



The Economic Outlook – Optimism Despite the Challenges Ahead

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January 12, 2021

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Starting New Year with Many Uncertainties Resolved and Some Positive Developments

- ▶ We now know that we have at least two vaccines that are highly effective against the virus
- ▶ Consolidated Appropriations Act, recently signed into law, provides needed fiscal stimulus
- ▶ Monetary policy will remain highly accommodative based on recent FOMC statements
- ▶ Reducing these areas of uncertainty has raised optimism and confidence (and stock indices)

Next Two Quarters Will Remain Challenging

- ▶ Economy's performance is being impacted by pandemic
- ▶ Many states are experiencing record infections, hospitalizations and deaths
- ▶ More infectious strains amplify problems
- ▶ The labor market has stalled as infections have climbed
 - ▶ Nonfarm employment declined by 140,000 jobs
 - ▶ Unemployment remained at 6.7 percent
- ▶ Near-term economic recovery is dependent on public health: infections and vaccinations

Optimistic about Second Half of 2021

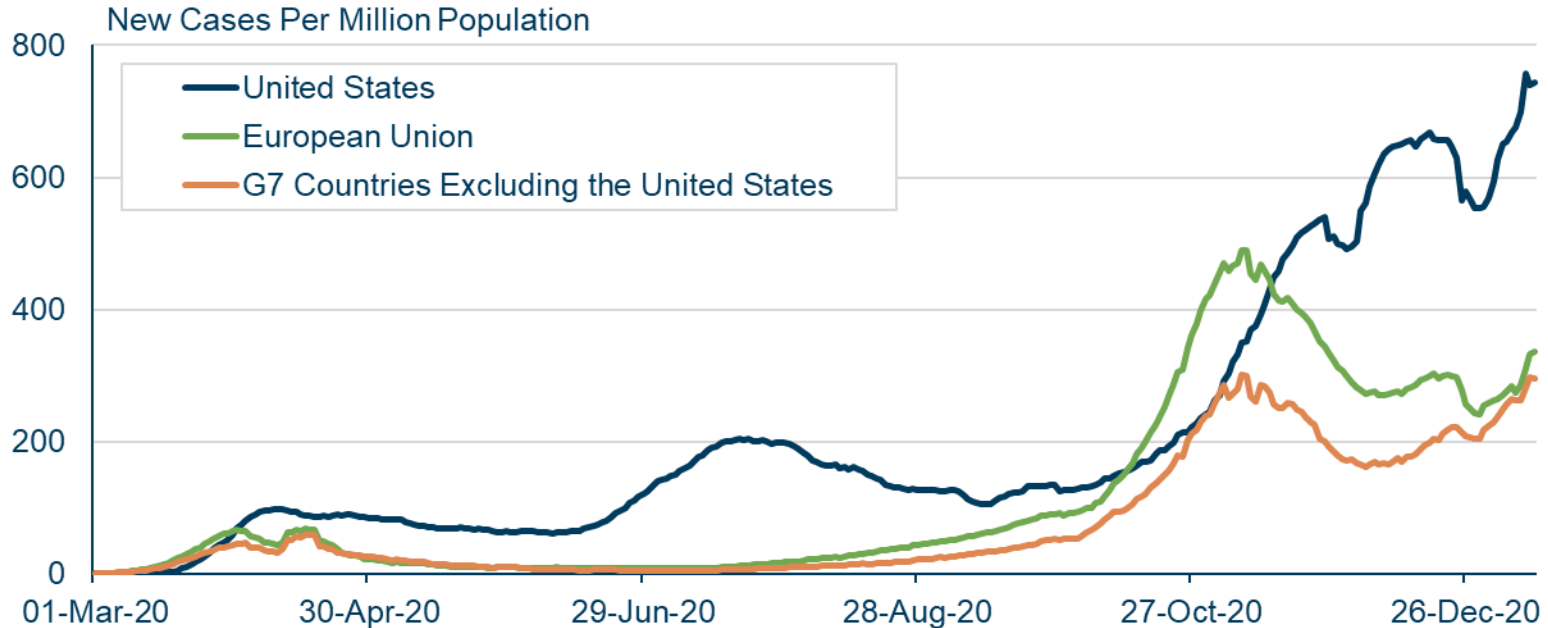
- ▶ Very low interest rates have helped consumers and businesses with debt payments
- ▶ The housing sector has been helped by low mortgage rates
- ▶ While consumer services remain depressed, the consumer goods sector has recovered nicely
 - ▶ Continues to benefit from the broad and expedited movement to online purchasing
- ▶ Many firms have increased their capital investments
 - ▶ Relying more on technology to conduct business and refit offices to accommodate more remote work

Still Significant Risks

- ▶ Delays in vaccinations could delay economic recovery
- ▶ Commercial real estate problems and nonperforming loans are likely to be revealed as forbearance ends
- ▶ Disparate economic outcomes during the pandemic have further highlighted the problems of income inequality that remain a significant challenge
- ▶ Financial shocks of March 2020 could have been ameliorated by proactively addressing problems with money market mutual funds and financial infrastructure before the pandemic hit
 - ▶ Addressing these issues should be a high priority

