



COVID-19 US Economic Impact

September 10, 2020

TFG Economics

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Introduction

At The Freedonia Group, we are actively monitoring company and industry reports on how the COVID-19 outbreak is affecting demand, investment, and industry consolidation.

Since we released our set of US economic forecasts on **February 28, 2020**, the unfolding scope of the crisis has required ongoing reassessments of the marketplace. The table below summarizes the evolution of our forecasts since that time.

	US Forecast 2019-2024 CAGR as of:								
	Feb 28, 2020	Mar 18, 2020	Mar 27, 2020	Apr 3, 2020	Apr 17, 2020	May 8, 2020	May 22, 2020	Jul 27, 2020	Sep 10, 2020
Real GDP	1.9%	1.4%	1.4%	1.4%	0.7%	0.6%	0.6%	0.7%	0.6%
Personal Consumption Expend	2.0%	1.5%	1.4%	1.4%	0.8%	0.8%	0.8%	0.7%	0.8%
Retail Sales (nominal)	3.4%					2.3%	2.3%	2.3%	2.4%
Construction Spending	1.6%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.4%	1.1%
Manufacturers' Shipments	0.9%	0.1%	0.1%	0.1%	-0.2%	0.2%	0.2%	0.1%	-0.1%
Light Vehicle Production	1.3%	0.1%	0.1%	0.1%	0.1%	0.6%	0.6%	0.6%	0.6%

The following slide deck presents new insights as of **September 10, 2020**.

