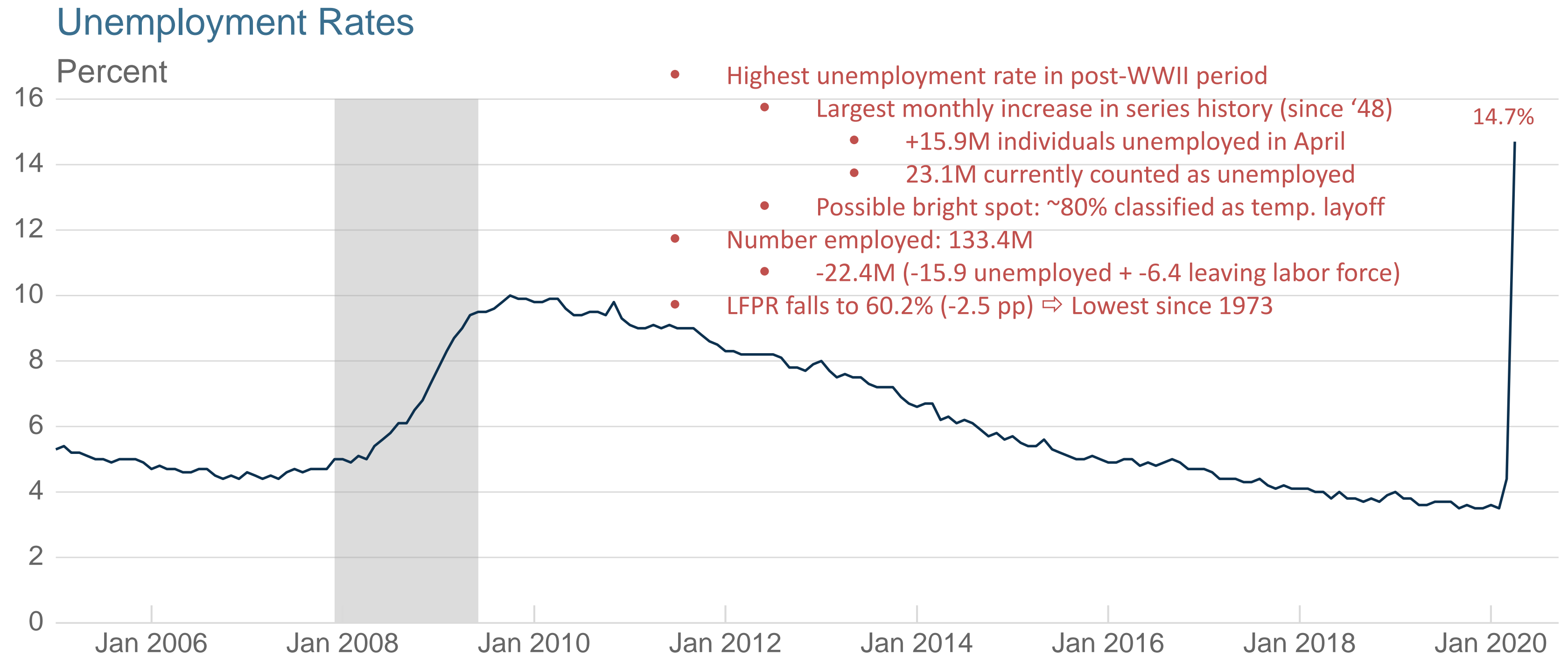
Source: Bureau of Economic Analysis via Haver Analytics
Last data point: 2020:Q1.

Public and private projections suggest Q2 will be worse



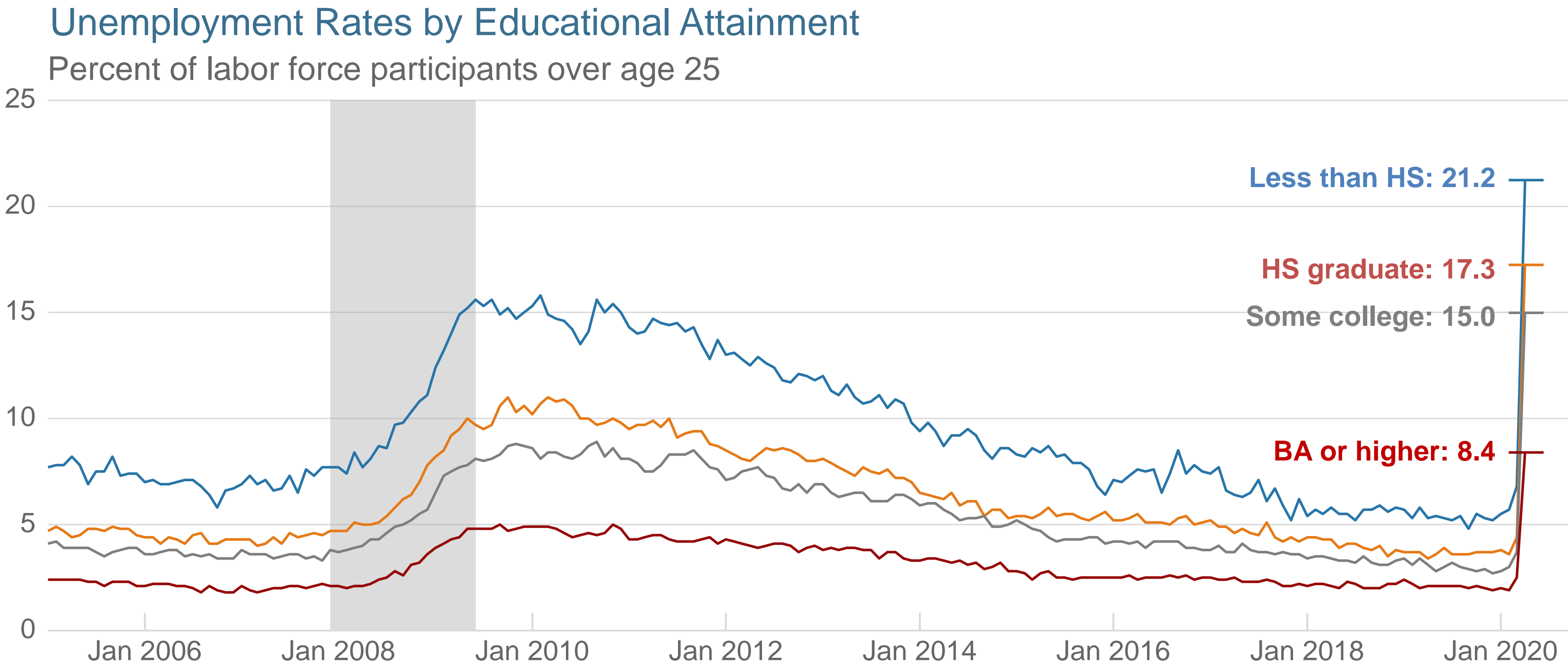
Source: Bureau of Economic Analysis via Haver Analytics
Last data point: 2020:Q2.