Figure 1: New COVID-19 Cases Per Million Population

March 1, 2020 - January 10, 2021

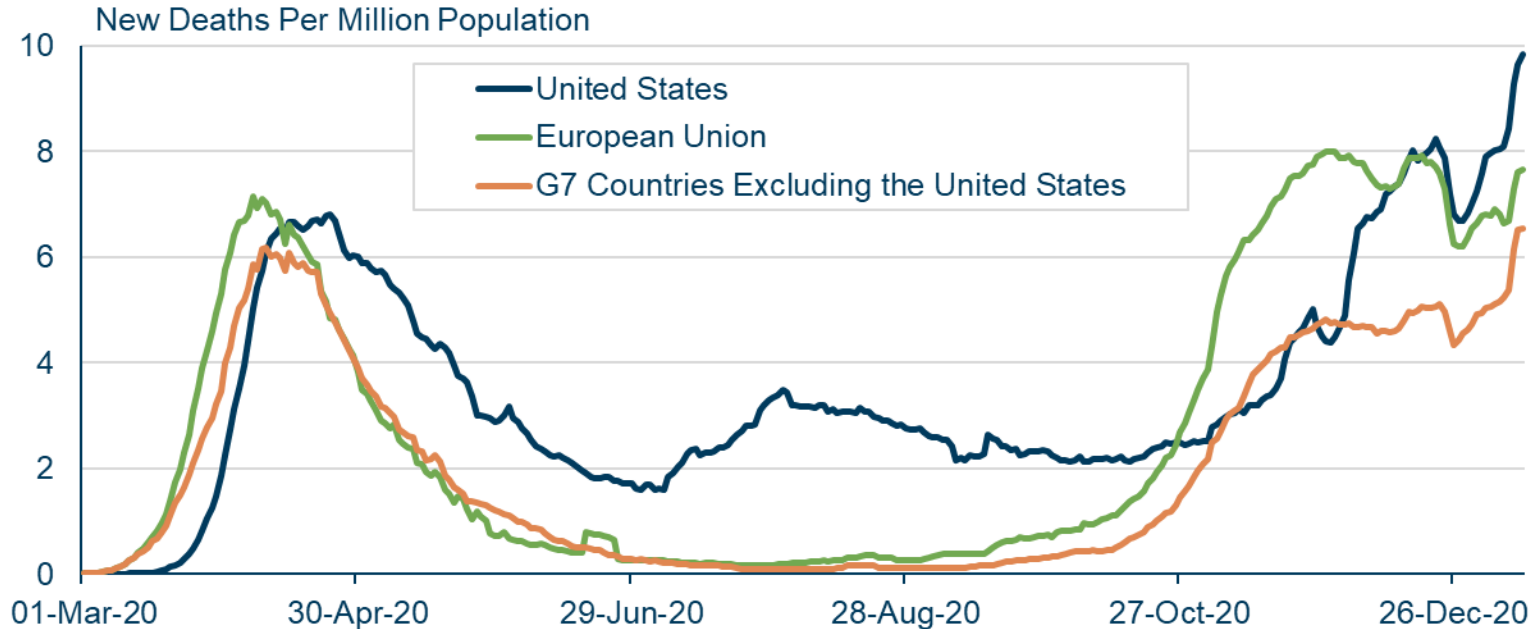


Note: New cases are seven-day moving averages. The Group of Seven (G7) Countries excluding the United States are Canada, France, Germany, Italy, Japan, and the United Kingdom.

Source: Johns Hopkins University, United Nations population estimates

Figure 2: New COVID-19 Deaths Per Million Population

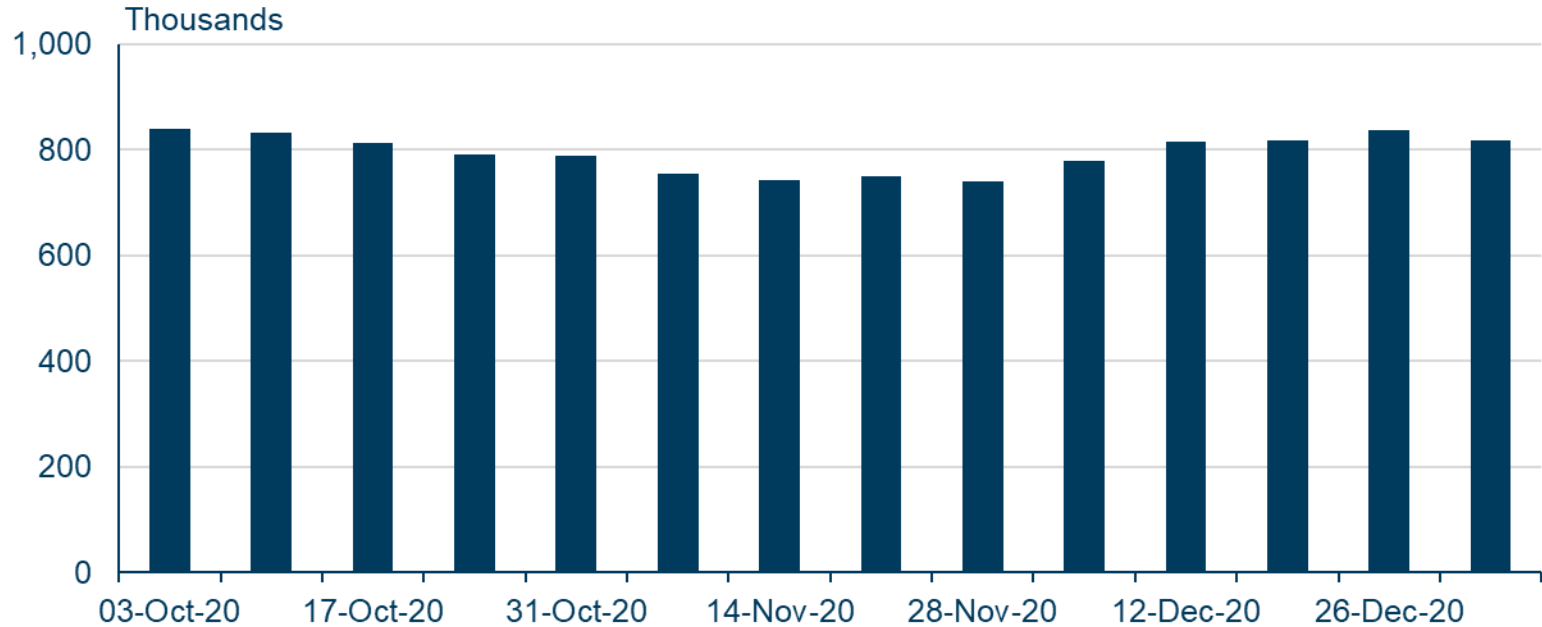
March 1, 2020 - January 10, 2021



Note: New deaths are seven-day moving averages. The Group of Seven (G7) Countries excluding the United States are Canada, France, Germany, Italy, Japan, and the United Kingdom.

Source: Johns Hopkins University, United Nations population estimates

Figure 3: Initial Claims for Unemployment Insurance October 3, 2020 - January 2, 2021

