Surprising Stability as Stimulus and Reopenings Ease the Impact

The national Citizens Business Conditions Index™ declined slightly between the first and second quarters of 2020, falling from 60.8 to 60.3. While the economic impact of the COVID-19 pandemic clearly pressured the underlying index components at the start of Q2, we also note surprising stability in the overall economic landscape. Only one of the five underlying index measures actually worsened markedly between the ends of the first and second quarters, while the other four factors were either flat or positive between March and June readings.

A SUDDEN DROP

Although the pandemic had a severe impact on economic activity, the worst of it was short-lived and perhaps more limited than expected for many businesses. And while activity plummeted in April, as reflected by employment reports and both manufacturing and non-manufacturing measures from the Institute of Supply Management (ISM), those same metrics significantly improved by the end of June.

Speedy re-openings – blamed for rising COVID cases in some states – limited the time span of the impact. Historic stimulus from the Federal Reserve and fiscal CARES Act, which were both swift and far-reaching, also set a floor for economic activity.

“The pandemic-induced shutdown of the global economy was one of the most sudden drops we have ever seen in business activity and employment, but the unprecedented response by the government and the ‘Fed’ was just as swift. With that stimulus, we saw a steady turnaround in markets. There is still a lot of uncertainty – which will likely remain until there is a vaccine – but the government and the financial system acted swiftly to try to soften the economic blow and help bridge companies and consumers to the other side of this crisis.”

- Tony Bedikian
Head of Global Markets
UNEMPLOYMENT FALLOUT MILD ER THAN EXPECTED

The story of unemployment probably best explains how one of the largest global economies can reel from shock in March and April but look surprisingly stable in June.

Unemployment stood at 4.4% in March, already demonstrating the early stresses of the pandemic. With entire states shutting down en masse, economists predicted that unemployment would spike up to 16% and 19% in April and May, respectively.

Instead, as massive support kicked in and early re-openings began, April and May unemployment readings were at 14.7% and 13.3%, significantly better than expected. We believe that, without the far-reaching support programs and early re-openings, the unemployment picture (and other economic measures) would have certainly been much worse.

Indeed, we saw similar trends among ISM manufacturing and non-manufacturing indexes. Both measures plummeted in April, but rebounded strongly by June. In fact, ISM metrics were even higher at June month-end than at March month-end, demonstrating the momentum of a country climbing out of the trough.

COMMERCIAL SERVICES, BASIC MATERIALS HELD UP

One of the key Index components is a proprietary measure of business activity among Citizens Commercial Banking clients. Within our proprietary data, we witnessed wide-ranging performance across industries as the early months of the pandemic played out.

Commercial services companies led the pack, actually showing some growth between the first and second quarters. Basic materials and consumer goods companies also demonstrated resilience over the period. On the other hand, government banking clients indicated the most strain in the quarter.

BY REGION, MIDWEST LAGGED

Looking at our proprietary data, the Midwest region lagged the most in the second quarter. Meanwhile, measures of activity among commercial banking clients in the Mid-Atlantic and Northeast were slightly higher than the previous quarter. The Northeast region held up the best over the period.

However, these trends are at a broad level. We note that there was a high degree of variability among state-wide performance measures, with some states negative, some stable and some even rising over the period in each of the three broader regions.

SOME REASSURANCE AS UNCERTAINTY CONTINUES

As we head into the third quarter, the U.S. economy faces continued uncertainty about the timing and breadth of the impact of COVID-19. Surging cases in much of the U.S. could prompt further restriction in day-to-day life. Conversely, the massive monetary and fiscal support, as well as upbeat prospects for an effective vaccine, could propel continued strength in the recovery. Regardless, we think the Index readings over the last two quarters demonstrate how much stability can remain, despite the significant headwinds.