US unemployment rate reached new record in April



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



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

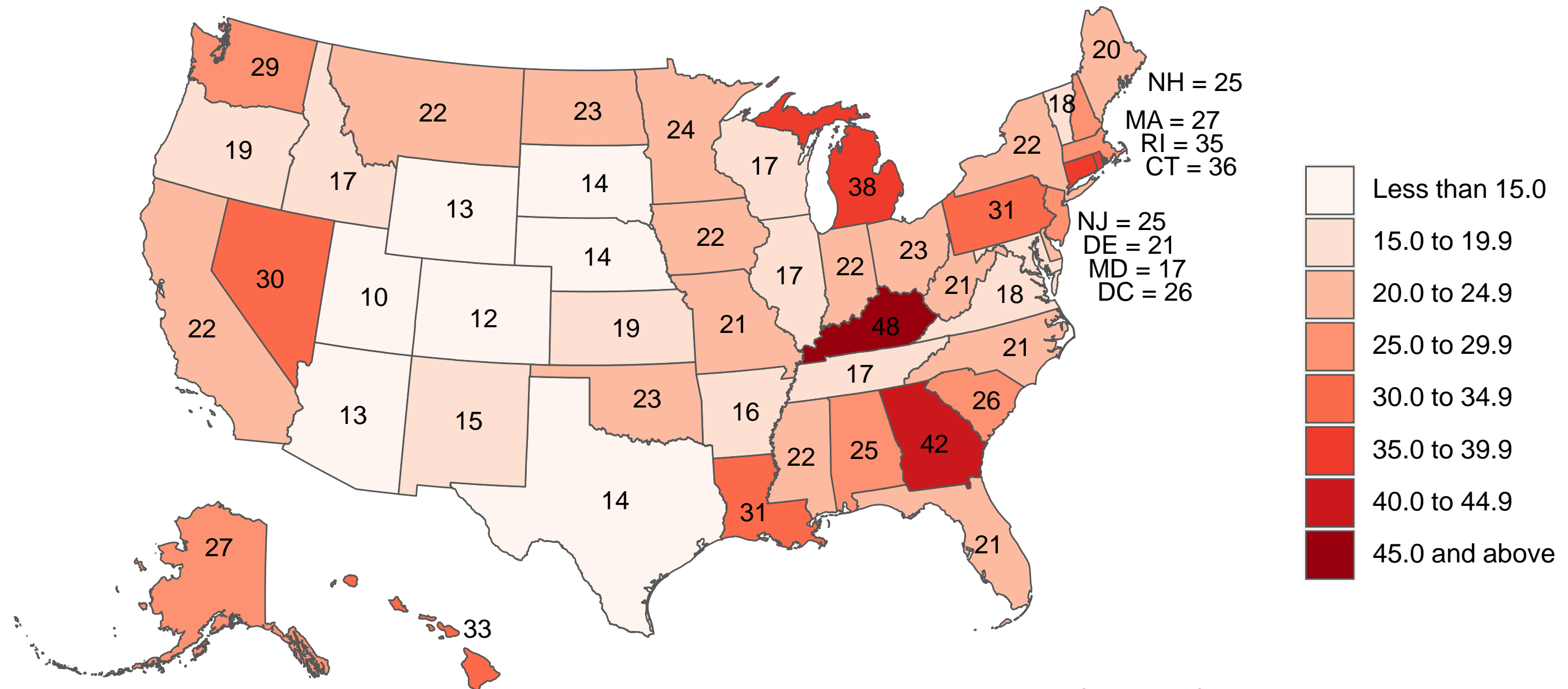
David Autor

- 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

Unemployment Assistance

Pennsylvania

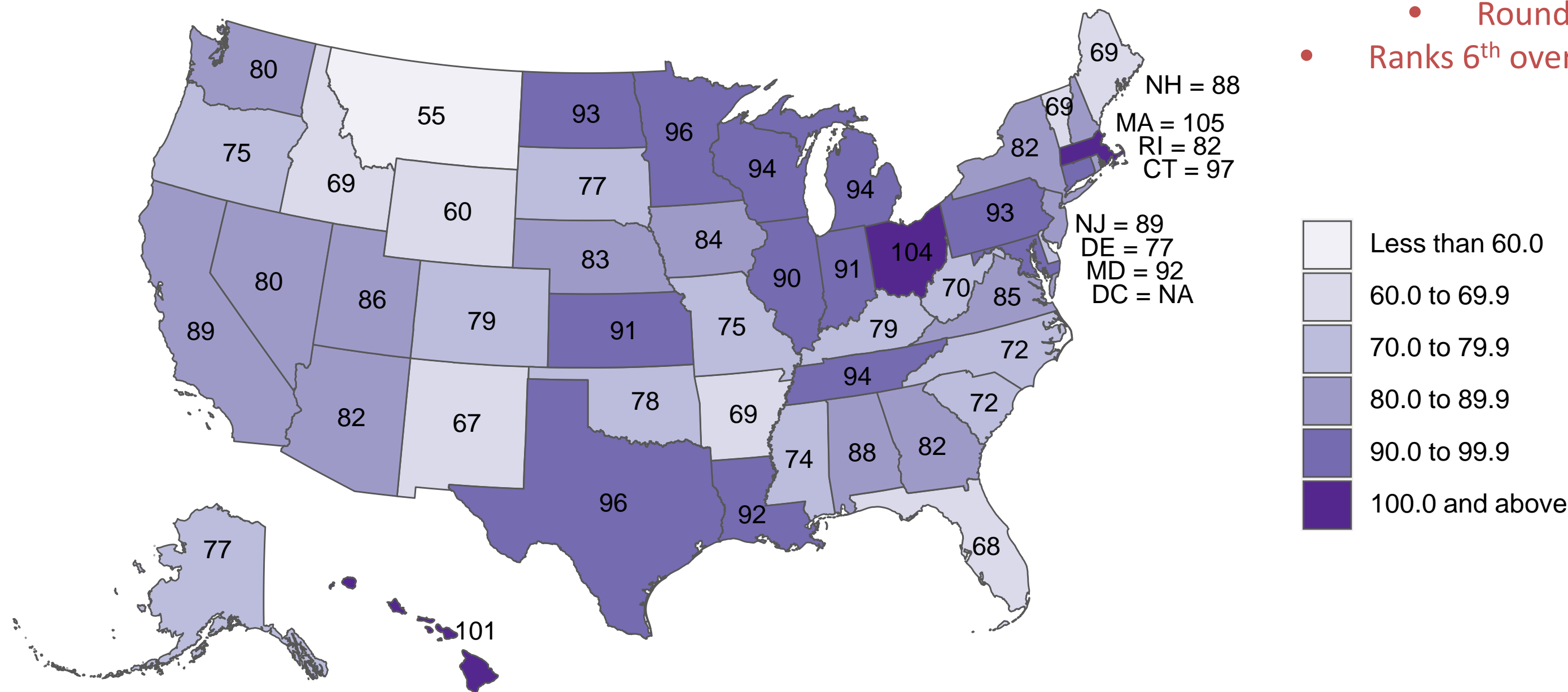
- PA has paid out roughly \$5.3B so far
 - Standard state benefits of \$3.9B + FPUC benefits of \$1.4B
 - 3X 2019 payments and more than that paid in all of 2009 (GR)
 - State system designed to replace about ½ of income
 - Additional \$600 benefit raises replacement rate above 100%
- Still significant backlog
 - Labor and Industry Department says 3 of 10 claims are still unprocessed
 - PUA payments not expected to begin till last week
 - E-mail inquiries 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

Program	Purpose	Dollar amount
Paycheck Protection Program (PPP)	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.	\$360B
Main Street Lending Program (MSLP)	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.	\$600B
Primary & Secondary Market Corporate Credit Facility (PMCCF/SMCCF)	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.	\$750B

