Louisiana Corporate Credit Union

ECONOMIC & FINANCIAL DIGEST

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Volume 27

May 2020

The Deepest Postwar Recession

The Covid-19 recession continues to wreak havoc on all sectors of the U.S. economy. Assuming 10-12 weeks of social-distancing and shelter-in-home restrictions from mid-March, the economy is poised to suffer the worst contraction during the second quarter than any time World War 11. The decline in GDP, the broadest measure of economic activity, could reach an astonishing 30 percent annual rate during the period. Even under the optimistic assumption that lockdown restrictions are lifted sooner in many parts of the nation, the economy will face a tough road ahead for many months to come.

The most jarring disruption to economic life is taking place in the job market. In the space of five weeks from March 16 to April 10, 26 million workers filed applications for unemployment benefits, wiping out ten years of job growth that has been one of the singular accomplishments of the expansion. The tidal wave of claims has overwhelmed state employment offices, leaving millions of laid-off workers either unable to get their claims processed or rejected for a variety of reasons. The good news is that much of the surge in unemployment consists of temporary layoffs, indicating that those workers will be rehired once the lockdown restrictions are lifted.

But smaller companies account for about half the jobs in the U.S. and there is the real question of how many of them will survive and reopen once the crisis ebbs. The massive spending and monetary stimulus from Washington and the Federal Reserve are providing some relief as well as sowing the seeds for recovery once the pandemic runs its course. The odds that we will see a V-shaped rebound, however, are very slim. Unlike a light switch that's flipped on instantly, the recovery will resemble a dimmer that only gradually comes to light over time. It will be a while before life returns to normal for the majority of Americans, and even then, the new normal will not resemble the old one.

Misleading Data

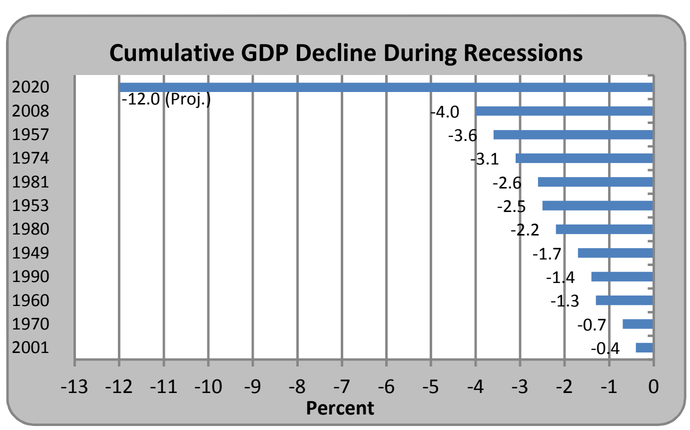
We have to be careful about interpreting economic numbers. Economists often couch data in annual terms so that they can be put in a familiar context. That's particularly the case with GDP reports. Rarely does the Commerce Department report an actual change from quarter to quarter in gross domestic product. A 1/2 percent increase (or decrease) would have little meaning to a public that is accustomed to judging the strength or weakness of the economy in annual terms. Hence, a 1 percent increase in GDP would be considered weak, 2 percent modest and 3 percent strong. Hence, annualizing that half-percent increase into a 2 percent gain would provide a more useful guide to its meaning.

That said, a 30 percent quarterly drop at an annual rate, which could well happen in the second quarter, can also be misleading because it gives the impression that the economy shrank by 30 percent over a three month period. That's clearly not the case. A contraction of that magnitude would only occur of the actual 7.5 percent decline in the second quarter was repeated for four consecutive quarters. Then, over the course of a year, the economy would indeed shrink by 30 percent. Still, this confusion only becomes a real issue when the economic data are off the charts, which will certainly be the case in the second quarter.

A better way to assess the severity of the evolving recession is to measure the distance from peak to trough; that is, how much will the economy actually contract when it hits bottom. Although the peak to trough measurement will not be as eye-popping as the projected 30 percent annualized drop in the second quarter, it will be historically bad - by our estimate about 12 percent. That would be three times as large as the next sharpest decline since World War 11 - the 4.0 percent drop suffered by the U.S. during the 2007-09 Great Recession.

Ugly April

Assuming lockdown restrictions begin to ease on a wider scale in May, the worst month of the recession is likely to be April. The figures for the month will be gut-wrenching, particularly the jobs report scheduled for release on May 8. Based on the upsurge in claims for unemployment benefits, it looks like nonfarm payrolls will plunge by about 24 million and drive the unemployment rate up to at least 14 percent. Another 3 million job losses are expected in May, lifting the jobless rate to 16 percent. That would be considerably above the 10 percent peak jobless rate reached



during the Great Recession, and topped only during the Great Depression of the 1930s.

