The Neutron Bomb Spring

OBTA

May 21, 2020

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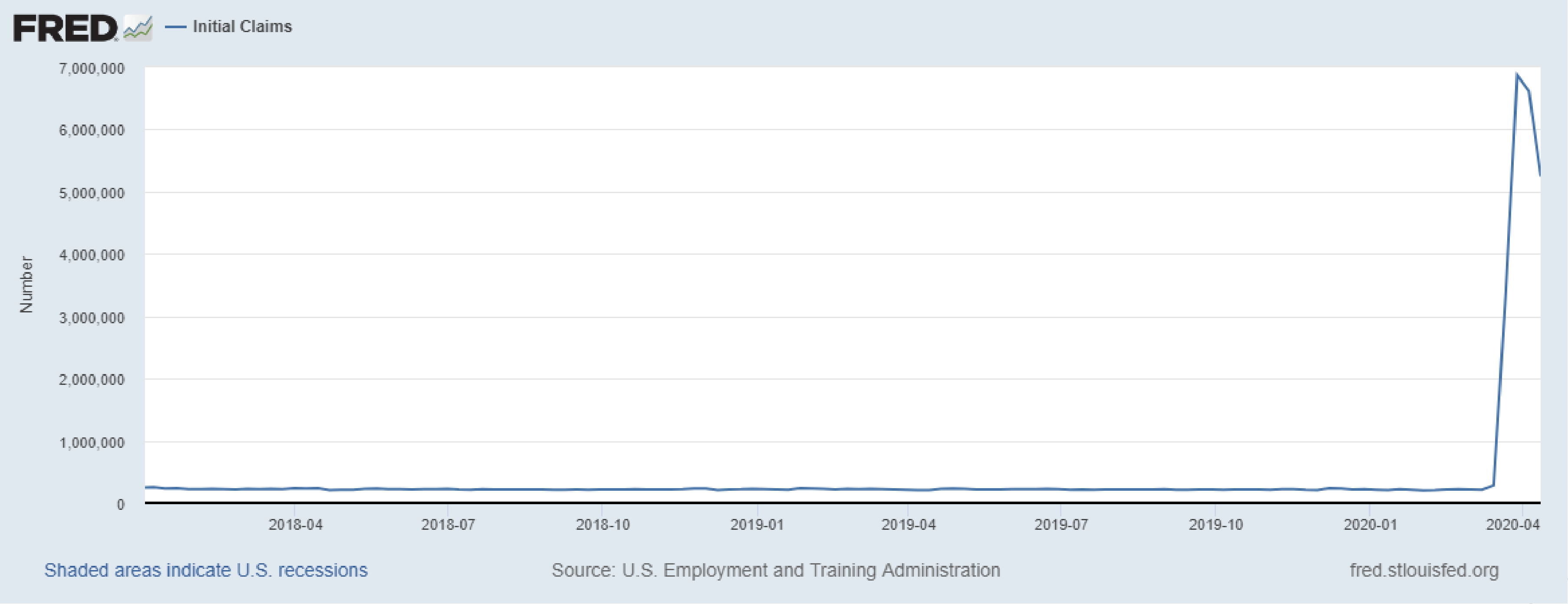
Cyberspace