PA ranks 10th in PPP funding per small business through 5/1

Paycheck Protection Program Thousands of dollars per small business in 2016



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

Most economic measures took years to recover from GR

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

Consumer Sentiment

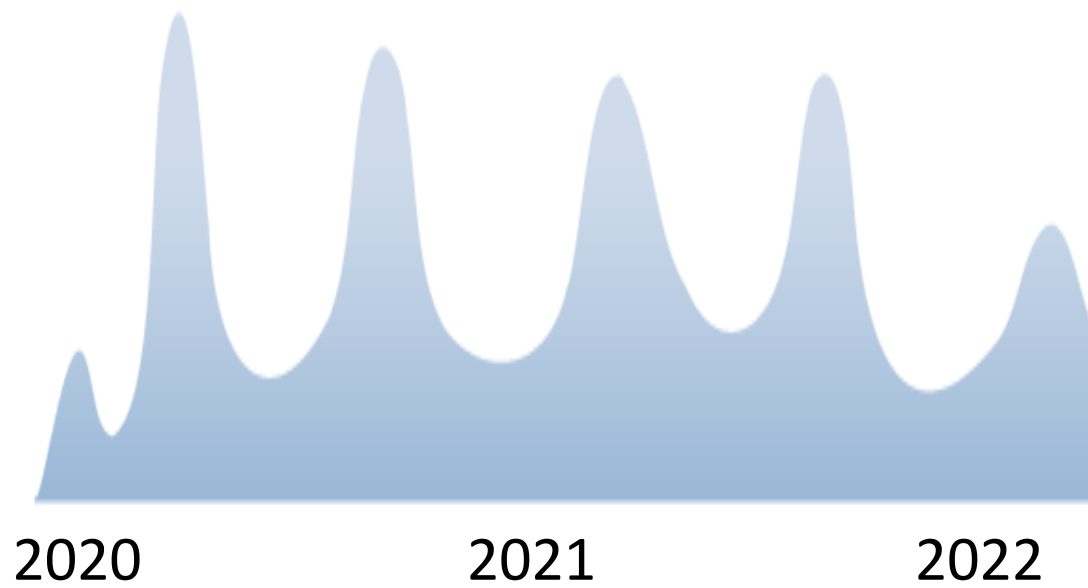
University of Michigan

- 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.**

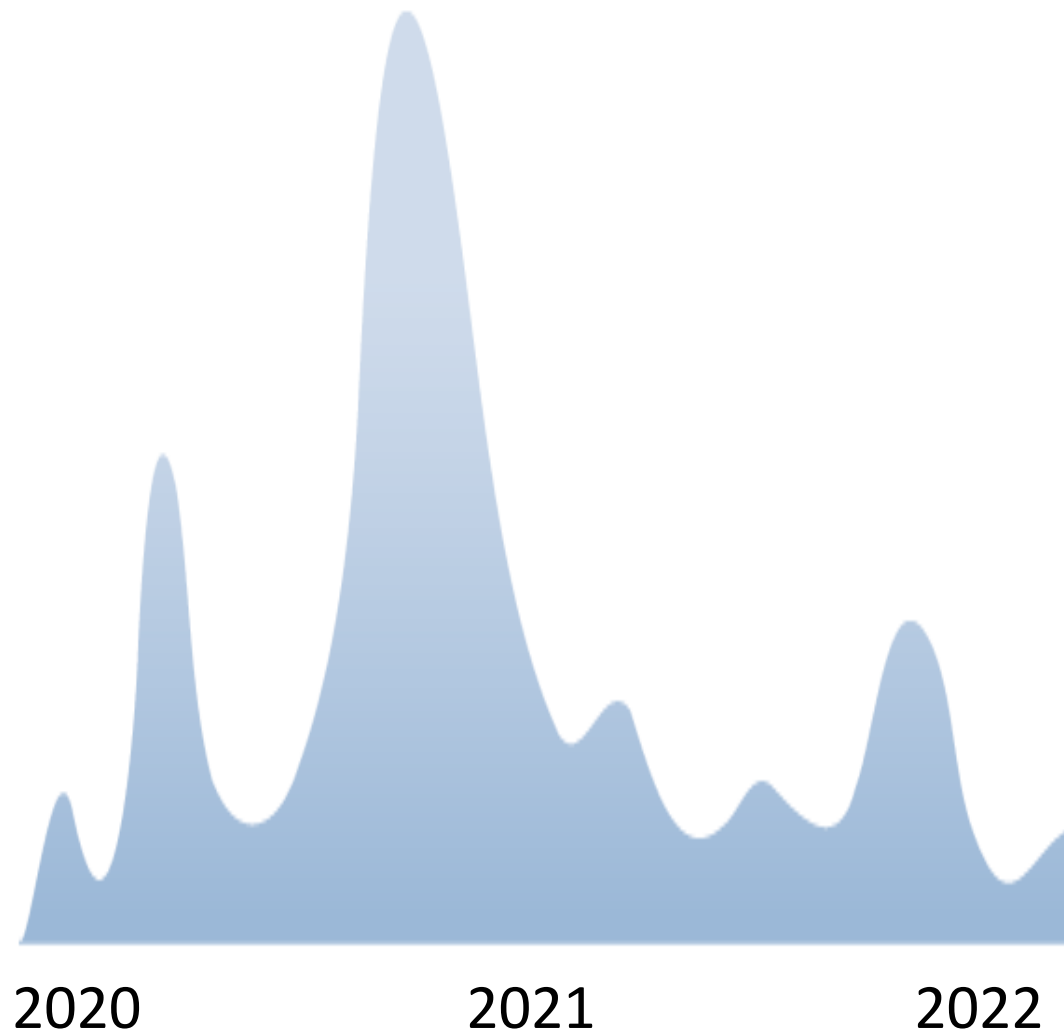
Scenarios suggest that infections will persist

