THE OUTLOOK FOR THE U.S. ECONOMY

Technology & Manufacturing Association

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Euler Hermes North America
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EULER HERMES: GLOBAL LEADER IN TRADE CREDIT INSURANCE

- Founded in 1893
- AA S&P Rating and A+ AM Best Rating
- Global leader in credit insurance with 34% market share
- Offices in 52 countries providing coverage in over 200 foreign markets
- Backed by blue-chip ownership of the Allianz Group
- 6,000 employees and 52,000 clients worldwide
- Insure over $150 Billion in US sales and over $1 Trillion globally.
- Pay 85,000 claims per year
- International Risk Database monitors over 85 million companies worldwide

Credit Insurance: Protection against bankruptcy and slow payment losses

- Safer sales growth in the US or overseas
- Knowledge to better manage risk
- Improved borrowing options
- Credit function support
- Reduce bad debt reserves
- Get paid for what you sell
COVID-19 AS OF LAST NIGHT
We are actually in our third wave.
Daily new confirmed COVID-19 cases per million people

shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.

Source: ourworldindata.com
Daily new confirmed COVID-19 deaths

Shown is the rolling 7-day average. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.
Daily new confirmed COVID-19 deaths per million people

Shown is the rolling 7-day average. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.
The share of daily COVID-19 tests that are positive

Shown is the rolling 7-day average. The number of confirmed cases divided by the number of tests, expressed as a percentage. Tests may refer to the number of tests performed or the number of people tested – depending on which is reported by the particular country.
THE U.S. OUTLOOK: SHUTDOWN AND RECOVERY
Even before the shutdown, the economy was fragile.

Sources: IHS Global Insight, Conference Board, Fed, ISM, Census, Allianz Research

Plus a trade war (remember?) which is still going on!
Contagion in different confinement scenarios

- Without confinement measures
- With confinement measures

How many very sick people hospitals can treat

Economic hit in different confinement scenarios

- With confinement measures
- Without confinement measures

Sources: Euler Hermes, Allianz Research
UNEMPLOYMENT – NOT JUST UNPRECEDENTED, IT’S COMPLETELY DIFFERENT

Weekly Jobless Claims - last 50 years

Sources: IHS, BLS, Allianz Research
UNEMPLOYMENT – NOT JUST UNPRECEDENTED, IT’S COMPLETELY DIFFERENT

Weekly Jobless Claims - last 50 years

Sources: IHS, BLS, Allianz Research
Incredibly rapid destruction…

... and they were all wiped out in 5 weeks

Cumulative jobs created since the Great Recession, millions

In the 10 years since the Great Recession, the economy created 23 million jobs...

...flattening (?) but still huge...

Initial Jobless Claims

6.9M

4,000,000

5,000,000

6,000,000

7,000,000

0

ave 350k

3,000,000

2,000,000

1,000,000

6/22/2020

6/26/2020

6/29/2020

7/6/2020

7/10/2020

7/13/2020

7/20/2020

7/27/2020

8/3/2020

8/7/2020

8/10/2020

8/17/2020

8/20/2020

8/24/2020

Continuing Jobless Claims

0

3,000,000

6,000,000

9,000,000

12,000,000

15,000,000

24,000,000

33,000,000

36,000,000

3/22/2020

3/26/2020

3/30/2020

4/6/2020

4/10/2020

4/13/2020

4/20/2020

4/24/2020

5/1/2020

5/5/2020

5/8/2020

5/15/2020

5/19/2020

5/22/2020

...total people still claiming have fallen, but still astronomical

Sources: IHS, BLS, Allianz Research
HOW LONG TO GET JOBS BACK?

How long did it take in previous recessions?

Cumulative Job Loss By Months of Recession, 000s

Sources: IHS, BLS, Allianz Research

months since job losses started
HOW LONG TO GET JOBS BACK?

How long did it take in previous recessions?

<table>
<thead>
<tr>
<th>Recession</th>
<th>Months to Recover Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>'74</td>
<td>20</td>
</tr>
<tr>
<td>'80</td>
<td>11</td>
</tr>
<tr>
<td>'81</td>
<td>29</td>
</tr>
<tr>
<td>'90</td>
<td>33</td>
</tr>
<tr>
<td>'01</td>
<td>49</td>
</tr>
<tr>
<td>'08</td>
<td>77</td>
</tr>
<tr>
<td>Average</td>
<td>36.5</td>
</tr>
<tr>
<td>Average ex-'08</td>
<td>28.4</td>
</tr>
</tbody>
</table>

This time is different

- '20 seems like a good start, but it’s a long way to go

Sources: IHS, BLS, Allianz Research
Jobs rebounded sharply but have now slowed.