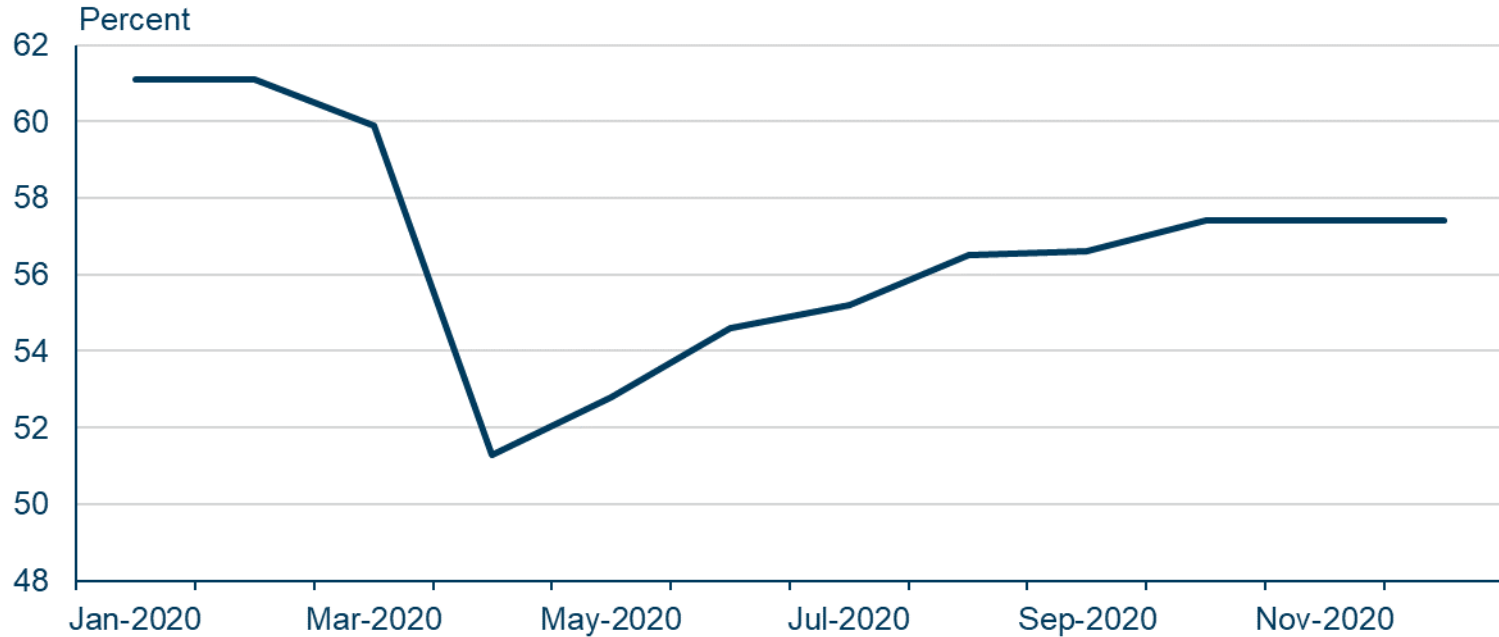


Note: Four-week moving average. Data are seasonally adjusted.

Source: U.S. Department of Labor, Haver Analytics

Figure 4: Employment-to-Population Ratio

January 2020 - December 2020



Note: Includes population 16 years and older.

Source: BLS, Haver Analytics

Figure 5: Payroll Employment Increases and Decreases in Selected Industries

December 2019 - December 2020

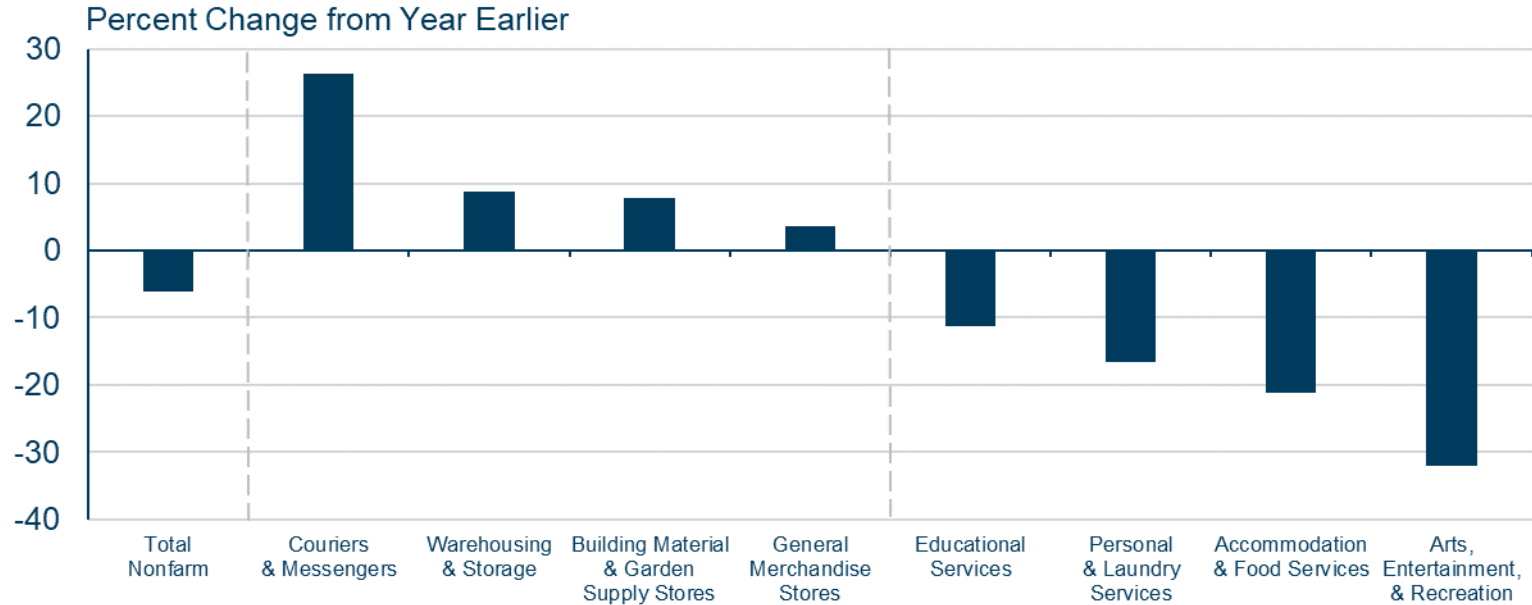


Figure 6: Real Personal Consumption Expenditures on Goods – Large Increases and Decreases