University of Minnesota, Center for Infectious Disease Research & Policy

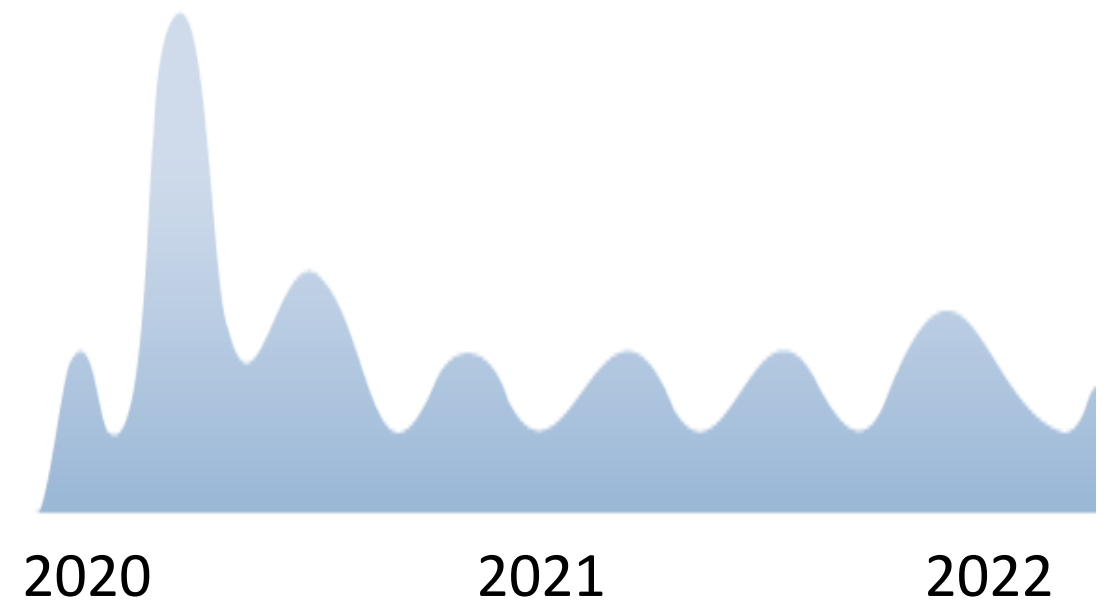
SCENARIO 1
Peaks and Valleys



SCENARIO 2
Fall Peak



SCENARIO 3
Slow Burn



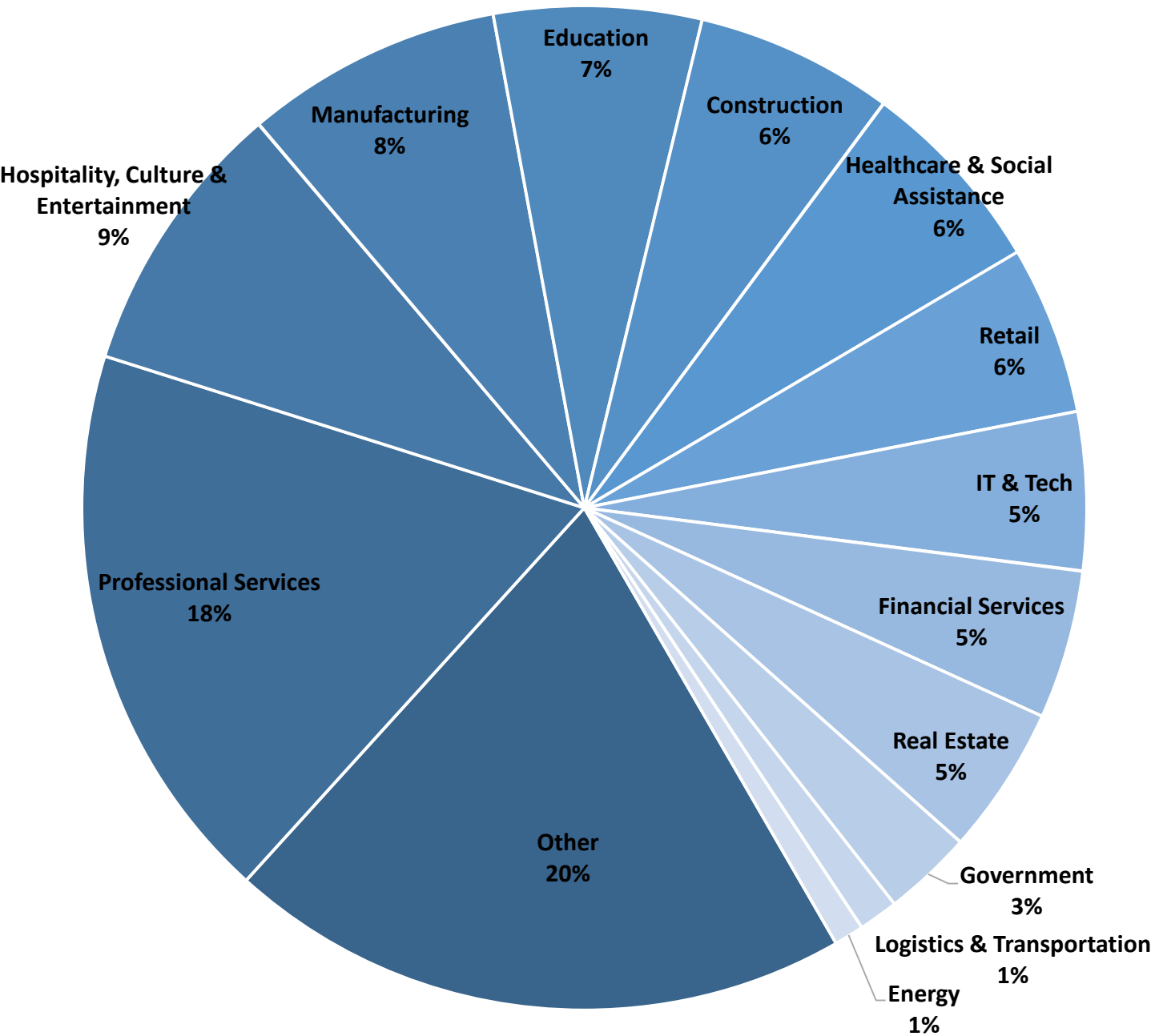
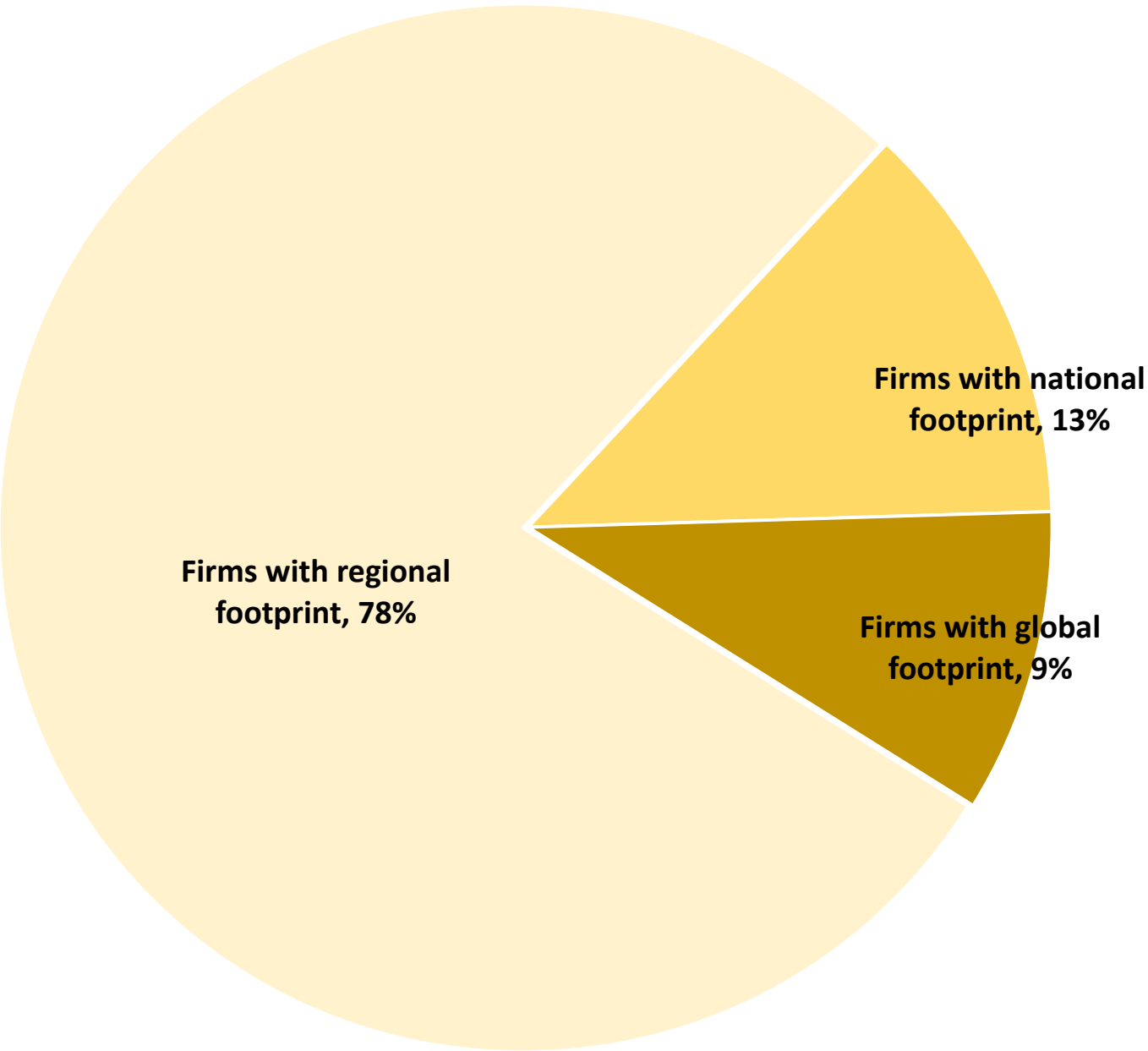
Vera

Krekanova

Allegheny Conference

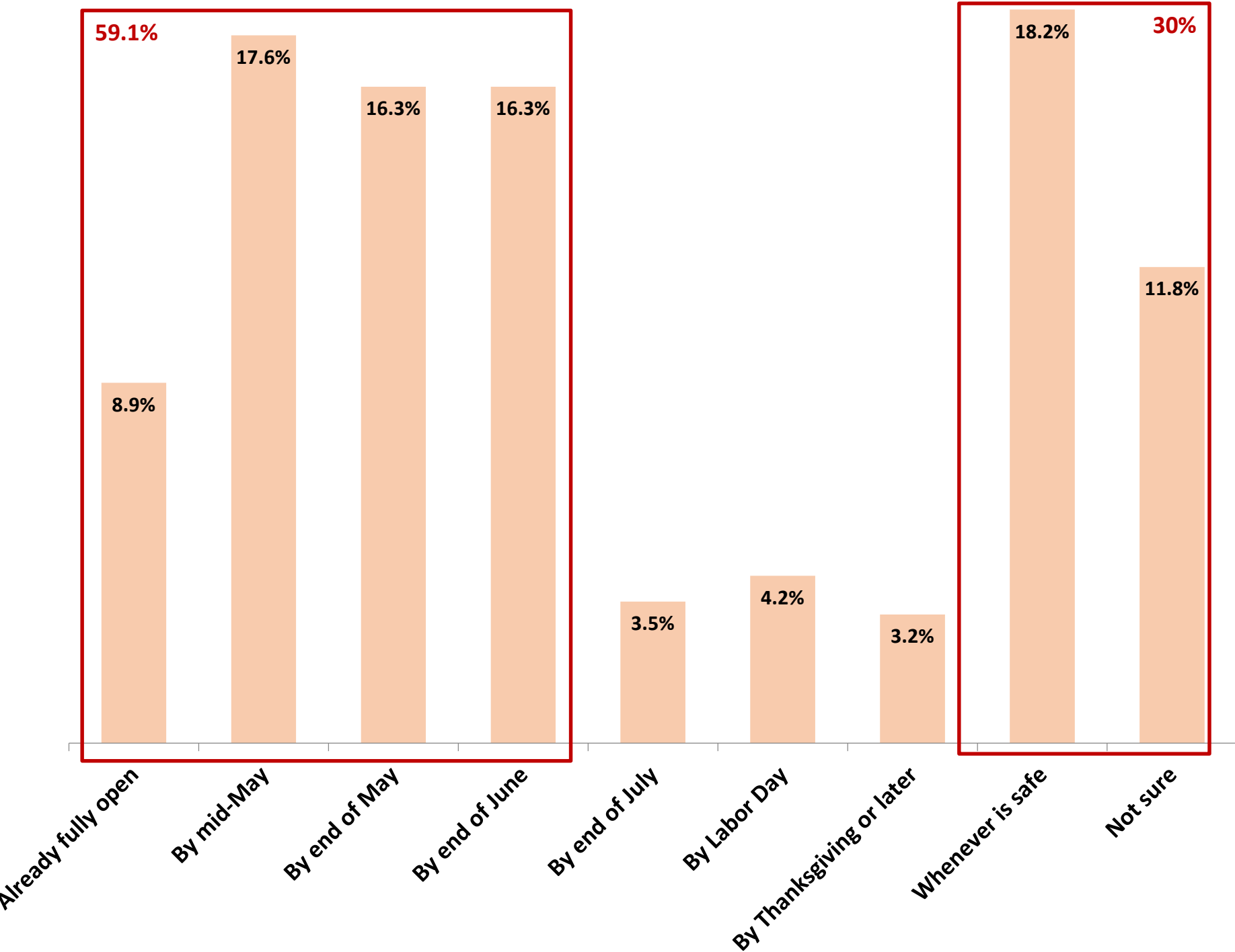
ACCD Survey: Business Preparedness for Reopening & Expectation for Recovery

320 businesses participated; responses collected between April 25 and May 4, 2020