...and those were the easy gains.

Sources: IHS, BLS, Allianz Research.
Consumption and income both rebounded but are now slowing. The income needed from CARES is now gone.

Sources: IHS, BEA, Allianz Research
The first income boost of checks and unemployment benefits is now gone. Extended benefits end in Dec – another cliff.

BUT THAT INCOME HAS FALLEN OFF A CLIFF, AND THE ECONOMY NEEDS IT.

And it seems unlikely it will be returning soon.

Source: WSJ, Nomura Securities Committee for a Responsible Budget, Census, WJ, Black Knight
THE CONSUMER IS STILL FRAGILE

Mortgage forbearances very high (over 10% of active mortgages). Will the lenders get a bailout?

Household Finances Strained
% of total respondents paying for expenses using...

- Stimulus check
- Money earned from working
- Savings
- Social Security payments
- Money from partner working
- Credit card debt
- Help from family/friends
- SNAP benefits/food stamps
- Help from food bank or pantry
- Disability or SSDI payments
- UI benefits
- Selling household items
- Payday or other types of loans
- Help from religious/charitable org
- Help from bank/landlord
- Alimony/child support

Status of coronavirus forbearances

- Still in forbearance, extended term
- Performing after forbearance
- Still in forbearance
- Paid off
- Delinquent after forbearance

Sources: Morning Consult, Moody's Analytics

Note: As of Aug. 25
Source: Black Knight Inc.
THE CONSUMER IS STILL FRAGILE

How much of your household income do you expect to lose this fall specifically because of a lack of childcare or in-person learning?

- None
- 0 - 10%
- 10 - 25%
- 25 - 50%
- 50 - 75%
- 75 - 100%

The Daily Shot*

Hungry Kids
Share of adults with kids at home who can’t afford to give their children enough food.

Source: Census Bureau
LOSSES IN SMALL BUSINESSES
AND SMALL BUSINESSES CAN’T LAST LONG

**Cash buffer days** are the number of days of cash outflows a business could pay out of its cash balance were its inflows to stop. We estimate cash buffer days for a business by computing the ratio of its average daily cash balance to its average daily cash outflows.

Sources: WSJ, Womply, JP Morgan, Allianz Research
BIG BUSINESS: CORPORATE PROFITS COLLAPSED. COULD FALL MORE, DEBT IS ALARMING

Source: IHS, Census, Bloomberg, IIF, Deutsche Bank Datastream, Worldscope, Allianz Research
DElinquent >90 days, $B

Student loan debt was climbing, now in forebearance (temporarily?)

Credit card

Auto

U.S. Business Bankruptcy Filings

Change to more creditor-friendly laws in ‘06 lead to surge in filings in ’05…

…same will happen end of ‘20

Sources: IHS, Fed, US Courts, Allianz Research
**US ELECTIONS: BIDEN MORE SPENDING, MORE TAXES, MORE DEBT. (TRUMP PLAN WAS LESS SPENDING, LESS TAXES, MORE DEBT)**

### Biden: more spending, more taxes

<table>
<thead>
<tr>
<th>SPENDING, $bn (+6435.85)</th>
</tr>
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<tbody>
<tr>
<td>970</td>
</tr>
<tr>
<td>2000</td>
</tr>
<tr>
<td>750</td>
</tr>
<tr>
<td>1650</td>
</tr>
<tr>
<td>128.2</td>
</tr>
<tr>
<td>23.6</td>
</tr>
<tr>
<td>240.5</td>
</tr>
<tr>
<td>640</td>
</tr>
<tr>
<td>33.55</td>
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<table>
<thead>
<tr>
<th>REVENUE, $bn (+3686)</th>
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<tbody>
<tr>
<td>3746</td>
</tr>
<tr>
<td>-60</td>
</tr>
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**More spending, debt means…**

- **Biden (lite), baseline**
- **Biden**
- **Biden (heavy spending)**
- **CBO (Sept. 2020)**

**U.S. public debt, % of GDP**

- **Biden (lite), baseline**
- **Biden**
- **Biden (heavy spending)**
- **CBO (Sept. 2020)**

**GDP Growth**

- **Biden (lite), baseline**
- **Biden**
- **Biden (heavy spending)**
- **CBO (Sept. 2020)**