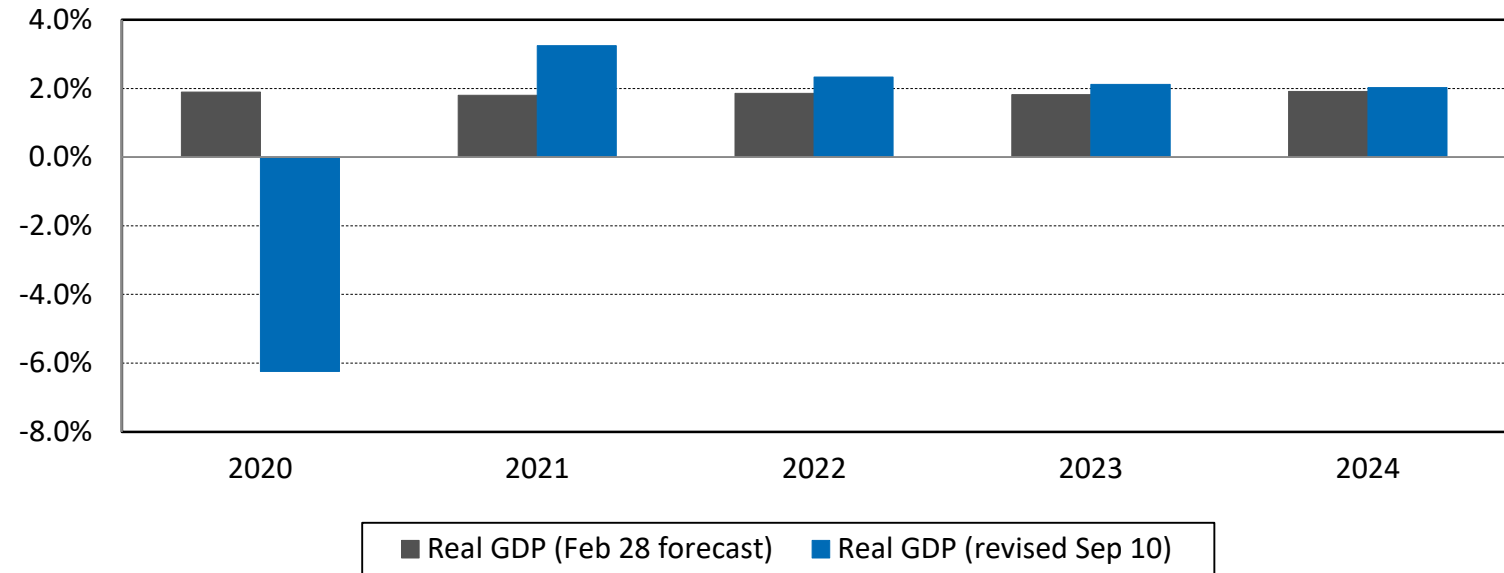
Real GDP

2019-2024
CAGR

Feb 1.9%

Now 0.6%

Real GDP % Annual Change



Source: The Freedonia Group

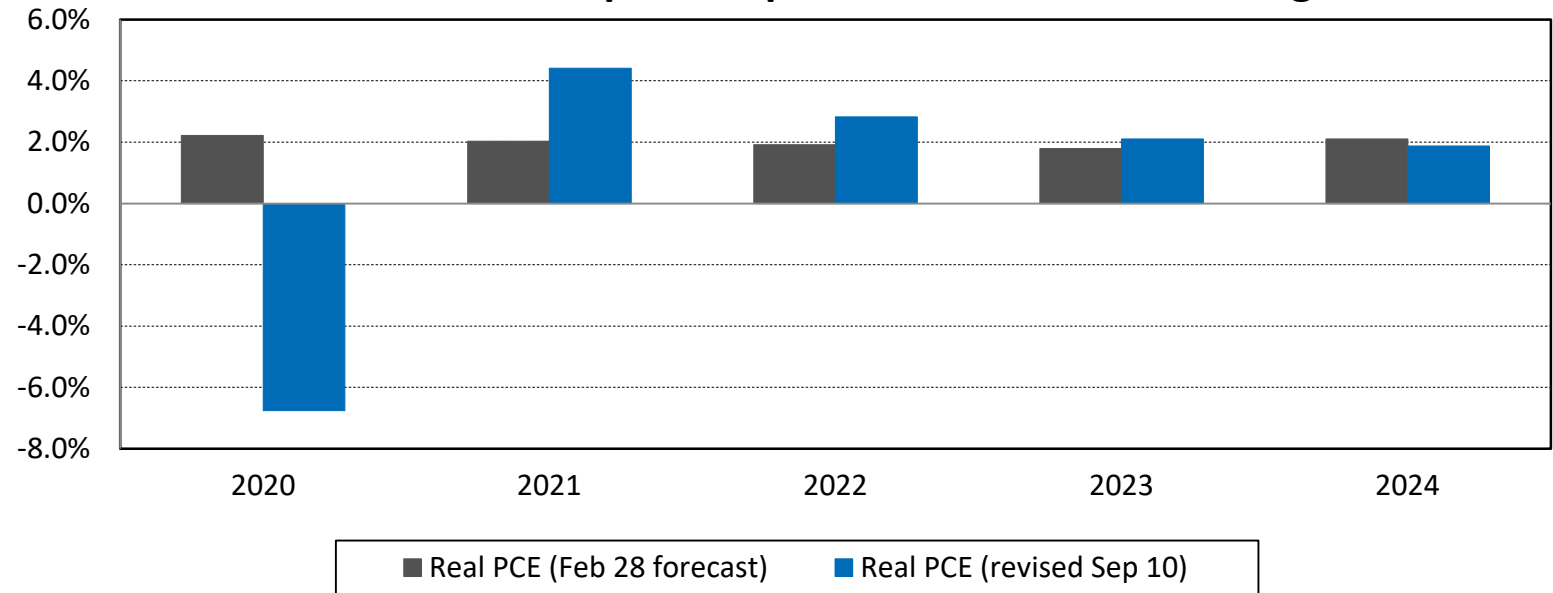
Real GDP fell at a 32% annualized rate in the second quarter of 2020, but indications are that a partial rebound will be recorded in the third quarter. Gains in the final quarter of the year are likely to be modest. Some service sectors will face extended periods of depressed activity, which will limit the magnitude of the economic recovery.

In the longer term, the need to redesign work processes to reduce the spread of the coronavirus will impose additional costs and act as a drag on economic growth.

Personal Consumption Spending

2019-2024
CAGR
Feb 2.0%
Now 0.8%

Personal Consumption Expenditures % Annual Change



Source: The Freedonia Group

Personal consumption spending declined 34% at an annualized rate in the second quarter of 2020. Declines were steepest for services, while consumption of durable goods fell only 1.3% as some households undertook home improvement projects and light vehicle sales rebounded after the loosening of shelter-in-place restrictions.

After reaching 14.7% in April, the unemployment rate recovered to 8.4% in August as businesses reopened and workers were recalled. However, airlines may cut its workforce sharply in the last quarter of 2020 in the absence of federal aid programs.