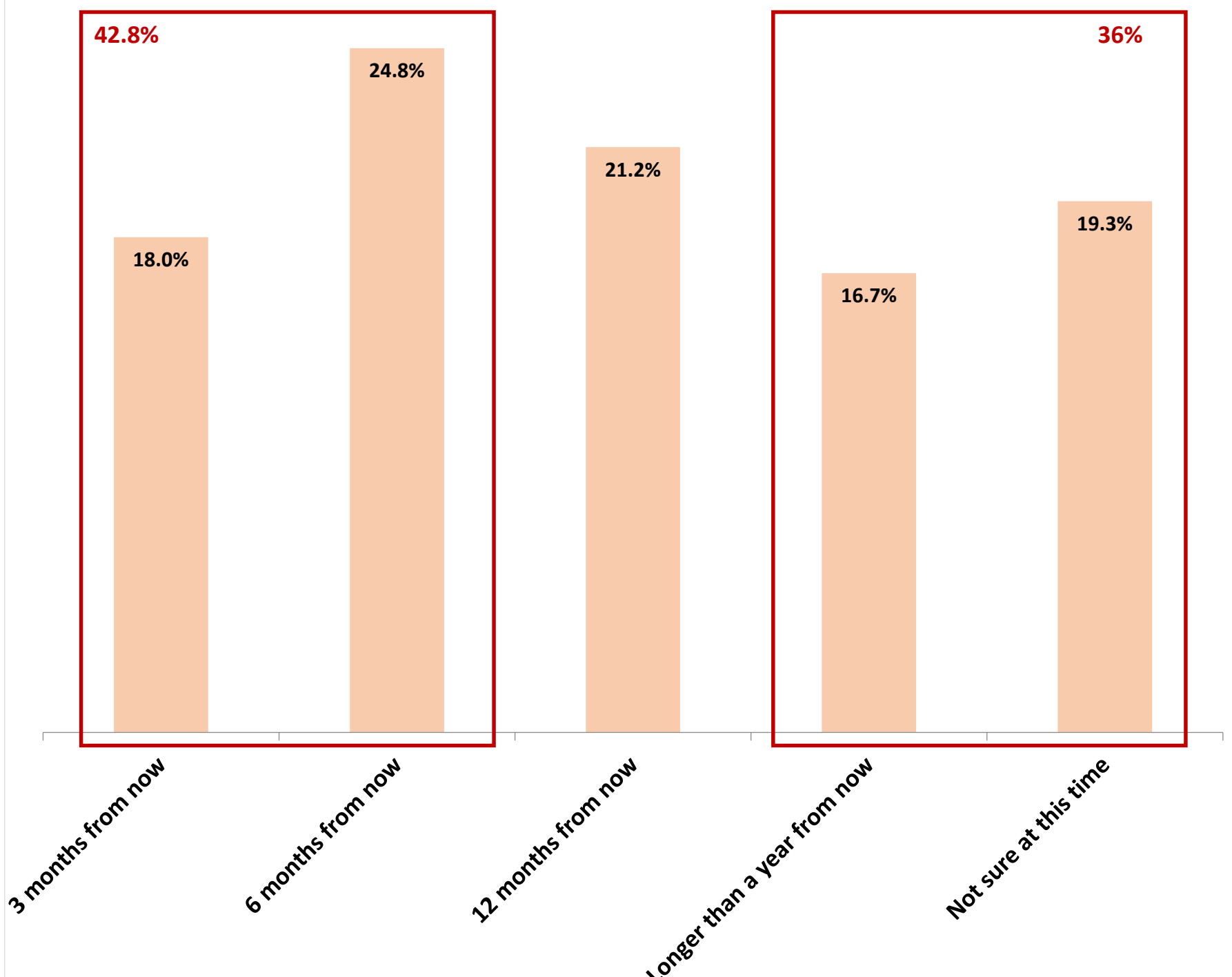


Mixed Perspectives: Strong confidence in relatively fast recovery for some businesses, high uncertainty and inability to predict for others.

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



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



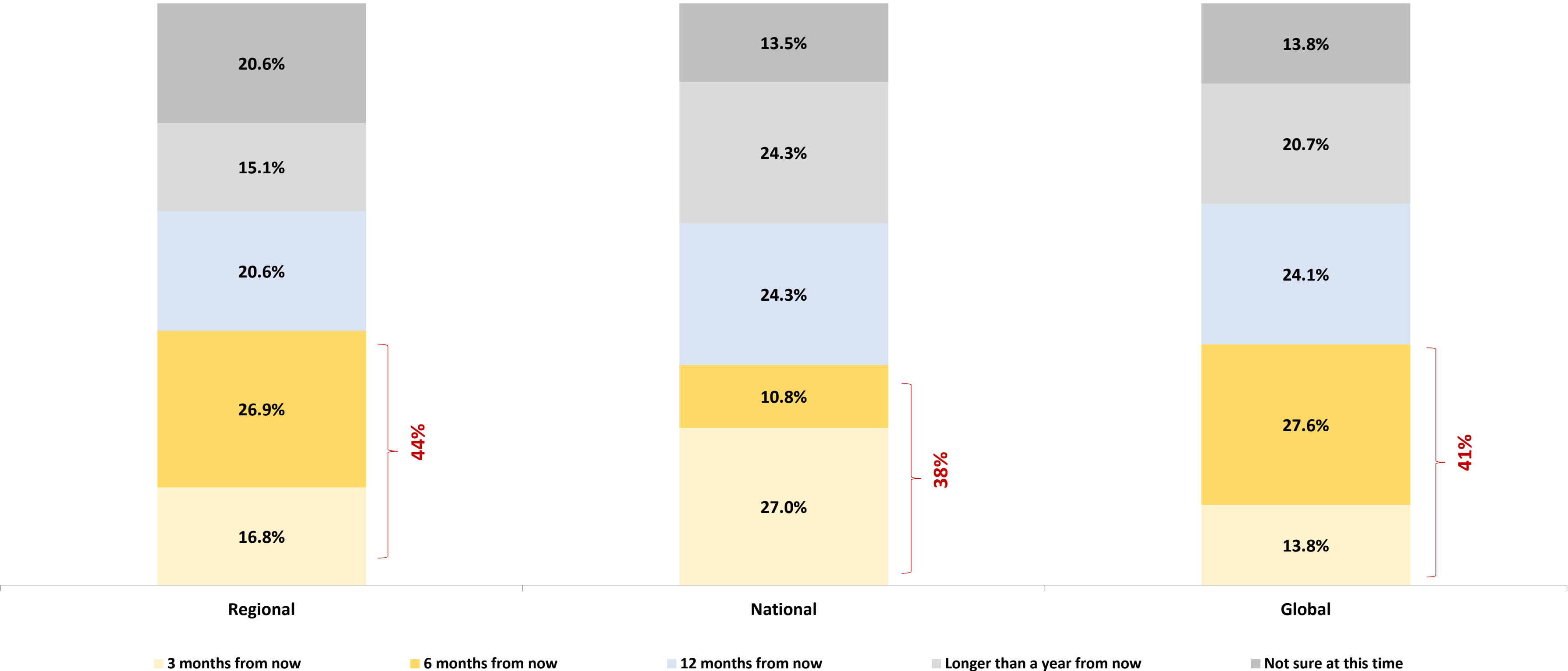
Employers with a national presence predict the fastest reopening of their businesses, global firms the slowest.