November 2019 - November 2020

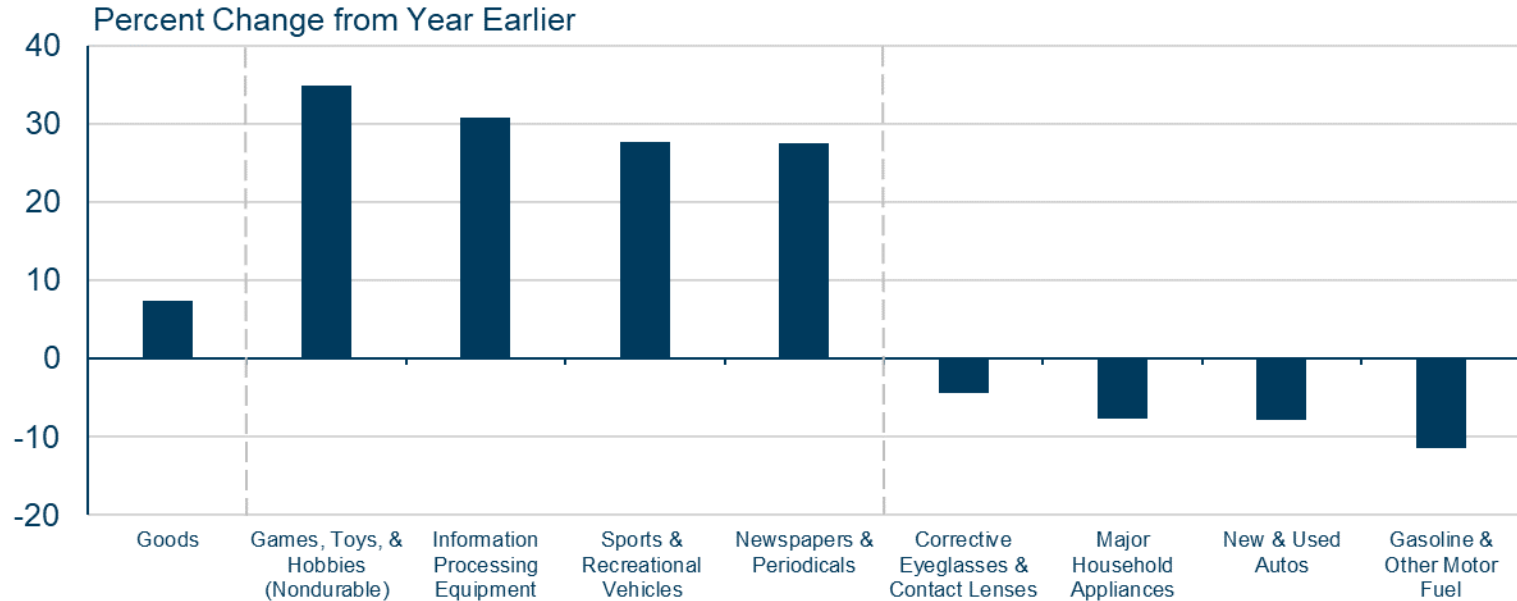
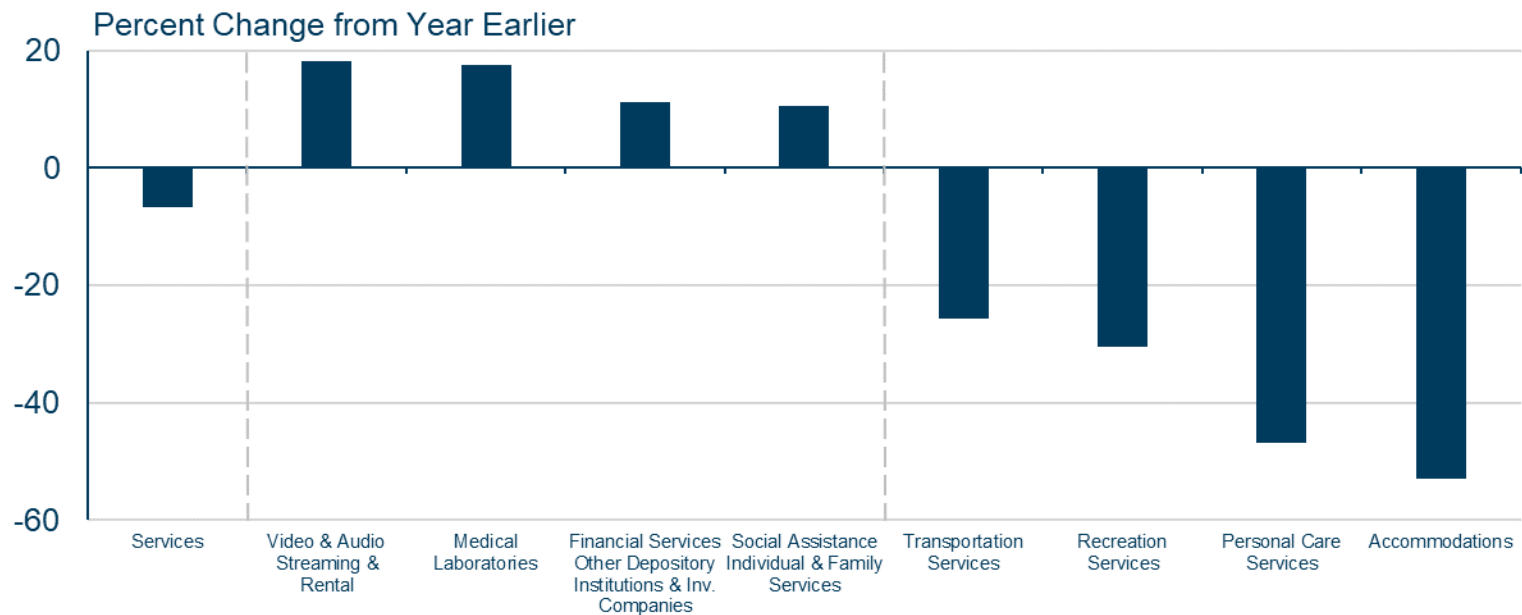


Figure 7: Real Personal Consumption Expenditures on Services – Large Increases and Decreases

November 2019 - November 2020



Economic Recovery Intertwined with Public Health

- ▶ Overall, recent indicators suggest near-term problems stemming from elevated infections and persistent public health concerns
- ▶ Near-term economic recovery is highly dependent on rapid, widespread vaccination
- ▶ Unfortunately, to date, the inoculation rate has been disappointing, which likely will impact public health and the economy in the near term