As Good as it Gets to the New Great Recession in Weeks

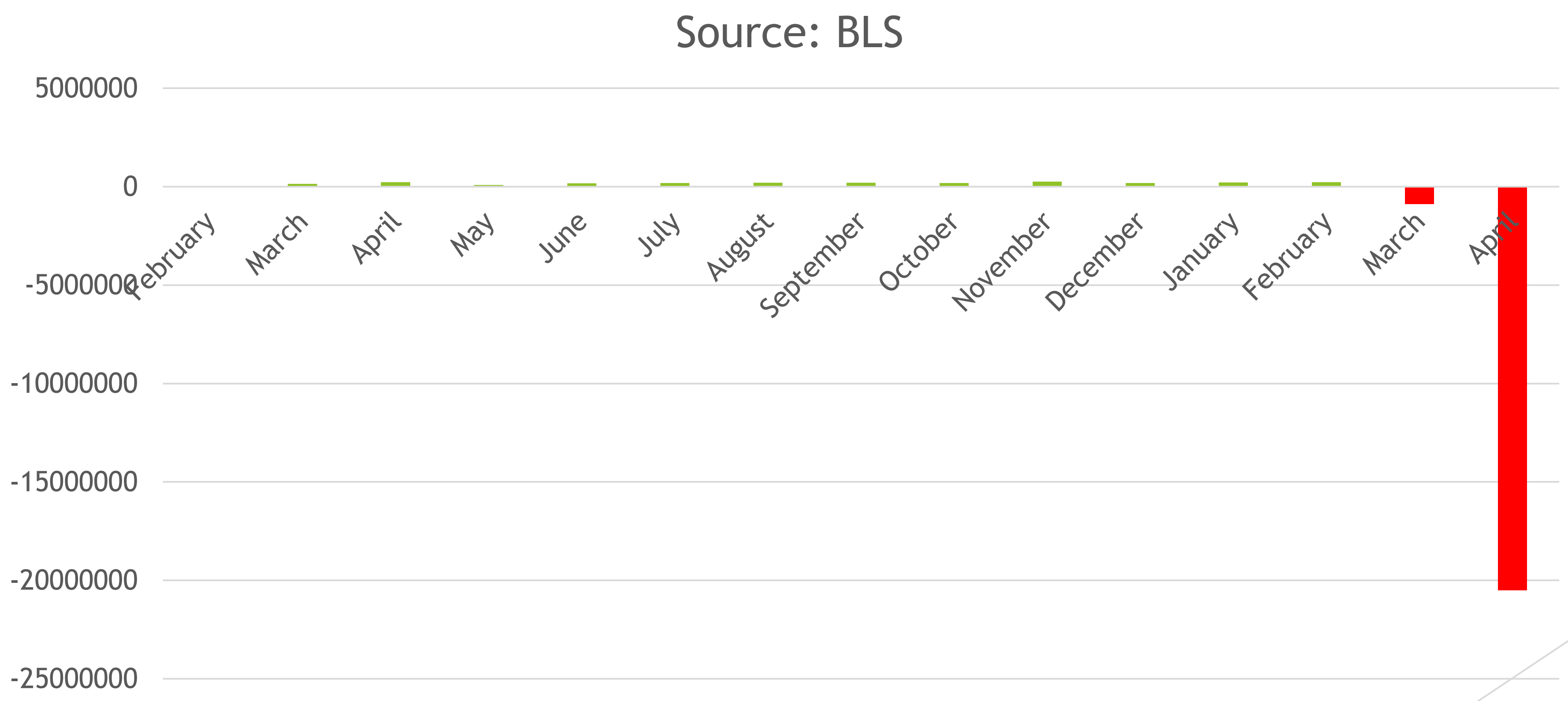
- January and February-Lowest Unemployment in 50 Years
- Rising Incomes Particularly Entry Level and Unskilled
- Contained Inflation
- Diminished Prospects for Recession

- Initial Unemployment Claims which had been running a bit over 200,000 have reached over 36 Million since the Pandemic Onset
- Unemployment Rate Moved from 4.4% in March to 14.7% in April
- For Many of You The Defining Economic Event of Your Life
- Retail Sales in April -16.4% from March and -21.6% from April 2019
- Food Service and Drinking Places down 48.7% Over the Year to April