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

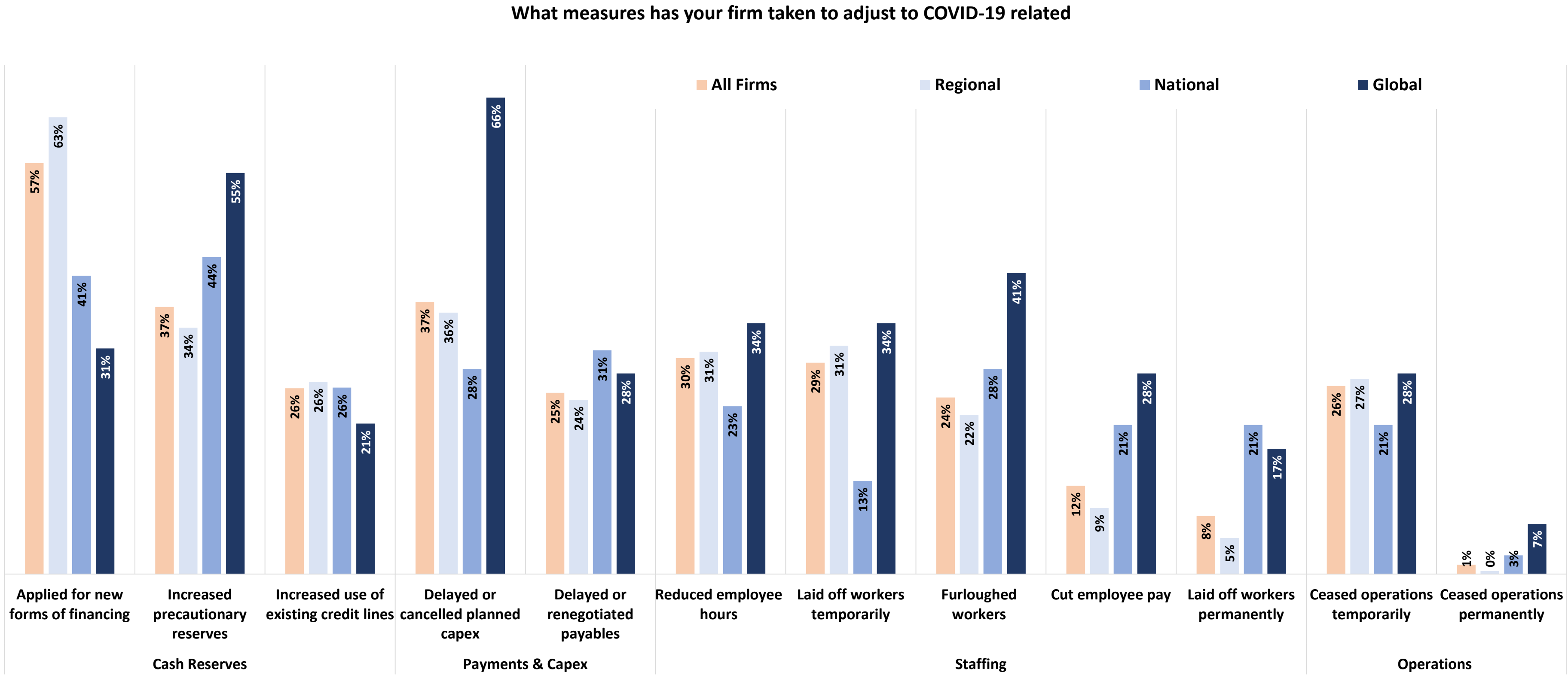


Differences in recovery timeframes are less distinct; with national firms being the least optimistic in returning to pre-pandemic outputs within 6 months.

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

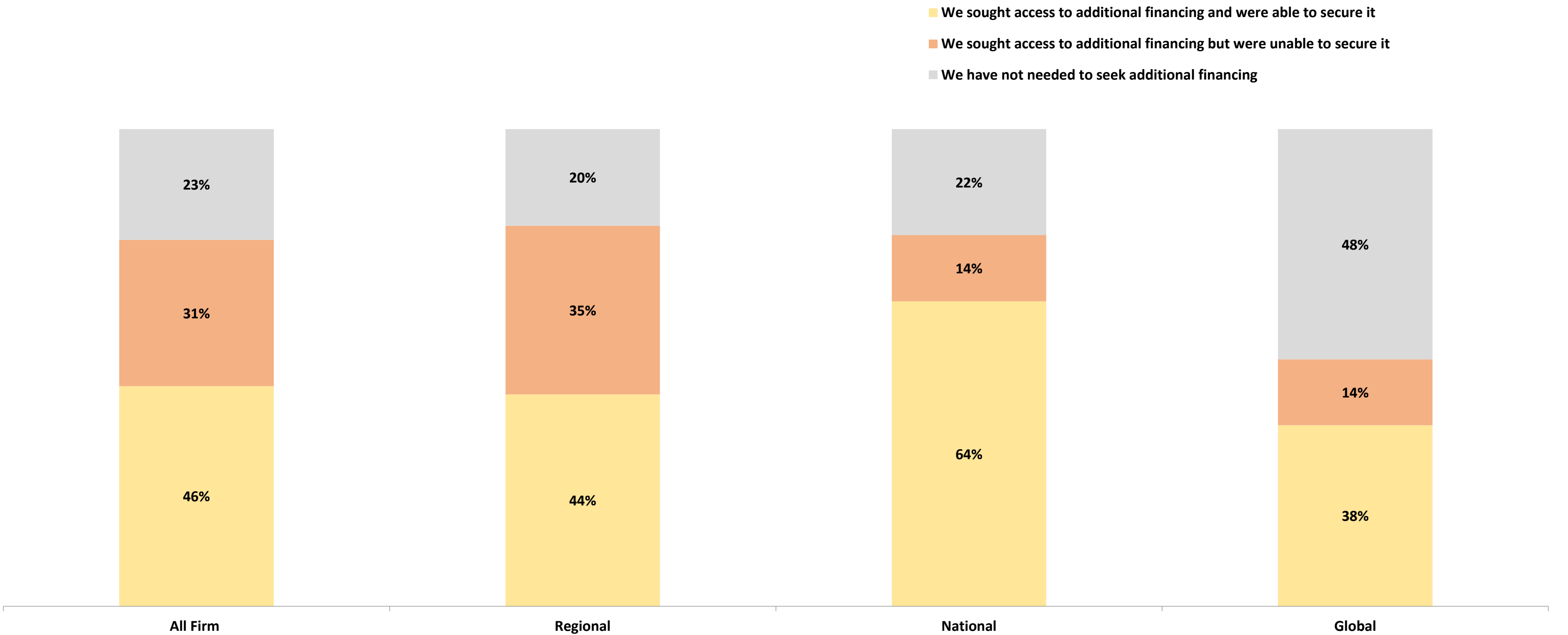


Close to 90% of businesses have taken some measures to adjust to the COVID-19 disruptions. Increasing cash reserves and curtailing expenditure, and adjusting staffing and operations levels were among the most frequently implemented.

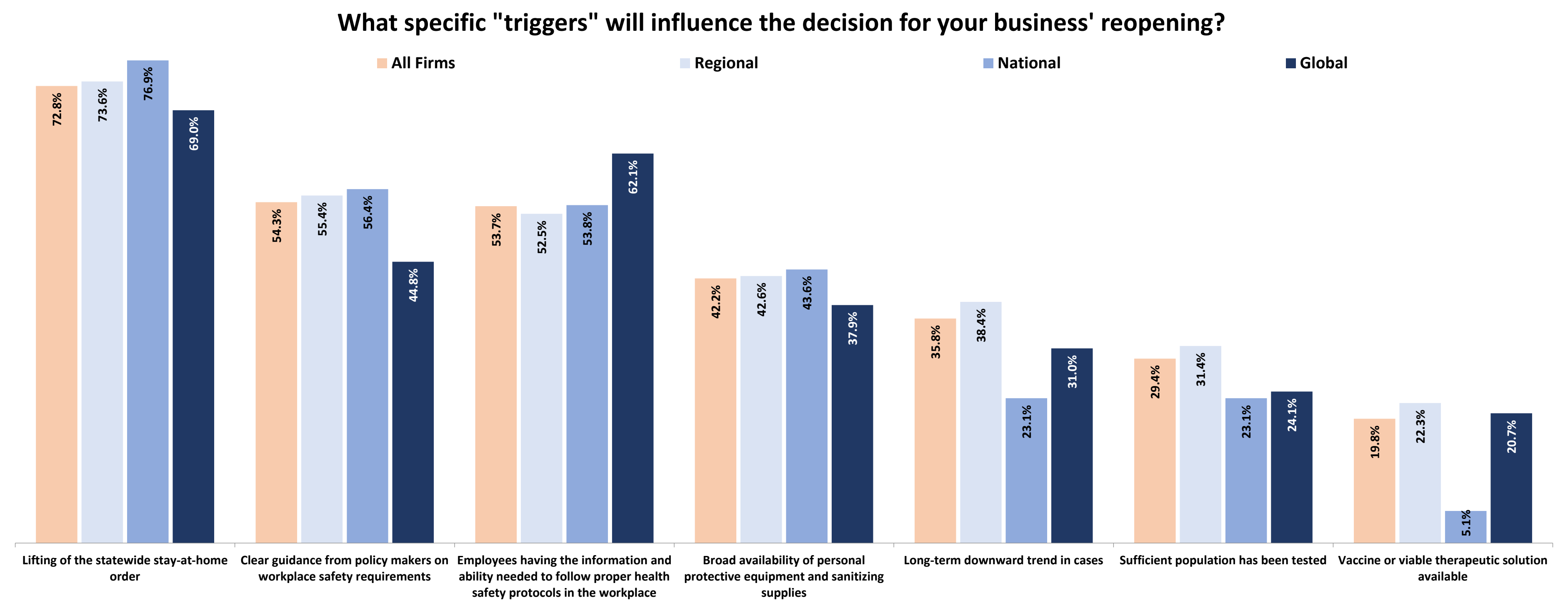


Close to **77%** of all firms have sought new forms of financing but only **46%** were able to secure it. Firms with a national presence were the most successful, firms with a regional presence the least.