(Note: a Dem Pres and a Repub Senate are the best combo for econ and mkts)
• Even before Covid-19, economy was fragile.
• Response devastated economy
• Massive job losses
• Massive drops in consumption
• Now income has dried up
• Trouble making rent, mortgages? Hunger?
• Personal delinquencies and bankruptcies to rise
• Election means more debt
• But it’s not hopeless…
Highly aggressive monetary counter-attack on the crisis; the balance sheet is conceptually the amount of money available to lend to the financial system, and you

Massive fiscal counter-attack on crisis such as the U.S. CARES Act

Fiscal Stimulus as a % of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>21.1%</td>
</tr>
<tr>
<td>Canada</td>
<td>15.0%</td>
</tr>
<tr>
<td>U.S.</td>
<td>13.2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>11.8%</td>
</tr>
<tr>
<td>Germany</td>
<td>8.9%</td>
</tr>
<tr>
<td>China</td>
<td>7.0%</td>
</tr>
<tr>
<td>France</td>
<td>5.0%</td>
</tr>
<tr>
<td>U.S. 2008-09</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

Sources: MBA, Fed, Census, Allianz Research
But it’s not hopeless: housing will rebound

- Those who were laid-off weren’t homebuyers
- People want out of the city
- Prices are still rising
- Homebuilder optimism has rebounded
- Remarkable uptick in leading indicators

Sources: MBA, Fed, Census, NAR, Allianz Research
BUT IT’S NOT HOPELESS: THE YIELD CURVE AND LEADING INDICATORS ARE POSITIVE

Sources: IHS, Fed, BEA, The Conference Board, Allianz Research
BUT IT’S NOT HOPELESS: BUSINESS CONFIDENCE IS STRONG

ISM Indexes
>50 means expansion

National Federation of Independent Business (NFIB)
Small Business Optimism Survey

Sources: IHS Global Insight, ISM, NFIB, Allianz Research
BUT IT’S NOT HOPELESS: BUSINESS CONFIDENCE IS STRONG, RETAIL SALES HIGHER THAN BEFORE

Business applications skyrocketing

Quarterly Business Applications (Seasonally Adjusted)

Source: U.S. Census Bureau, Business Formation Statistics, Third Quarter 2020

Retail sales are now higher than before pandemic

Retail Sales, $000s

Source: CNBC/Survey Monkey Small Business Survey, Census
How long did it take in previous recessions?

Time to Recover, US GDP

Recession | Quarters to Recover
--- | ---
'48 | 5
'52 | 6
'57 | 5
'59 | 5
'69 | 6
'74 | 8
'80 | 4
'81 | 7
'90 | 5
'01 | 4
'08 | 14
Average | 6.3
Average ex-'08 | 5.5

Note:
- We expect 2021 GDP to grow at a strong 3.7%.
- But without stimulus soon, Q4-20 could be very soft.
- And if there is a return to COVID shutdowns, it could be very dangerous to the economy…
ONE MORE LOOK AT COVID
1st COVID shutdown has permanently closed businesses. What if we get a 2nd?

Sources: Yelp, IHS, BLS, Allianz Research
THERE ALREADY IS AN ALARMING RESURGENCE

We are actually in our third wave.
Pfizer, BioNTech say Covid vaccine is more than 90% effective—‘great day for science and humanity’
Contagion in different confinement scenarios

- Without confinement measures
  - Around 1 year period of time
  - Number of people infected
  - Economic hit (e.g., on GDP)

- With confinement measures
  - Around 2 months period of time
  - How many very sick people hospitals can treat

Economic hit in different confinement scenarios

- Without confinement measures
  - Around 1 year period of time

- With confinement measures
  - Around 2 months period of time

Sources: Euler Hermes, Allianz Research
COVID IS HIGHLY CONCENTRATED IN SOME GROUPS: THE OLD, ALREADY SICK, NURSING HOMES (45% OF DEATHS)... WOULDN'T TARGETING MAKE SENSE?

Sources: NBF Economics and Strategy, WSJ, CDC, Census, Euler Hermes, Allianz Research
CONCLUSIONS

• Even before Covid-19, economy was fragile.
• Response devastated economy.
• Massive job losses which will take years to recover.
• Massive drops in consumption.
• Now income has dried up.
• Trouble making rent, mortgages. Hunger?
• Personal delinquencies and bankruptcies to rise.
• Elections mean more debt.
• But it’s not hopeless: housing market, yield curve, leading indicators, business confidence, retail sales all indicating a bottom.
• That’s positive but it does not mean the economy has recovered, it just means it’s stopped getting worse.
• A long way to go to recover GDP.
• Biggest risk is more COVID, which has already permanently destroyed jobs and businesses. Another shutdown could do more damage. Targeted shutdowns would be best.
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