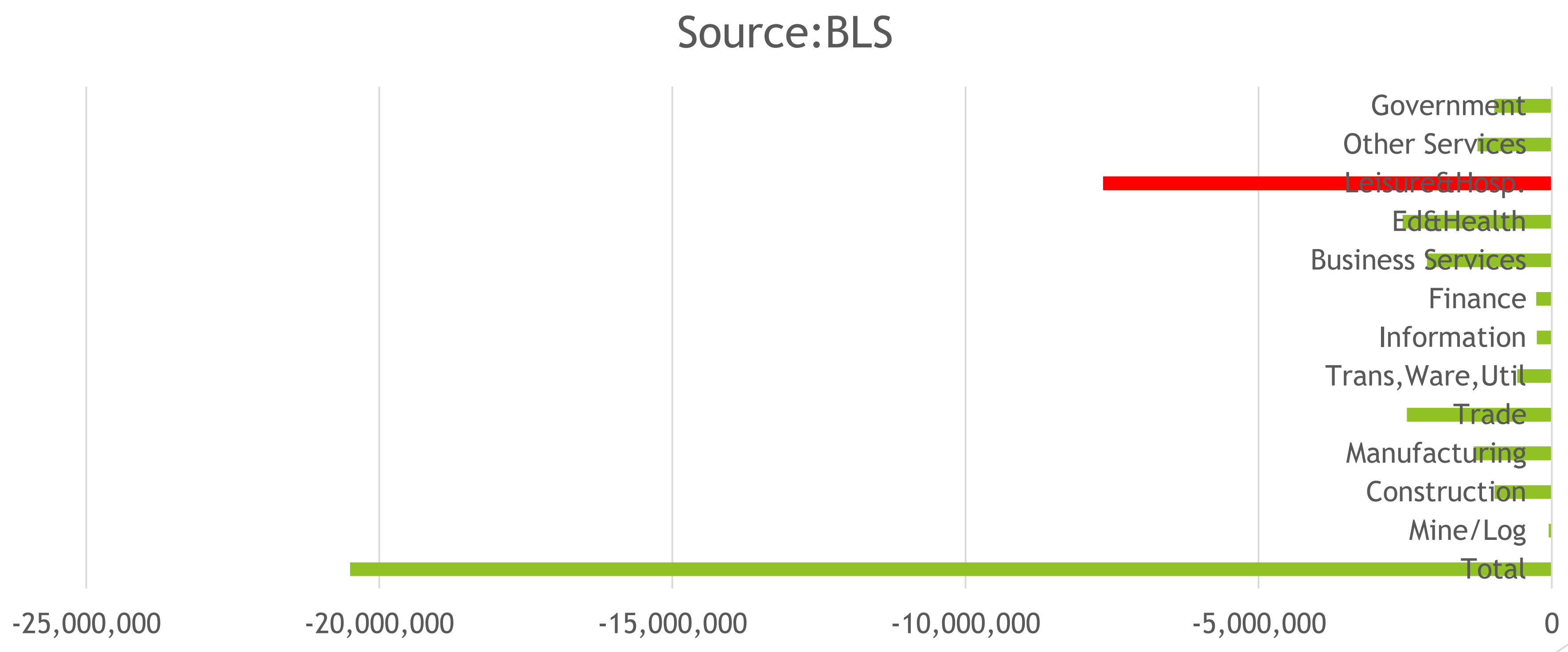
Mind Numbing
From Finding People to Processing Unprecedented Numbers of Claims



Monthly Changes in Payroll Employment 2019-2020



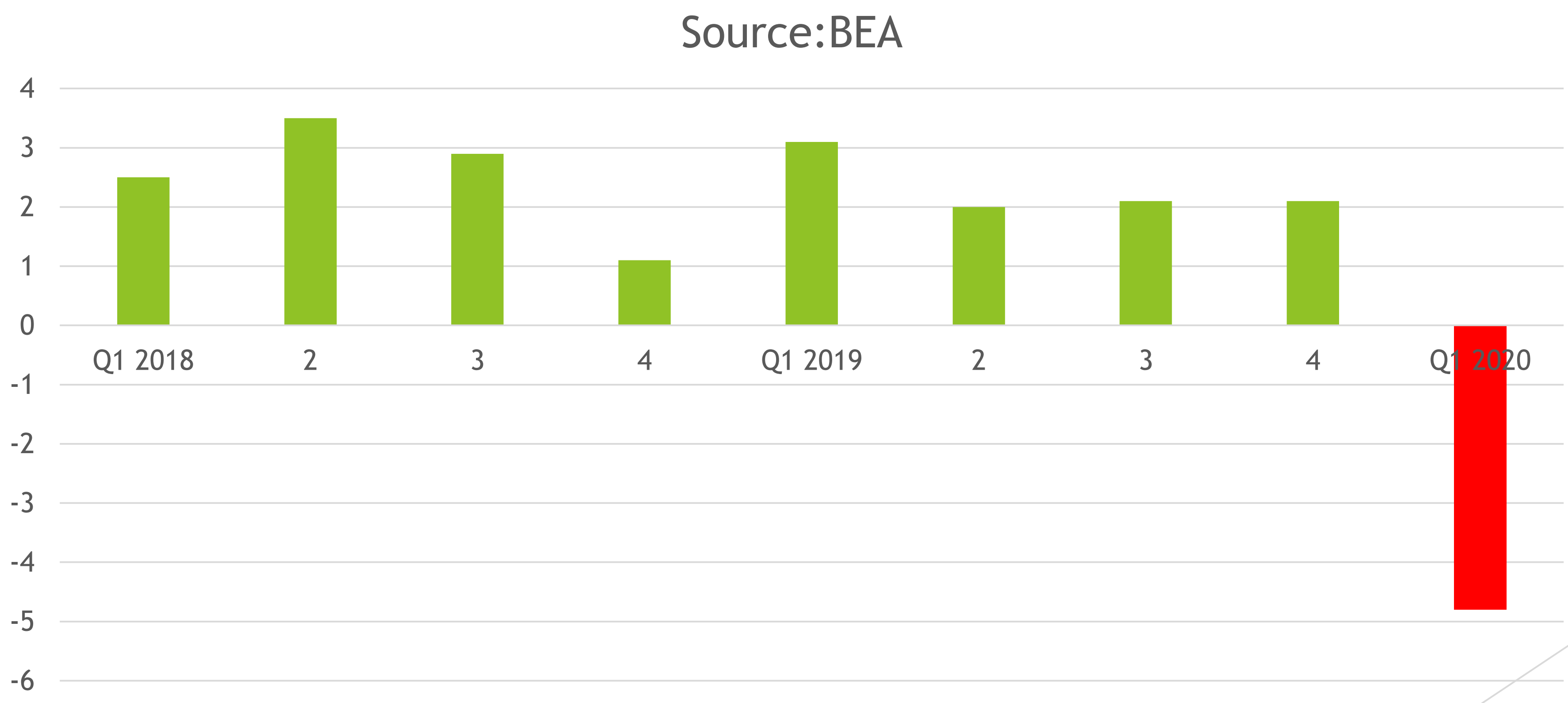
Change in Employment March to April 2020