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

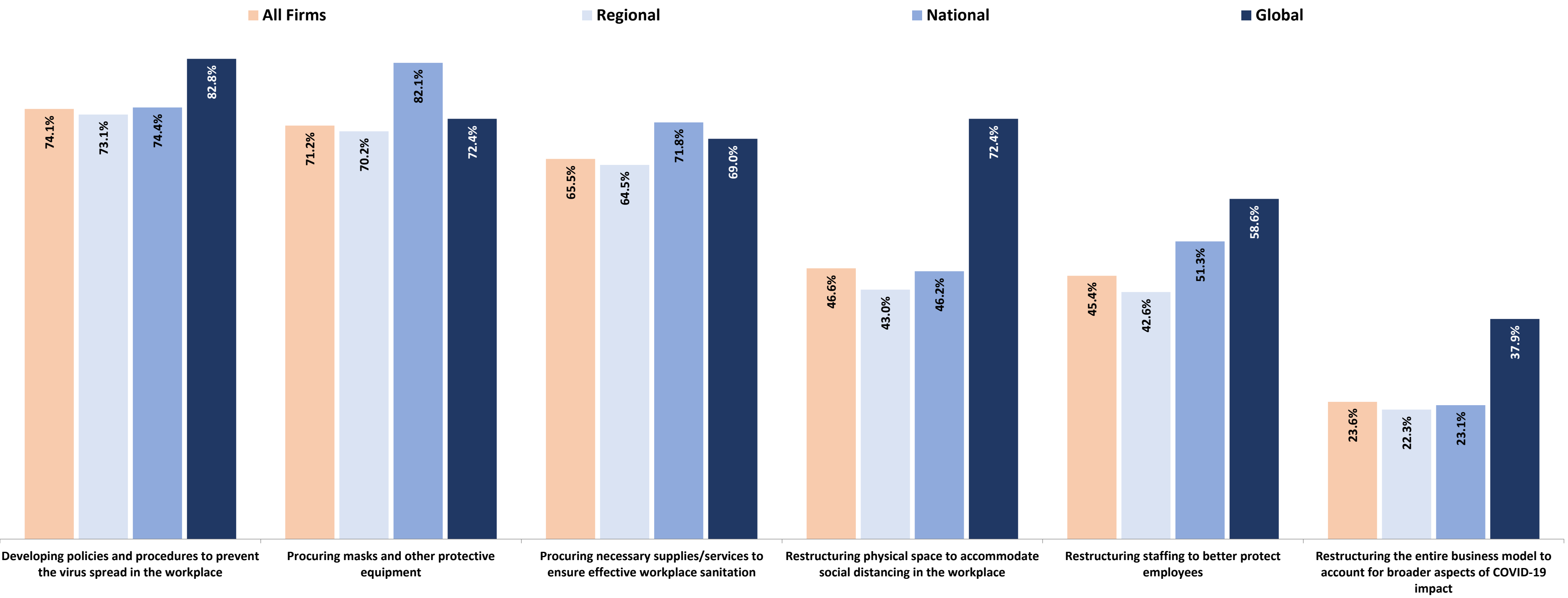


Businesses are considering multiple factors in their decision-making about reopening. Top 3 triggers include the lifting of stay-at-home orders, preparedness of employees to behave safely in the workplace, and clear guidance from policy makers.



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.

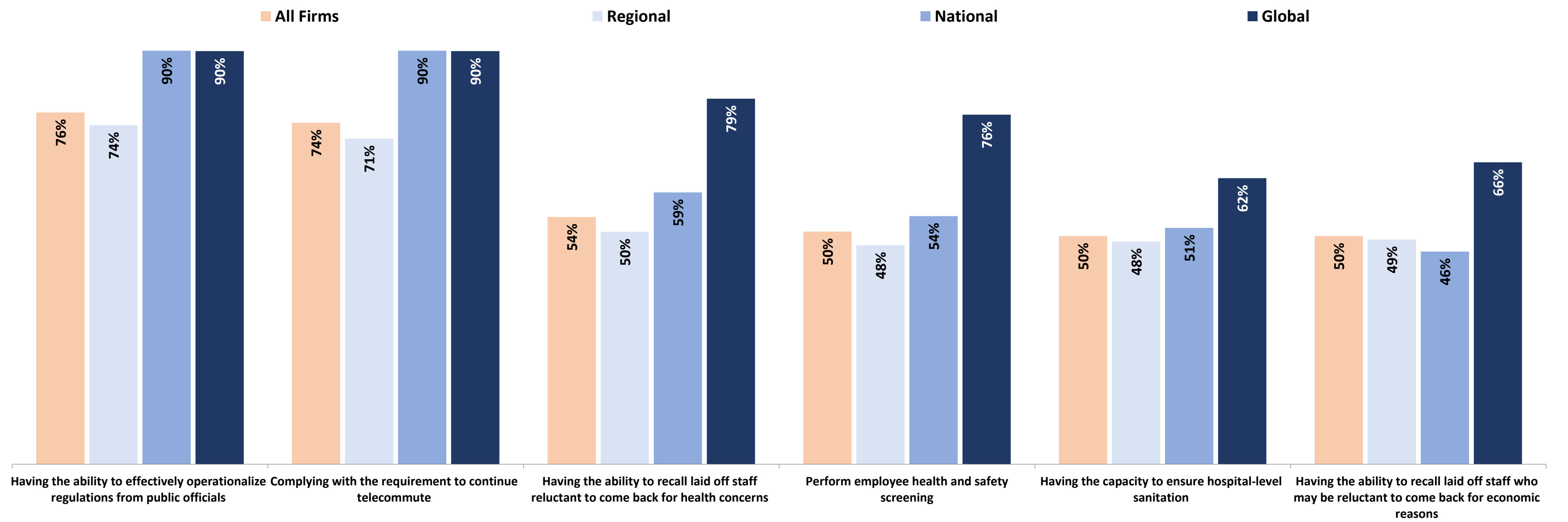
What measures has your firm been taking to prepare your business for reopening?



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.

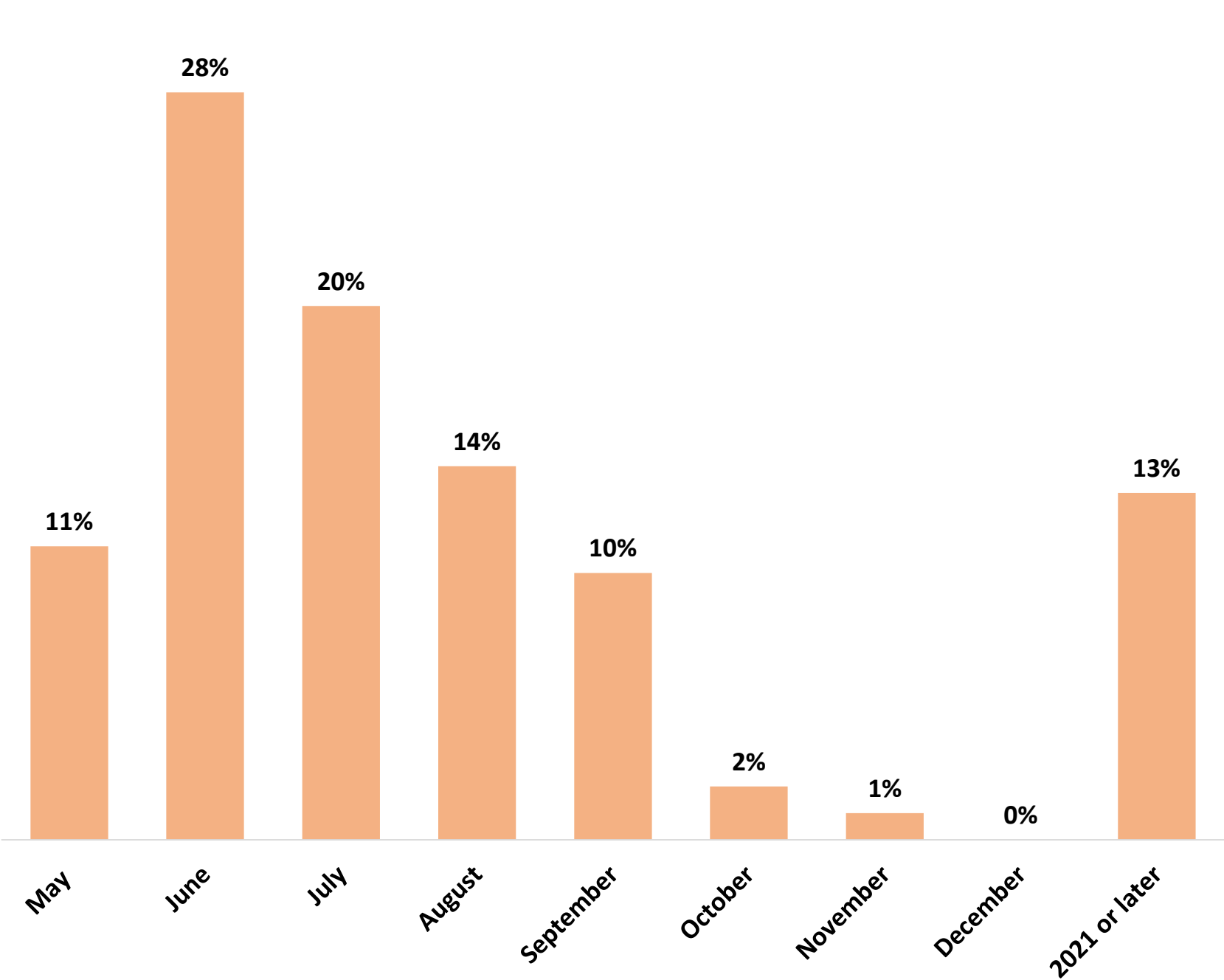
What is your firm’s confidence level with the listed aspects of business preparedness for reopening?