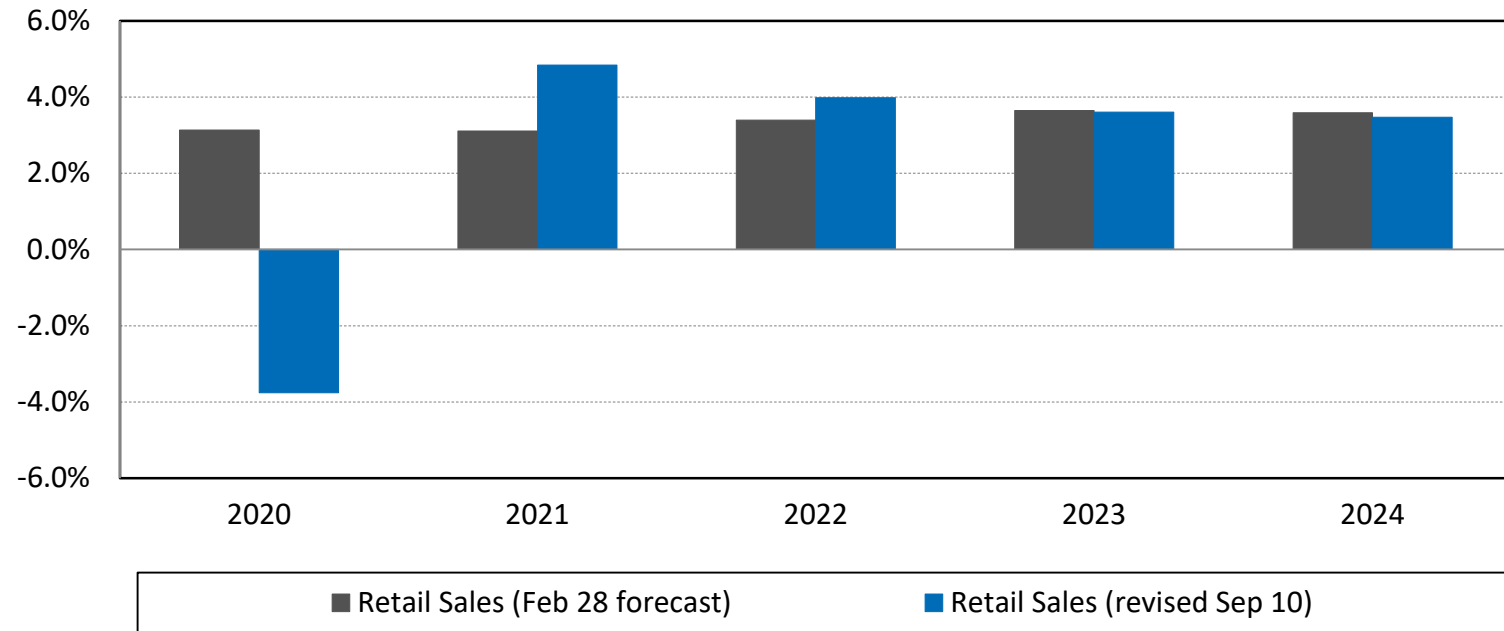
Retail Sales

2019-2024
CAGR

Feb 3.4%

Now 2.4%

Retail Sales % Annual Change



Source: The Freedonia Group

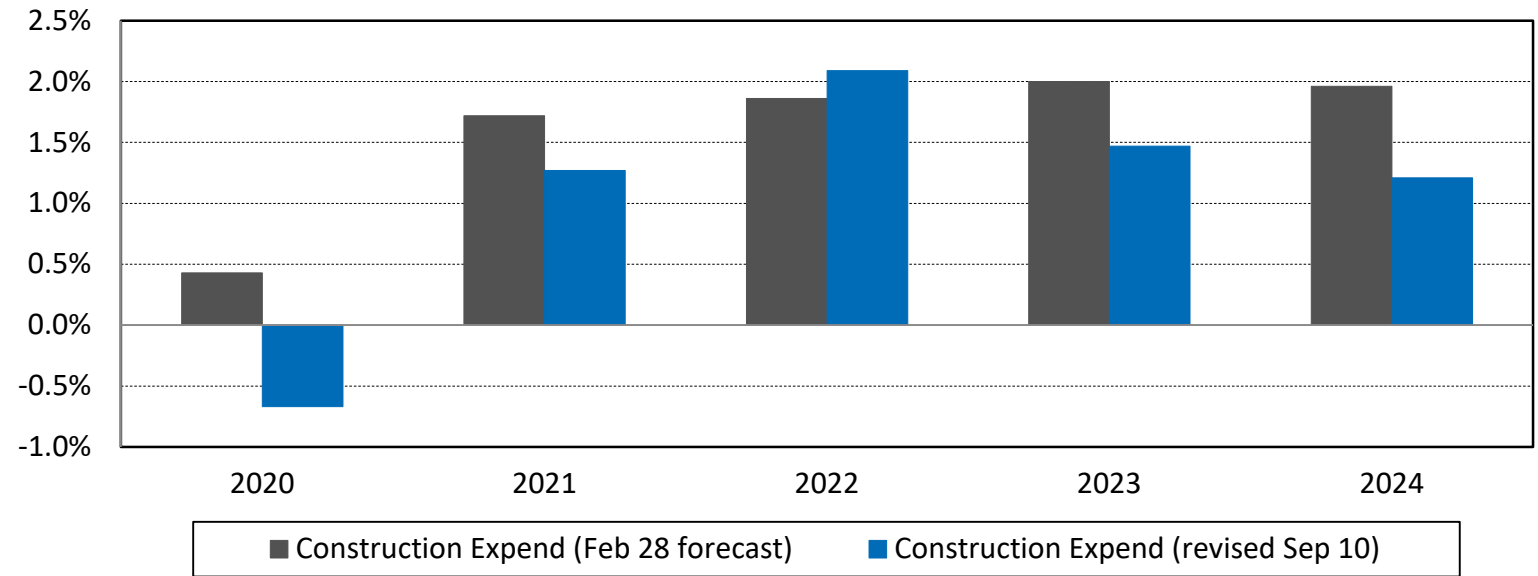
Through July, retail and foodservice sales were 2.1% lower than in the comparable period during 2019. Outlets for clothing, home furnishings, electronics, and gasoline stations all saw double-digit declines, while sales at vehicle dealership were only down 4.3% and grocery stores, building materials stores, and online retail saw substantial gains.