Figure 8: Personal Saving Rate

November 2019 - November 2020

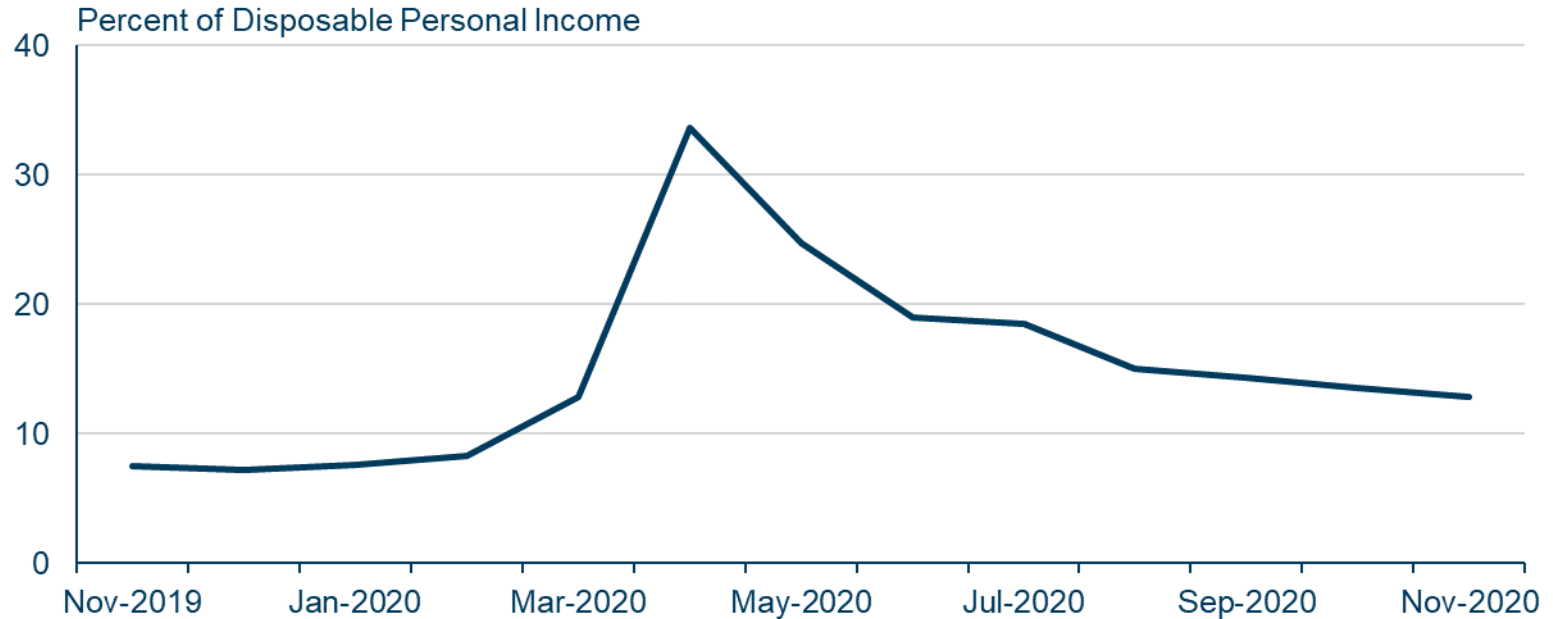


Figure 9: S&P 500 Stock Market Index

January 2, 2020 - January 8, 2021

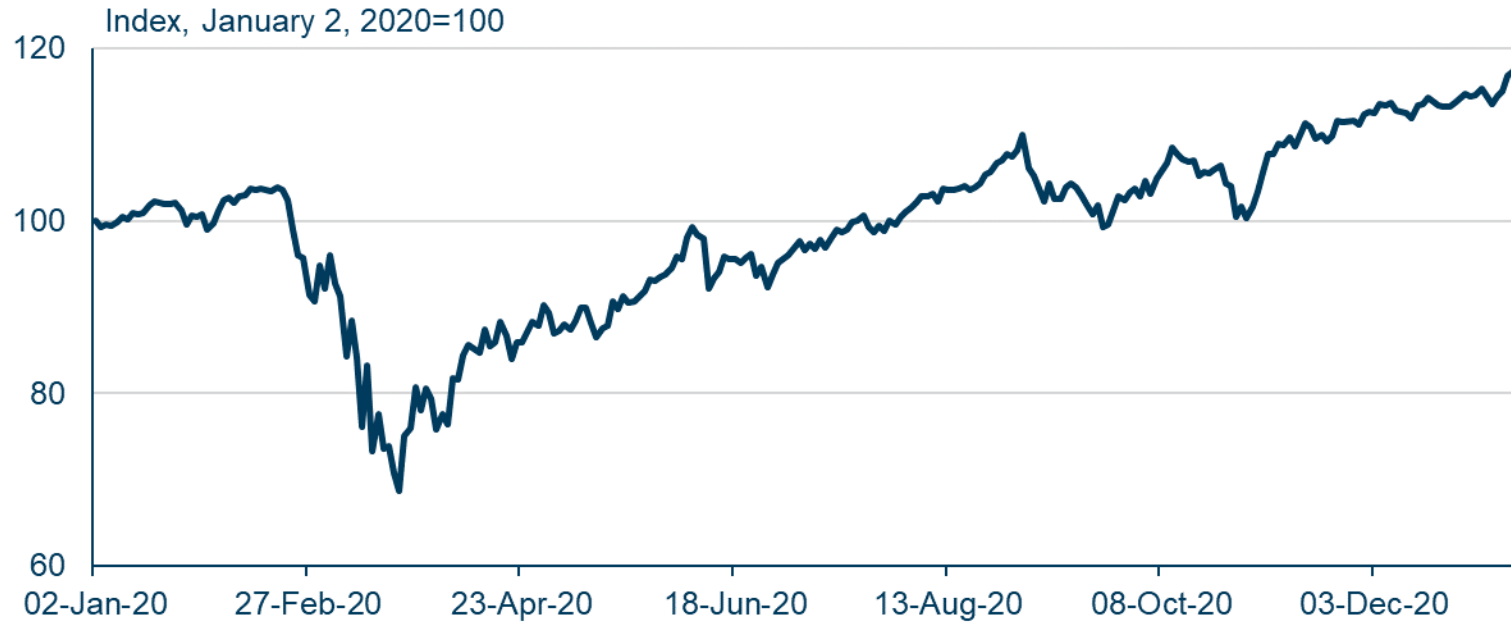
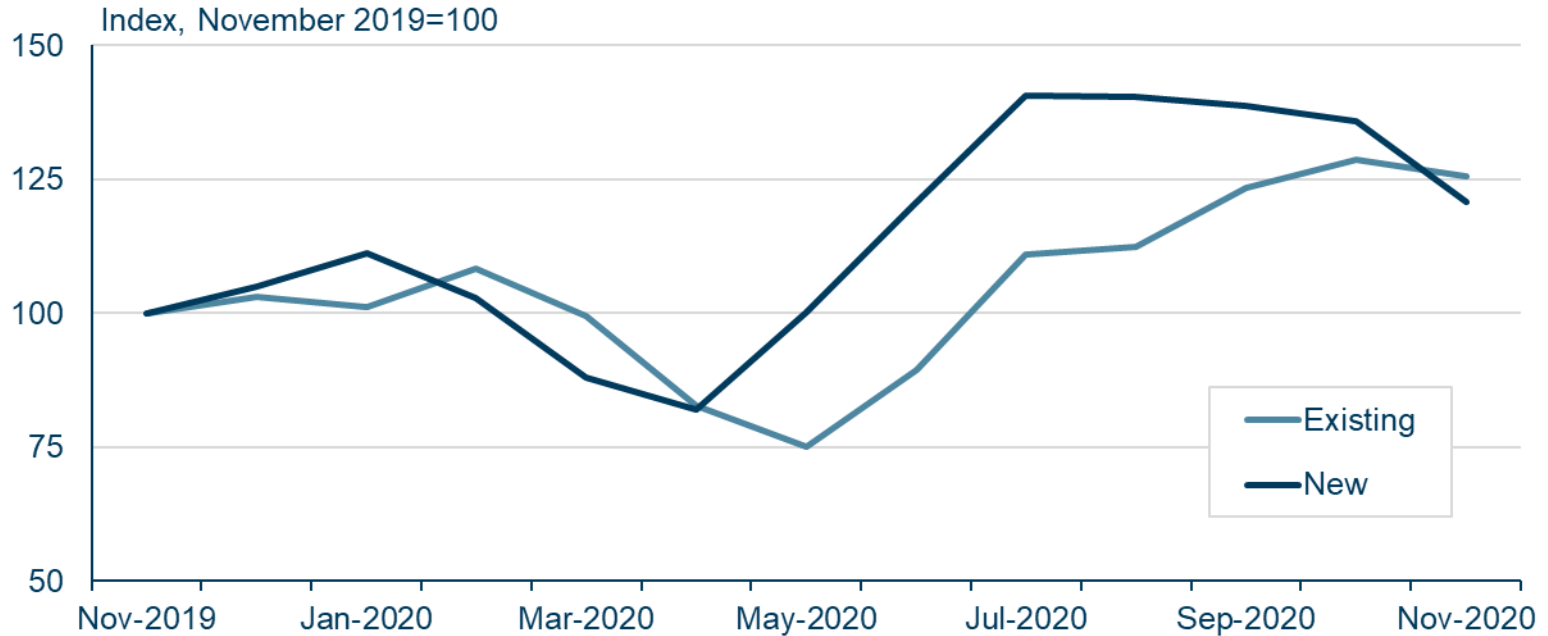