Values denote the cumulative share of businesses that are “very confident” or “somewhat confident” in their ability to handle each task.

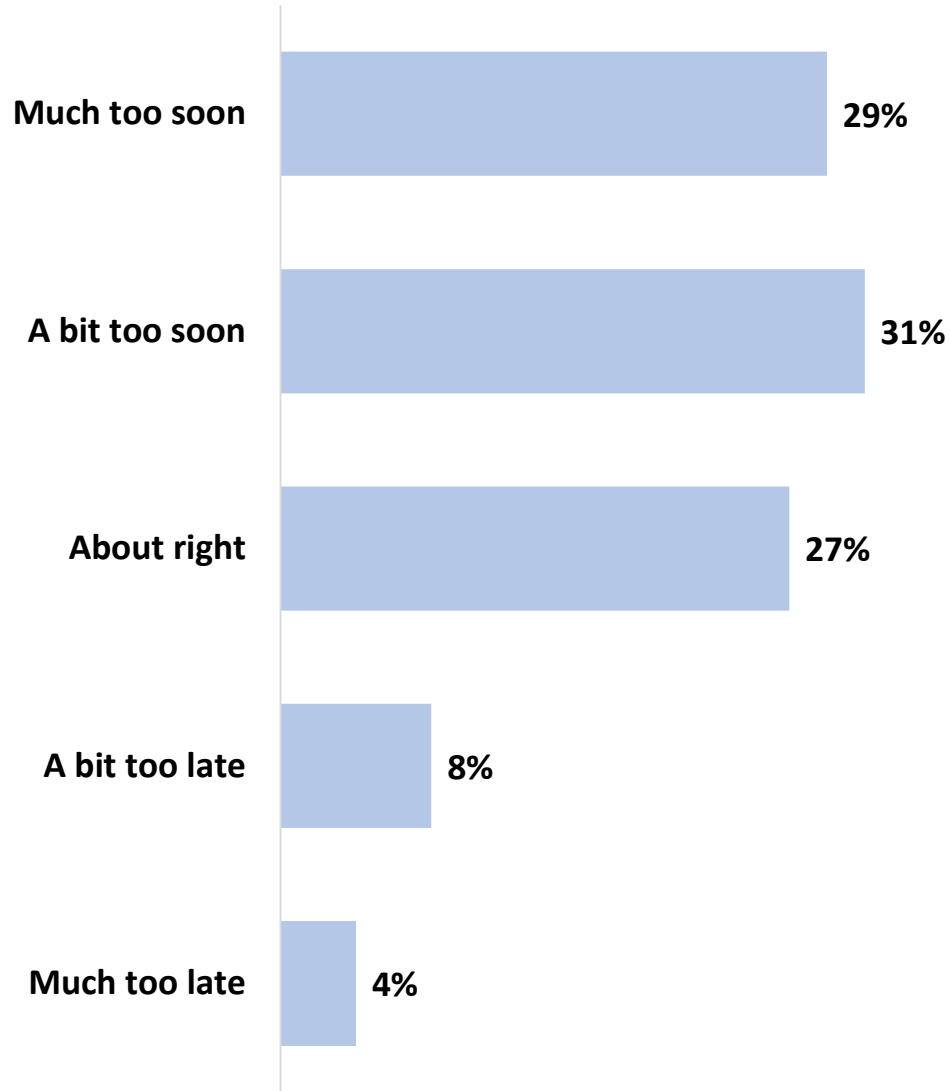


CONSUMER PERSPECTIVE: Most residents believe the Pittsburgh economy will not fully reopen until sometime in the summer, 60% also believe beginning to reopen early May is too soon.

When Will the Pittsburgh Economy Fully Reopen?

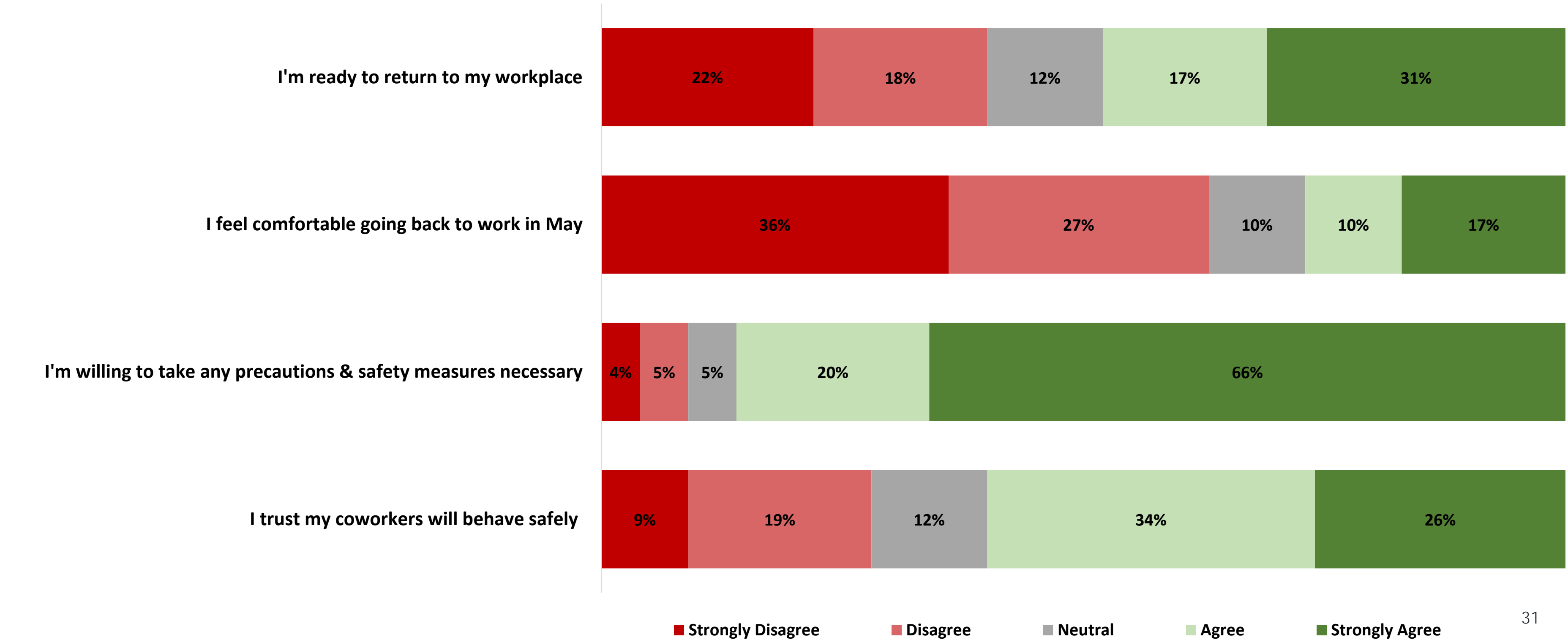


Beginning to Reopen early May is...



CONSUMER PERSPECTIVE: Residents have mixed feelings about returning to work but are committed to behaving safely.

Consumer Sentiment toward Returning to Work



Q & A

Moderated by:

Kyle Chintalapalli

Allegheny Conference/
Pittsburgh Regional Alliance

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A wide-angle photograph of the Pittsburgh skyline at dusk. The city's skyscrapers, including the PPG Place and the US Steel Tower, are illuminated and their lights reflect in the calm water of the river. The iconic yellow suspension bridge is also visible, spanning the river. The sky is a mix of soft pinks, oranges, and blues.

PITTSBURGH REGION RESPONSE TO COVID-19

AlleghenyConference.org/COVID-19

An aerial photograph of the Pittsburgh skyline at dusk or dawn. The city's dense urban landscape is visible, with numerous skyscrapers and buildings. The Pittsburgh Steelers stadium is prominent in the middle ground. The foreground shows residential areas with houses and trees. The sky is filled with dramatic, dark clouds. Overlaid on the image is a large text block in white and yellow.

**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