Shelter-in-place restrictions curtailed many retail activities beginning in mid-March. Even as those restrictions are lifted, retail outlets face additional costs to conduct business in a way that reduces virus transmission.

Construction Spending

2019-2024
CAGR
Feb 1.6%
Now 1.1%

Real Construction Expenditures % Annual Change



Source: The Freedonia Group

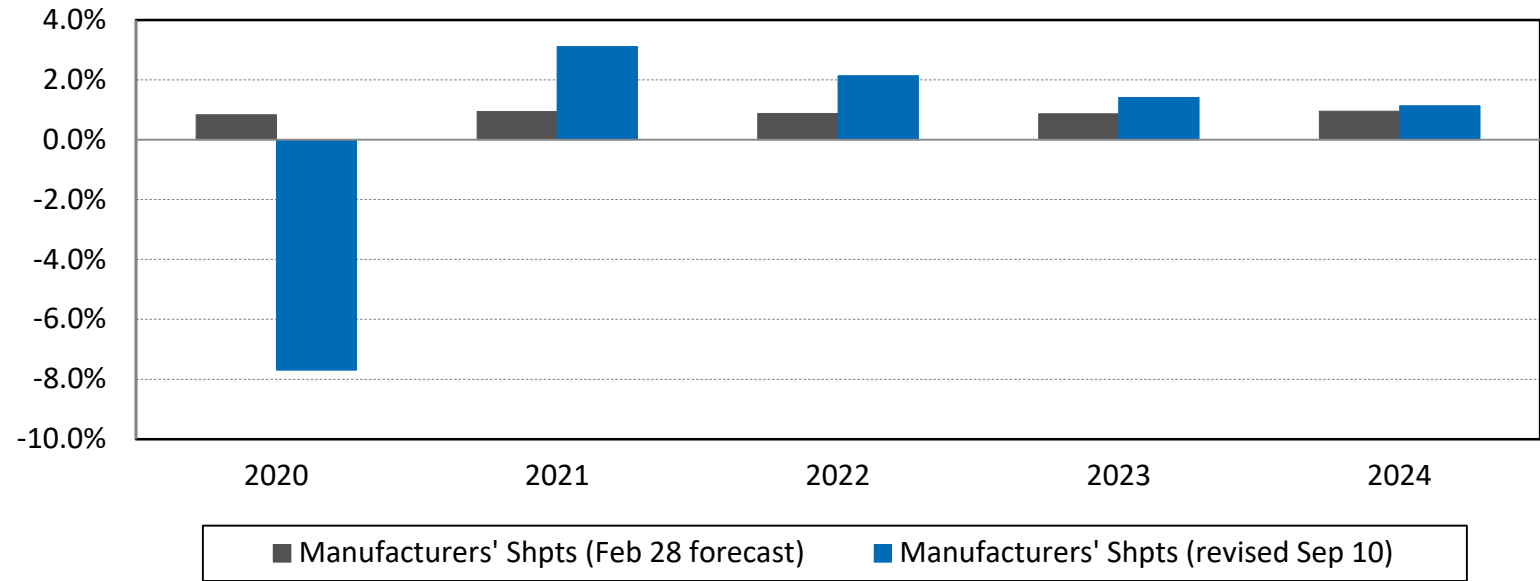
Shelter-in-place regulations restricted construction activity in numerous jurisdictions starting in the middle of March, but within two months most types of construction were allowed to proceed, not just those projects that were deemed “essential”.