Figure 10: Single-Family Home Sales

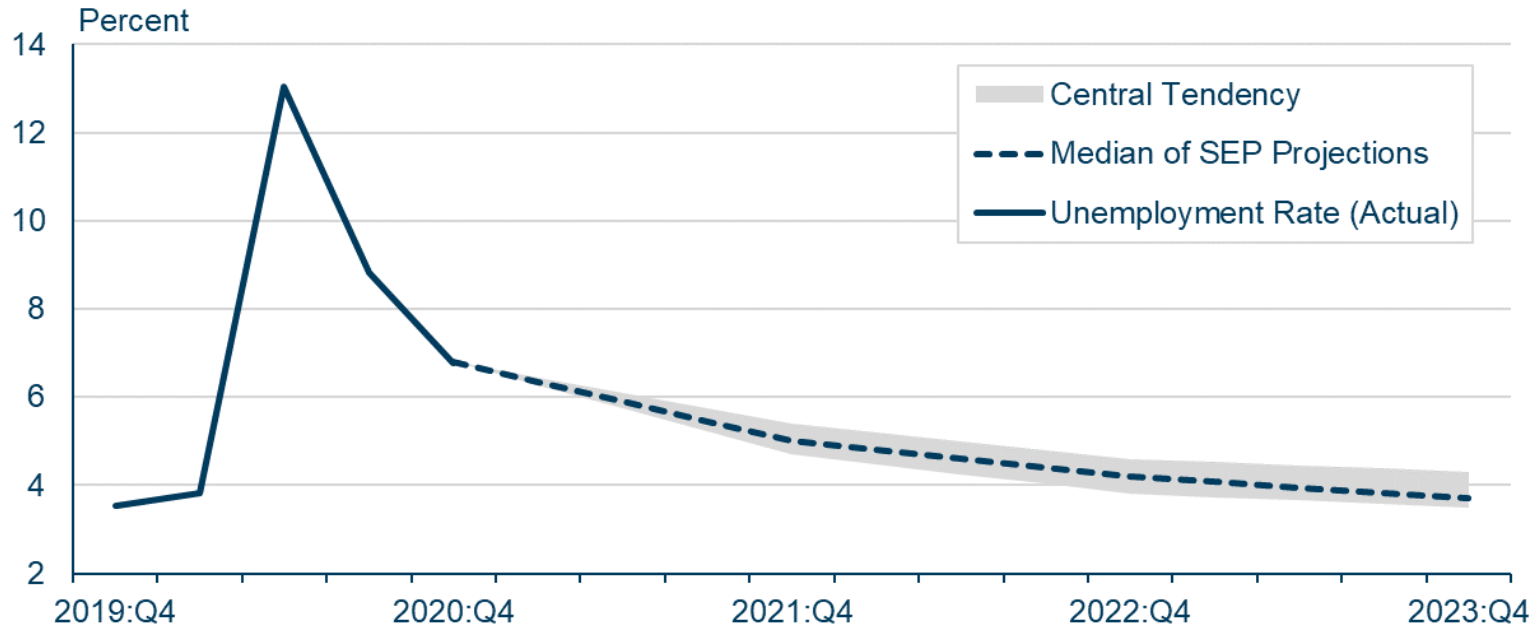
November 2019 - November 2020



Source: Census Bureau (New), National Association of Realtors (Existing), Haver Analytics

Figure 11: Unemployment Rate: Actual and Forecast from the Summary of Economic Projections

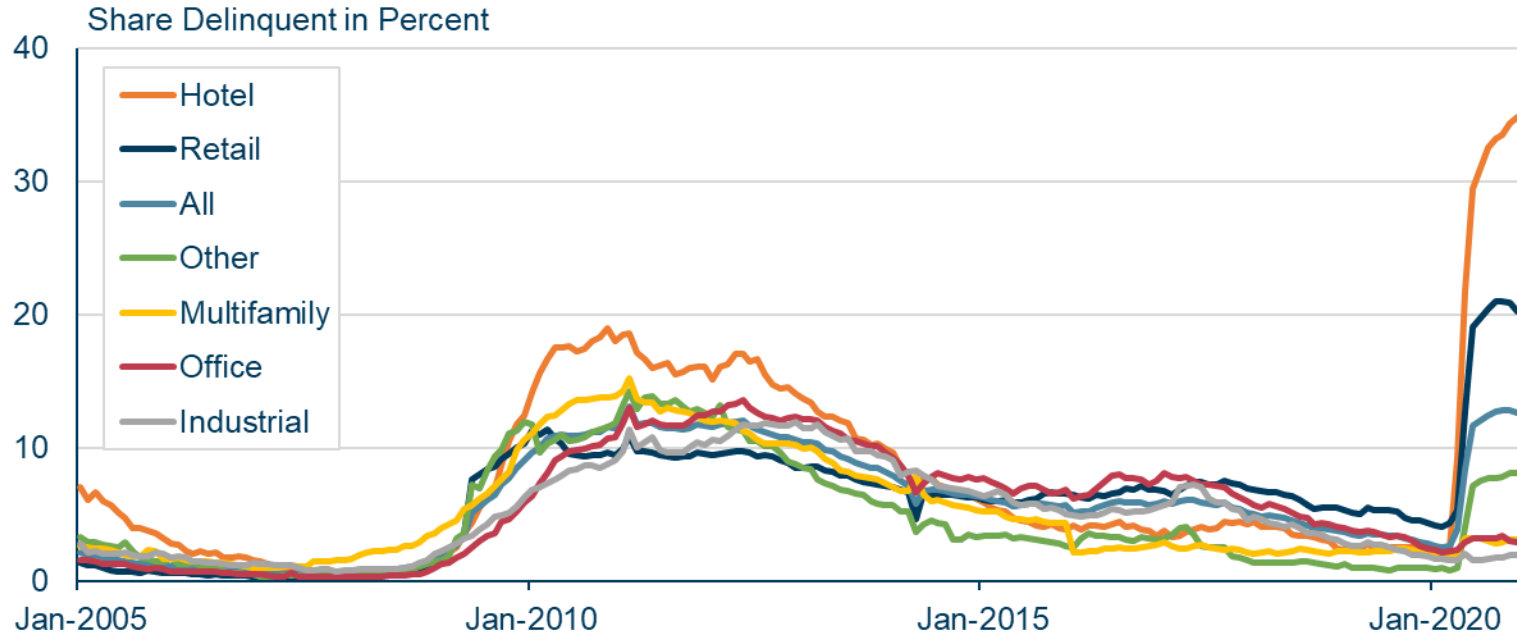
2019:Q4 - 2020:Q4, Actual; 2021:Q4 - 2023:Q4, Forecast



Note: The SEP unemployment rate forecast is for the unemployment rate in the fourth quarter of the year indicated, for 2021 - 2023. The central tendency excludes the three highest and three lowest observations.

Source: BLS; FOMC, Summary of Economic Projections, December 16, 2020; Haver Analytics

Figure 12: Delinquency Share by Property Type for Loans in CMBS January 2005 - December 2020



Note: Delinquency includes loans that are past due, in special servicing or forbearance, in foreclosure, and REO.