- Lockdown-Stay in Place Orders
- Travel Bans
- Work from Home Orders
- Closures of Non-Essential Businesses
- This is Demand Destruction by Policy
- Soaring Average Hourly Earnings in April 7.9% over the Year 4.7% over the Month
- Labor Force Fell by 6.4 Million in April
- First Annual Decline in Healthcare in History of Data
- Decade of Job Growth Gone in a Month!

- Many Recessions-Weakness in Durables-Cars, Homes, Investment-We have shut down Services which are the bulk of the economy

Real GDP Growth Rate Annualized 2018-2020 Upturn Commenced in July 2009



Percentage Point Contributions to Real GDP Growth Q4 19 and Q1 2020

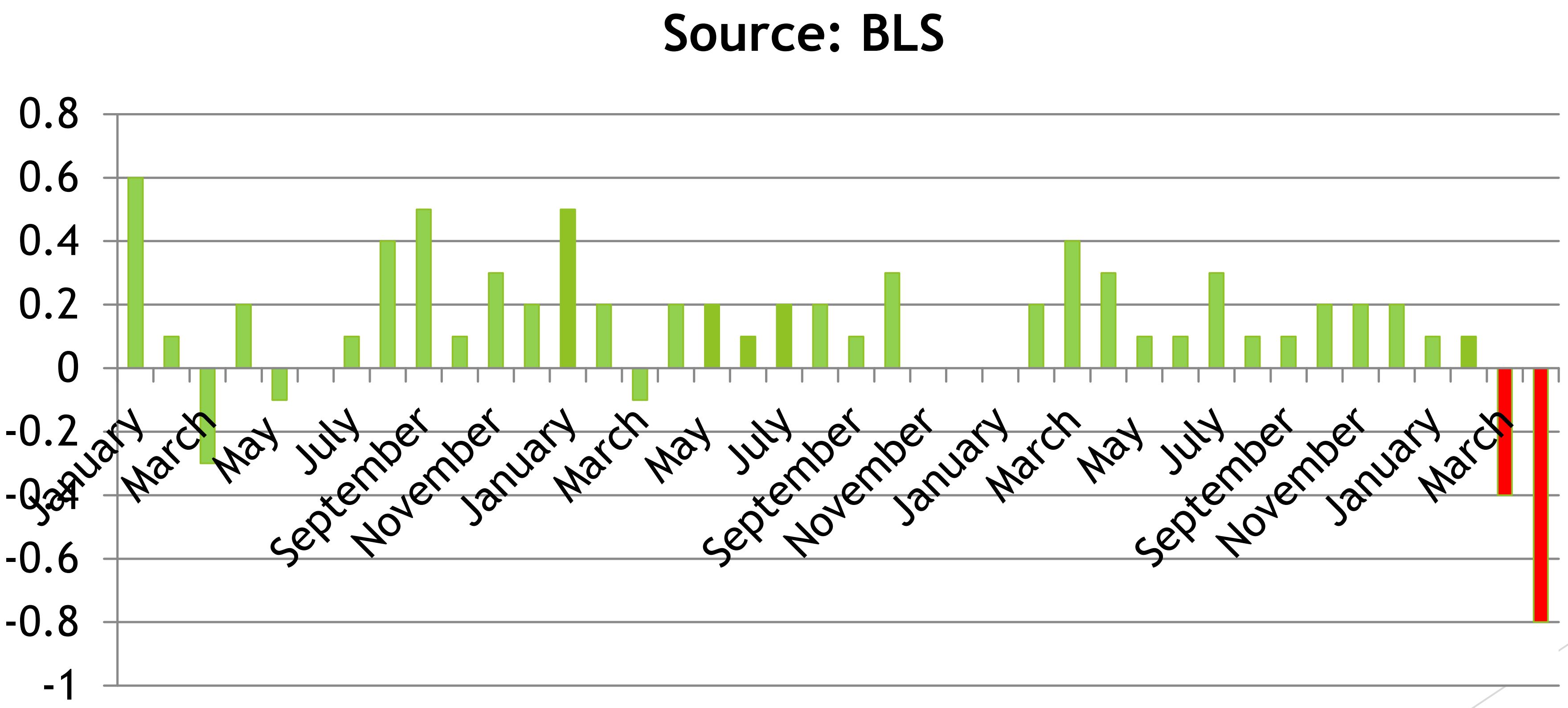
The Stuff We Took For Granted

- I, Pencil by Leonard Read
- The Miracle of the Grocery Store
- Adam Smith-The Wealth of Nations

- After the Shutdown, What comes next?
- What Firms and Entities will survive and be viable?
- Debt Burdens?
- Confidence?
- The Long Term Implications?
- The Generational Damage?

Monthly Change in the CPI 2017-20

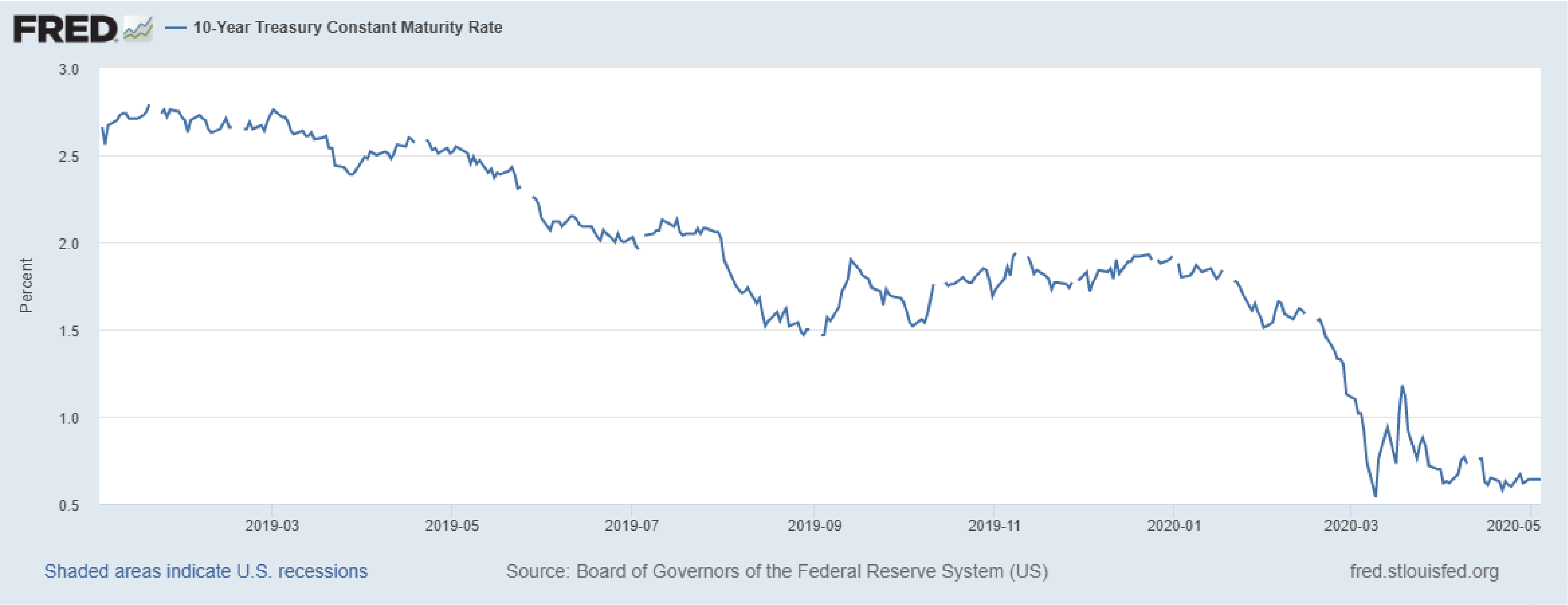
Year over Year April .3% Total and 1.4% Core