Following strong growth in the first quarter of 2020, construction spending declined at only a 15% annual rate during the second quarter, a much smaller contraction than for GDP overall. Construction spending was supported by new housing construction, which began to recover in May, and by home improvement projects.

Manufacturers' Shipments

2019-2024
CAGR
Feb 0.9%
Now -0.1%

Real Manufacturers' Shipments % Annual Change

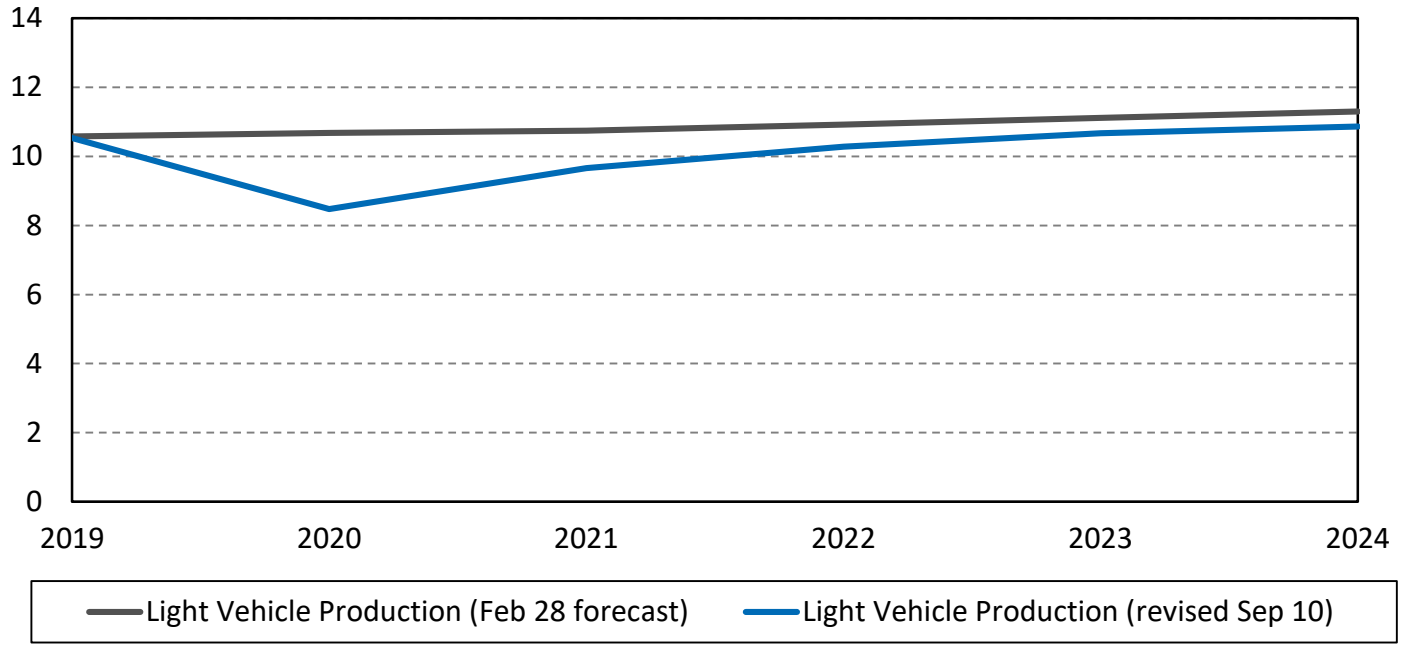


Source: The Freedonia Group

Through July, manufacturers' shipments were about 8% lower than in the comparable period in 2019, measured without seasonal adjustment.

Over the longer term, manufacturing costs are likely to rise as facilities implement enhanced disinfection procedures, redesign work processes, and supply personal protective equipment to workers to reduce the risk of coronavirus transmission.

Light Vehicle Production (million units)



Source: The Freedonia Group

Light Vehicle Production

2019-2024
CAGR
Feb 1.3%
Now 0.6%

US motor vehicle plants have sought to increase production since coming back online in April or May but have also had to deal with partial suspensions or stoppages because of workers testing positive for COVID-19 and parts shortages. Producers are trying to concentrate of increasing the output of the most popular vehicles to improve sales.

Motor vehicle retailers have seen sales rebound but face limited inventories because of the suspension of production earlier in the year and the difficulties manufacturers have had in ramping up production.