Of course, the Great Depression was much more pervasive and enduring than the downturn that is now unfolding. Indeed, the unemployment rate, which peaked at 24.9 percent in 1933 stayed above 14 percent from 1931 to 1940. It was during that dispiriting period that the Social Security Act was passed in 1935, which marked the beginning of the unemployment insurance program on a nation-wide scale. Since then, the safety net has been strengthened and expanded, and government policies aimed at countering cyclical downturns have become more refined.

But this downturn is following an uncharted path. Unlike previous recessions that prompted aggressive policy measures to stimulate demand, this one has been brought on by government efforts to deliberately suppress demand. Simply put, the economy has been put into a self-induced coma by lockdown restrictions to prevent the spread of the Covid-19 pandemic. The cruel lockdown paradox is that in the absence of a medical solution to the pandemic, the best way to "flatten the curve" and minimize the loss of lives is to require people to shelter in place as much as possible. That, in turn, closes the spending spigot and engenders sudden stops in activity whereby all nonessential businesses are shuttered. These sudden stops are extremely damaging and produce economic shocks that are unparalleled outside of war times.

Predictable Debate

With economic hardships deepening each day lockdown restrictions remain in effect, a predictable debate is taking center stage. Some, including government officials, are arguing that the cure is worse than the disease. By this logic, the sheer magnitude and dire consequences of the economic carnage caused by lockdowns pose a greater risk to society than the virus itself. In response, some states have already relaxed restrictions, opening nonessential businesses before meeting guidelines set by health experts, such as waiting for at least 14-days of declining infection rates. Georgia is the first state to jump the gun, but some others plan to phase in easier restrictions starting in May.

Some encouraging news on the health front is undoubtedly giving fuel to this movement. There is some evidence of a modest flattening of cases and death curves in the worst-hit regions of the U.S. and some early hopeful news of therapeutics and vaccine developments. Indeed, the administration has offered a phased-in plan to reopen the economy, although it would place the responsibility of making decisions on state governors. To some extent, these developments stoked a sharp rally in the stock market in April, erasing about 50 percent of the stomach-churning plunge that took place in the weeks after the pandemic gained traction in the U.S.

But we caution that excessive optimism is misguided. True, government mandates to shelter-in-place and maintain social-distancing guidelines have forced many people to self-quarantine even if they prefer not to. But we suspect that voluntary compliance has been just as important, if not more so. Simply put, the fear of getting infected has been an important motivating factor behind the widespread acceptance of lockdown restrictions. Case in point: just look at the plunge in sales at restaurants and bars as well as other venues that typically draw crowds, such as department stores, that took place in March even before the lockdown restrictions were fully in place. Hence, the relaxation in restrictions by government officials may not bring about the desired effect if people choose to remain safe over resuming normal behavior.

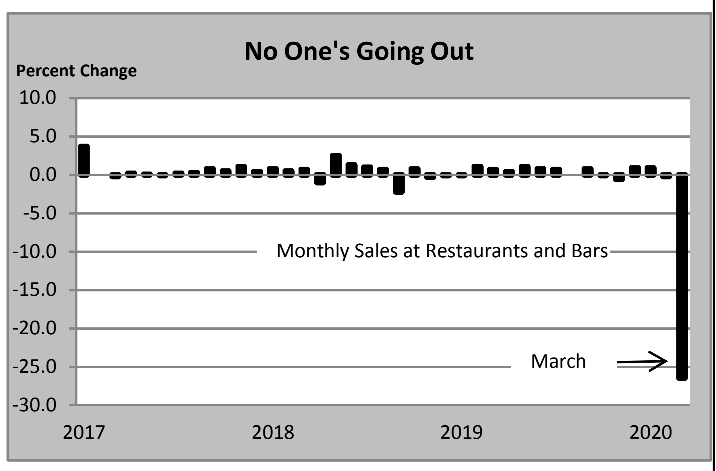
The Shape of Recovery

Which brings us to the question of what kind of recovery we can expect when all government restrictions are lifted. Odds are that will occur before nationwide testing has been completed, raising the risk that Covid-19 would return and re-infect people. Indeed, that prospect is high in the minds of most Americans. According to a recent poll by the Pew Research Center, more than 70 percent of Americans believe that the worst of the disease is yet to come versus 23 percent who believe that its main impact is behind us.

Given this mind-set, it is hard to believe that individuals would resume normal consumption patterns once lockdown restrictions are lifted. People will think twice about purchasing goods and services in well-populated places, such as movies, restaurants, stadiums or shopping centers, at least until they are confident that effective treatments or a vaccine has been developed, something health experts don't expect for at least a year. That said, when the economic door reopens, people will cautiously come through it, nudged in good part with funds from the government's massive government stimulus that is now approaching $3 trillion.

Simply put, we see three key reasons why the pending recovery will be gradual and uneven. First, while the administration is suggesting a gradual reopening of the economy in May, according to its "Opening Up America Again" plan, the responsibility will lie with state governors and reflect local conditions. While some states are pushing for a hurried reopening, most are adopting a measured approach. Second, the first phase of any loosening plan will feature only a very limited relaxation of social distancing measures with schools remaining closed, personal protection equipment being required in social spaces and most social activity strictly constrained.