April

- Gasoline -20.6% over the Month
- Apparel -4.7% OTM
- Transportation Services -4.7%
- Food at Home up 2.6% Away From Home .1%-A Reversal of Recent Patterns
- Airline Fares -15.2%
- Lodging Away from Home -7.1%

Breathtaking Plunge
The 10 Year Treasury 2019-20



Monetary Policy In Action
Lessons Learned and Speed

- Funds Rate to 0-.25%
- Provide Liquidity
- EXAMPLES FED PROGRANS
- Main Street Lending
- Commercial Paper Funding
- Paycheck Protection Liquidity Program
- Term Asset Backed Securities

- THIS DID NOT START AS A FINANCIAL ISSSUE BUT WITH NO REVENUE/INCOME CAN BECOME ONE
- Some 2007-2009 Policies Re-activated
- Example of Speed versus Fiscal Policy
- Mortgage Rates at Record Lows

Fiscal Policy Response

- Four Corona Virus Bills Passed
- Coronavirus Preparedness and Response Act
- Families First Coronavirus Response Act
- CARES Act
- Paycheck Protection and Health Care Enhancement

- Stimulus Checks, Forgivable Loans, Boosted Unemployment Compensation, Help to Hospitals, States and Cities. Testing Funds, Expanded Sick Leave etc. More to Come!

- Near $2.5 Trillion in New Spending
- Preserve the Firms/ Employee/Employer Relationship

More To Come

- Funds to State and Local Governments in the Next Round ?
- Back to Immediate Postwar Period in terms of Debt Levels-Not a Focus Now by Most
- Down The Road-Squeeze Other Spending, Crowding Out Notion
- CBO April 2020 Deficit 17.9% of GDP in 2020 was 27% in 1943
- $737 Billion in April-CBO $3.7 Trillion in 2020
- Driven by Automatic Stabilizers and Discretionary Covid Actions, Deadline Changes and $1 Trillion Going In

Screaming Towards The Bottom Q2 2020

- Quarterly Decline at Annual Rate 30-40% Possibility
- Unemployment Rate Heading Towards the High Teens
- Energy Price Collapse-In A Different World
- Fifty Different Experiments in Restrictions and Re-openings
- Growing Pressure to Reopen-”Economic suicide is not normal behavior”