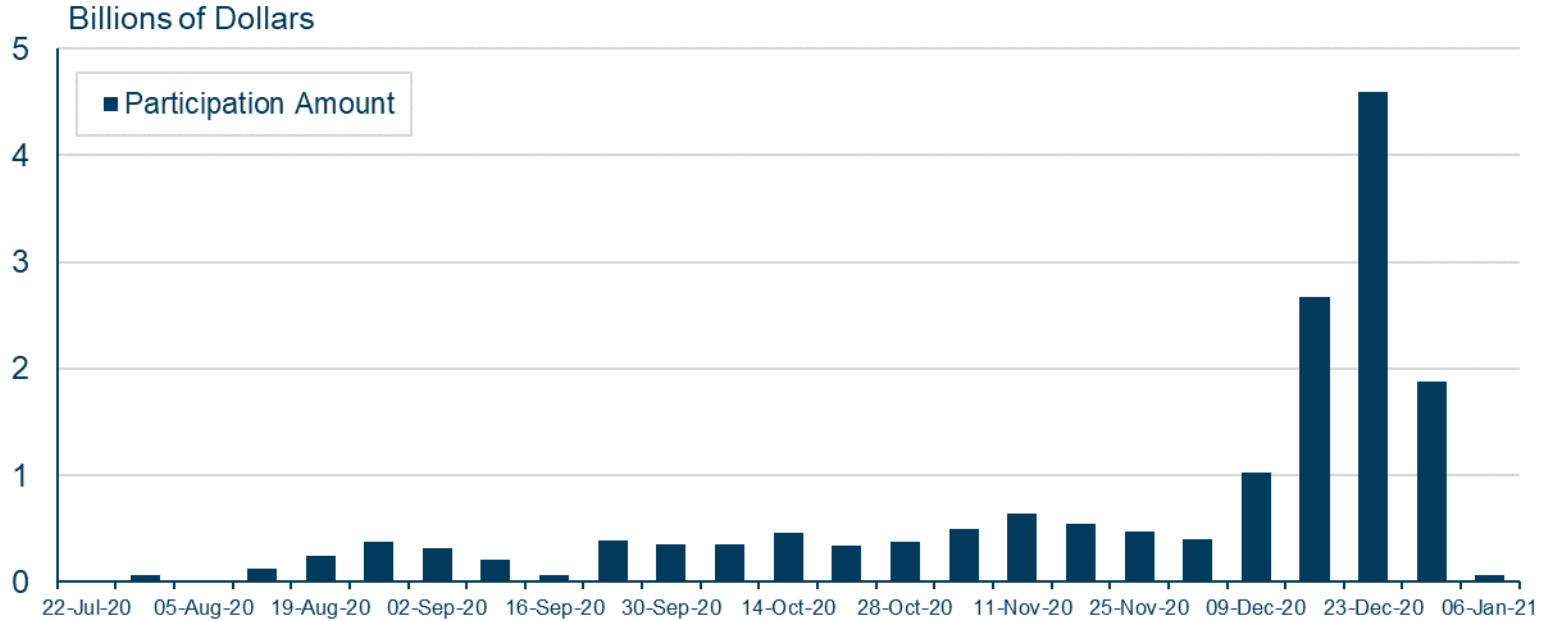
Source: Morningstar and authors' calculations

Policy Support for the Economy

- ▶ A major factor in the resilience of the economy through the pandemic has been the presence of significant fiscal and monetary support
- ▶ CARES Act emergency lending facilities are now closed
- ▶ Worth highlighting one of the more novel programs, the Main Street Lending Program
 - ▶ Extended more than \$16.5 billion dollars in lending
 - ▶ Over 1,800 companies supported
 - ▶ Surge in demand: more than half the loans were made in the last month of operation

Figure 13: Weekly Change in Main Street Lending Program Loans Outstanding

July 22, 2020 - January 6, 2021



Source: Federal Reserve Board, H.4.1; Haver Analytics

Figure 14: Main Street Lending Program Number of Loans Outstanding

Weekly, July 22, 2020 - January 6, 2021

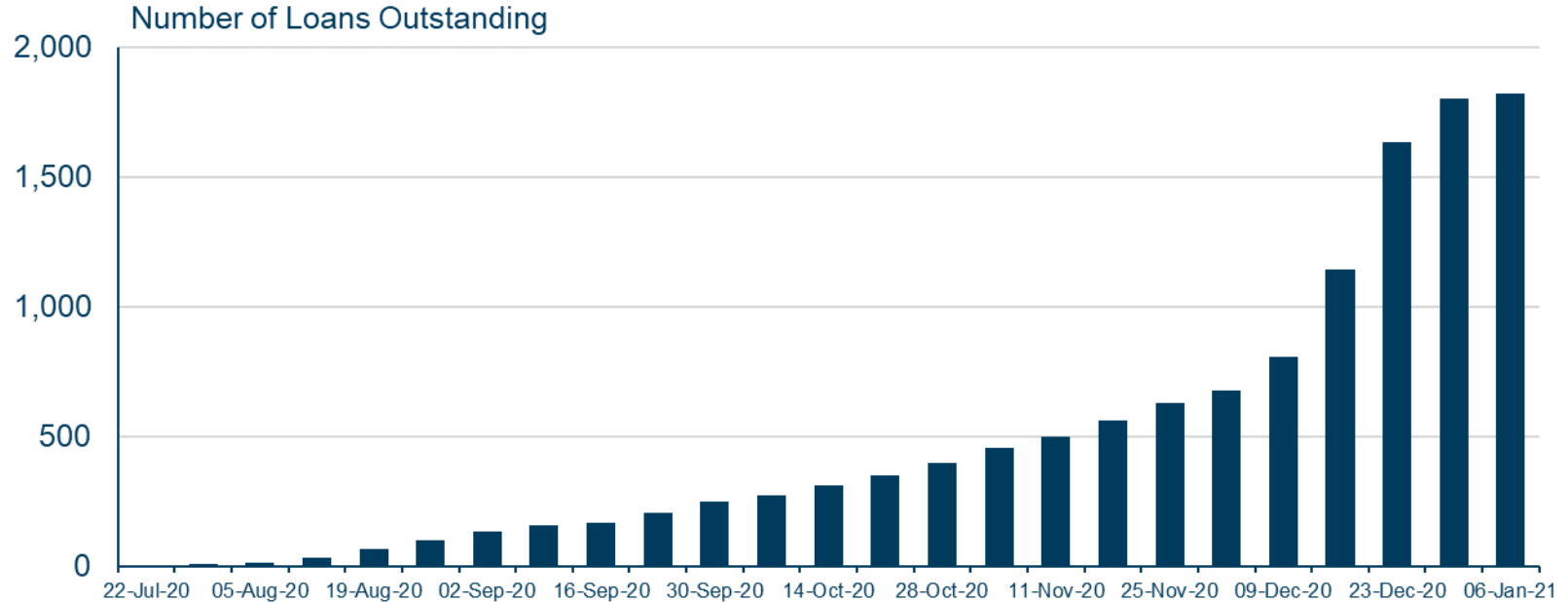
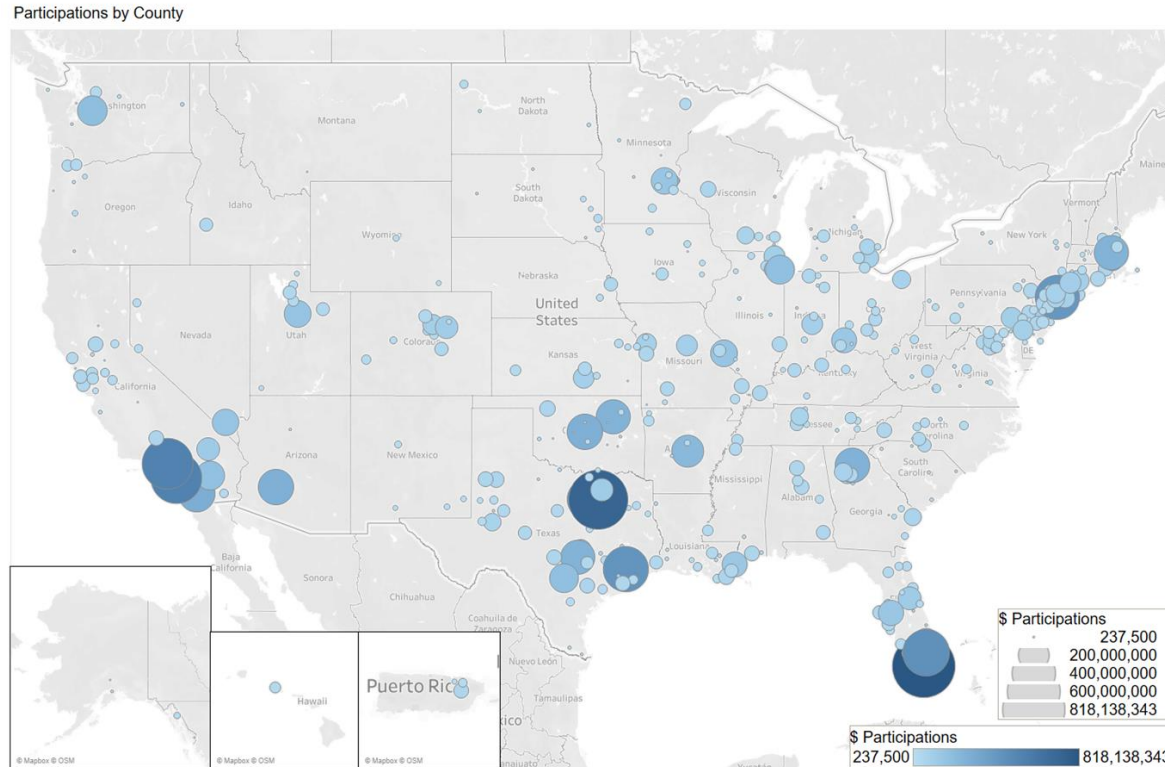