Third, we should not forget the power of the fear factor that will continue to restrain activity regardless of policy guidance so long as a medical solution to the health crisis - such as testing and tracing, therapeutics, immunology, and eventually a vaccine - are in place. That fear may well be validated if, as many health experts expect, the virus reappears in the fall, prompting another setback in activity that results in a W-shape recovery.



KEY ECONOMIC AND FINANCIAL INDICATORS

*FINANCIAL INDICATORS**

	March	February	January	December	November	October	September	12-Month Range High	12-Month Range Low
Prime Rate	3.81	4.75	4.75	4.75	4.75	4.99	5.15	5.50	3.81
3-Month Treasury Bill Rate	0.29	1.52	1.52	1.54	1.54	1.65	1.89	2.38	0.29
5-Year Treasury Note Rate	0.59	1.32	1.56	1.68	1.64	1.53	1.57	2.33	0.59
10-Year Treasury Note Rate	0.87	1.50	1.76	1.86	1.81	1.71	1.70	2.53	0.87
30-Year Treasury Bond Rate	1.46	1.97	2.22	2.30	2.28	2.19	2.16	2.94	1.46
Tax-Exempt Bond Yield	2.54	2.44	2.59	2.75	2.82	3.68	2.81	3.82	2.44
Corporate Bond Yield (AAA)	3.02	2.78	2.94	3.01	3.06	3.01	3.03	3.69	2.78
Conventional 30-Year Mortgage Rate	3.45	3.47	3.62	3.72	3.70	3.69	3.61	4.14	3.45
Dow Jones Industrial average	22637	28520	28880	28167	27797	26737	26900	28880	22637
S&P 500 Index	2652	3277	3278	3177	3105	2978	2982	3278	2652
Dividend Yield (S&P)	2.30	2.07	1.88	1.86	1.90	1.95	1.98	2.30	1.86
P/E Ratio (S&P)	17.0	19.4	21.2	21.3	20.9	20.2	19.7	21.3	17.0
Dollar Exchange Rate (vs. Major Currencies)	121.3	116.7	115.3	115.9	116.6	116.8	117.4	121.3	114.8

** Monthly Averages*

ECONOMIC INDICATORS

	March	February	January	December	November	October	September	12-Month Range High	12-Month Range Low
Housing Starts (In Thousands)	1216	1564	1619	1601	1381	1340	1266	1619	1204
New Home Sales (Thousands of Units)		765	800	724	700	707	725	800	598
New Home Prices (Thousands of Dollars)		346	325	328	328	322	316	346	308
Retail Sales (% Change Year Ago)	-6.2	4.6	5.1	5.4	3.3	3.1	4.0	5.4	-6.2
Industrial Production (% Change Year Ago)	-5.5	0.0	-0.9	-0.8	-0.4	-0.8	-0.2	1.7	-5.5
Operating Rate (% of Capacity)	72.7	77.0	76.7	77.1	77.6	77.0	77.4	77.8	72.7
Inventory Sales Ratio (Months)		1.37	1.37	1.40	1.39	1.40	1.40	1.40	1.37
Real Gross Domestic Product (Annual % Change)				2.1			2.1	3.1	2.0
Unemployment Rate (Percent)	4.4	3.5	3.6	3.5	3.5	3.6	3.5	4.4	3.5
Payroll Employment (Change in Thousands)	-701	275	214	184	261	185	208	275	-701
Hourly Earnings (% Change Year Ago)	3.1	3.0	3.1	3.0	3.3	3.2	3.1	3.5	3.0
Personal Income (% Change Year Ago)		4.0	4.0	3.7	4.4	4.1	4.3	4.8	3.7
Savings Rate (Percent of Disposable Income)		8.2	7.9	7.5	7.8	7.7	7.8	8.4	7.4
Consumer Credit (Change in Blns. Of Dollars)		22.3	12.1	21.0	7.4	13.4	10.8	23.0	7.4
Consumer Prices (% Change Year Ago)	1.5	2.3	2.5	2.3	2.1	1.8	1.7	2.5	1.5
CPI Less Food & Energy (% Change Year Ago)	2.1	2.4	2.3	2.3	2.3	2.3	2.4	2.4	2.0
Wholesale Prices (% Change Year Ago)	0.7	1.3	2.1	1.3	1.1	1.1	1.4	2.2	0.7

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First Quarter 2020 – By the Numbers

$4.2 billion	Total credit union issuance outstandings.
1,517	Number of credit unions that have issuance agreements in place, prepared to issue share certs, should the need arise.
$225 million	Total outstandings for SimpliCD's largest share certificate issuer.
396	Number of credit unions that currently have share certificate issuance balances through SimpliCD.

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