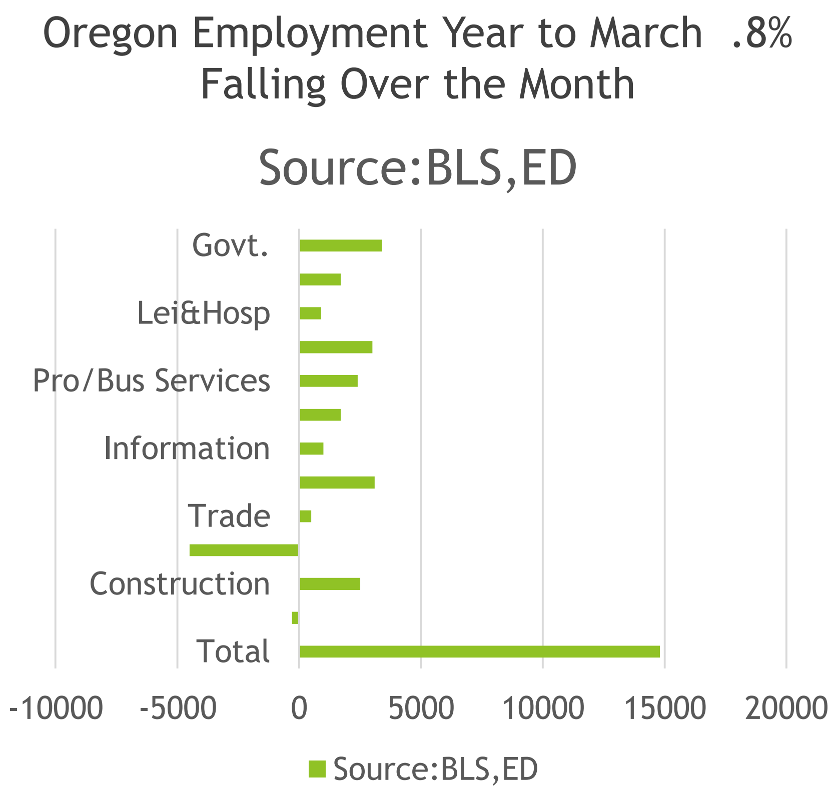
The Carnage

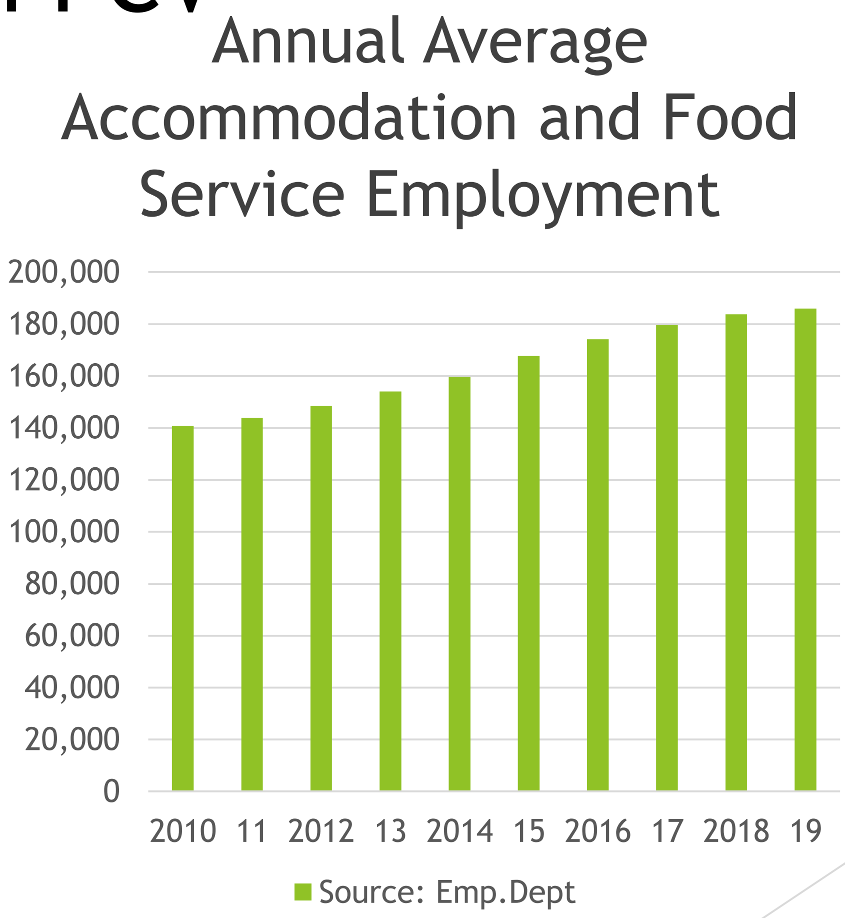
- Human Tragedy-Death, Depression, Fear, Financial Losses, Unemployment, Loss of Confidence, Disconnection
- Retirees, Pre-Retirees, Millennials Hit Again, Never Unemployed, Unskilled, Your Identity/Relationships, Isolation, Disrupted Education, Self-Employed
- Business Failures-No Reopening-Viability of Business Models
- Travel, Hospitality, Retail, Frackers, Hospitals, Colleges and Universities, Plane Makers, Non-Profits, Professional Sports -On and On
- State and Local Government Financial Problems-Revenues Down/Spending Demands Increase, Balanced Budget Requirements- Squeeze on Other Things- PERS Funding

Job Growth Update March 2020 Data
Year over Year Change - ***20*** States Down
Source: BLS, ASU

- Utah 1
- Arizona 2
- Idaho 3
- Texas 4
- ***Washington 5***
- Tennessee 6
- New Mexico 7
- Montana 8
- Colorado 9
- Florida 10
- South Carolina 11
- South Dakota 12
- Nebraska 13
- California 14
- Georgia15
- ***Oregon 16***
- Kansas 17
- Alabama18
- Delaware 19
- North Carolina 20
- Virginia 21
- New Jersey 22
- Nevada 23
- Maryland **24**
- Connecticut 25
- New York 26
- Wisconsin 27
- North Dakota 28
- Pennsylvania 29
- Massachusetts 30
- **Kentucky 31**
- **Michigan 32**
- **New Hampshire 33**
- **Mississippi 34**
- **Missouri 35**
- **Rhode Island 36**
- **Minnesota 37**
- **Maine 38**
- **Alaska 39**
- **Arkansas 40**
- **Hawaii 41**
- **Indiana 42**
- **Wyoming 43**
- **Ohio 44**
- ***Iowa 45***
- ***Illinois 46***
- ***Oklahoma 47***
- ***Louisiana 48***
- ***West Virginia 49***
- ***Vermont 50***