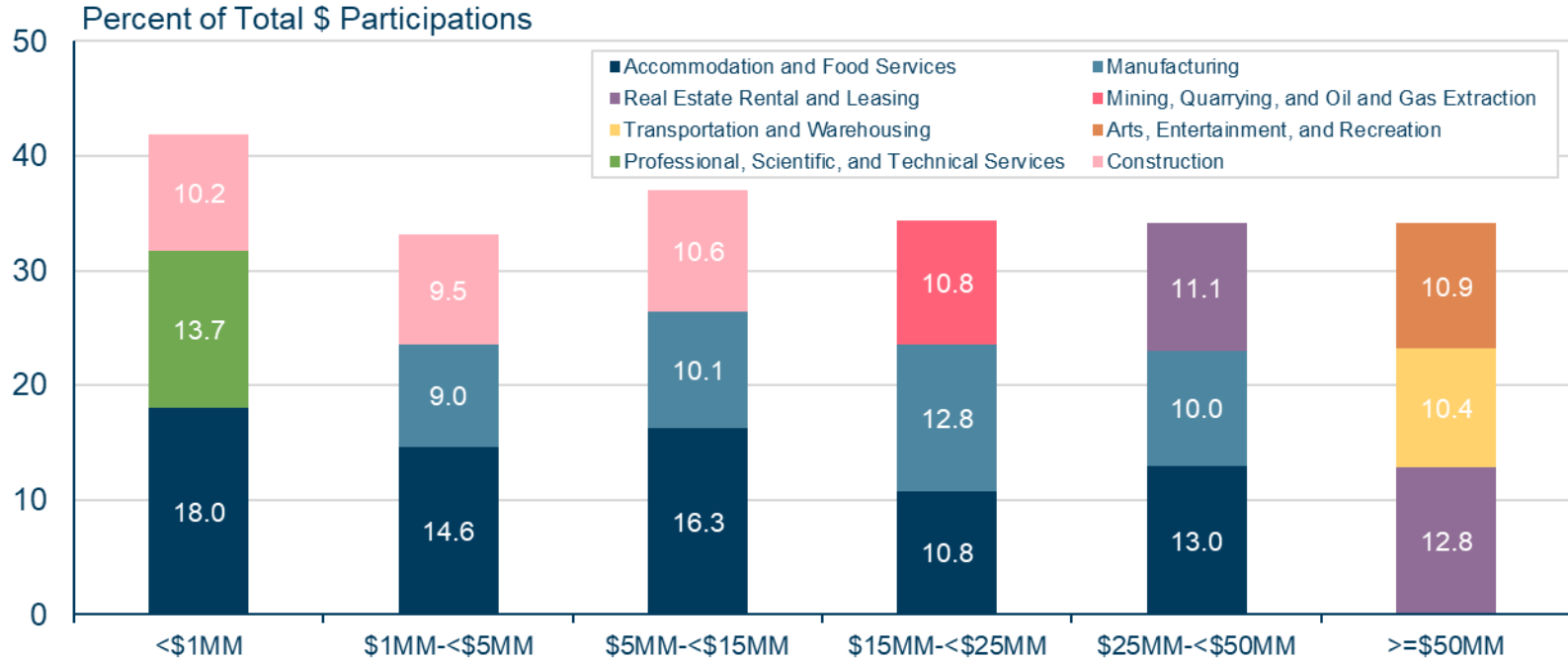
Figure 15: Main Street Lending Program's Geographic Coverage January 8, 2021



Source: Federal Reserve Bank of Boston

Figure 16: Main Street Lending Program: Top 3 Industry Concentrations by Loan Size

January 8, 2021



Source: Federal Reserve Bank of Boston

Lessons Learned from Main Street

- ▶ While the Main Street lending program provided very helpful financing, I believe that were certain tweaks permitted, it could have been more impactful
- ▶ With less focus on mitigation of potential loss to the Treasury, much more credit would have been made available
- ▶ Designing the program to have less legal and operational complexity would have made it more attractive
- ▶ Structuring differently (e.g., banks earn fees as long as loan performed, vs. 5% participation) could have made the facility more attractive
- ▶ Longer terms and greater ability to refinance (more akin to what was available to larger companies) would have increased demand

Concluding Observations

- ▶ We enter 2021 with some optimism about the future
- ▶ The pandemic is likely to continue to be a problem for public health and the economy until widespread vaccinations take hold
- ▶ With substantial fiscal and monetary support, I expect a robust recovery starting in the second half of this year
- ▶ I also expect that short-term interest rates near zero will be appropriate throughout this year, and that the Fed will continue to purchase long-term assets until the economy is on a stronger economic footing