Oregon PCV


Oregon Employment Year to March .8%
Falling Over the Month
Source:BLS,ED
Govt.
Lei&Hosp
Pro/Bus Services
Information
Trade
Construction
Total
-10000
-5000
0
5000
10000
15000
20000
Source:BLS,ED


Annual Average
Accommodation and Food
Service Employment
200,000
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
2010
11
2012
13
2014
15
2016
17
2018
19
Source: Emp.Dept

The Endgame

- Relaxation of Restrictions-Reopening
- Stop the Decline
- A Second Wave and Re-imposing Shut Downs?
- What will be left and how will it be changed? Restart or Start Up?
- The Development of a Vaccine? When? Herd Immunity?
- We are talking about people's behavior in all the hats that we wear-consumer, investor, entrepreneur, business owner-HOW WILL THIS CHANGE US?

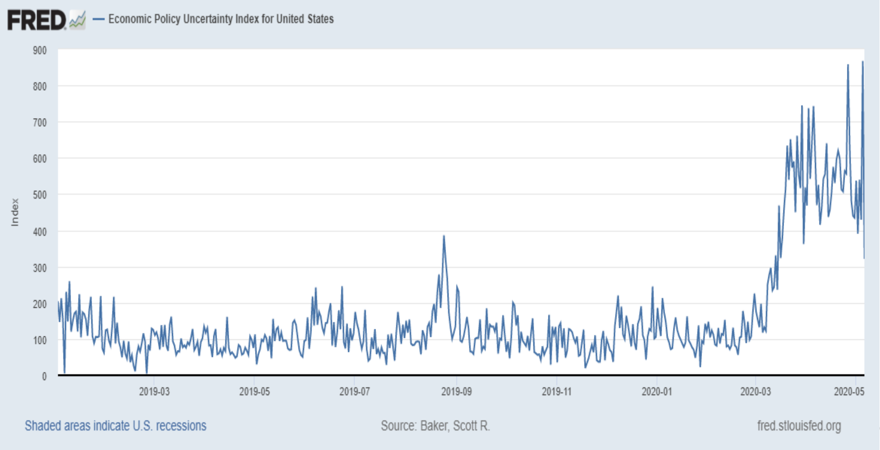
Observations/Considerations

- Increased Savings-Happened after the Depression and the Great Recession
- On Line Shopping Growth versus Brick and Mortar, Time Around the House
- Remote Work/Virtual Meetings-How Much will go Back?
- How long for travel to come back? Airlines, Hotels, Airbnb, Restaurants, Conventions, Viability at reduced Capacity?
- Supply Chain Importance, Location, More Inventory-Just in Time to Just in Case, Regional Networks
- Globalization in Retreat from Open Borders-Interaction-Falling Trade Barriers (2007-09, Protectionist Pivot, Pandemic)
- Travel Implications of Globalization?

- Digital Access-Broadband for Educational Disruption, Telemedicine
- How long for People to Emerge from Trauma? Going Out? Movies?, Crowds?, Trips? Think about Parents and or Grandparents
- Debt Burdens-Forbearance, Deferred, Risk Perception
- Modern Monetary Theory says Do Not Worry about the Deficit-Borrowing in Own Currency-Use Fiscal Policy and Tighten When Inflationary Pressure-In Effect an Experiment Underway

Uncertainty Index

- Medical System-Universal Coverage-Mandate to Have was repealed.
- Will Fiscal Policy Change Too Soon?
- Role/Size of Government
- Independence of Fed?
- Exit Strategy from Support?
- Policy Legacies a la the 1930s, 12/7/41, 9/11/01, 2007-09



Outlook

- CBO 2020 GDP -5.6%-Second Quarter Decline at Annual Rate of 39.6%-Rebound in Q3 2.8% Growth in 2021
- NABE -26.5% GDP in Q2 2020, Continued Low Inflation
- Oregon May Consensus -5.1% Employment
- Eye Chart Recovery- Letters V, U, W, Swoosh (Nike)
- Glimmers? Oil Consumption, TSA Counts, Hotel Occupancy
- What will drive the rebound?
- The Virus/Response Call the Tune!
- We are Living History!