

THE OUTLOOK FOR THE US ECONOMY

National Association of Steel
Pipe Distributors

Dan North, Chief Economist
Euler Hermes North America
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THE US: THE DISASTER OF 2020, AND A BRIGHTER OUTLOOK AHEAD

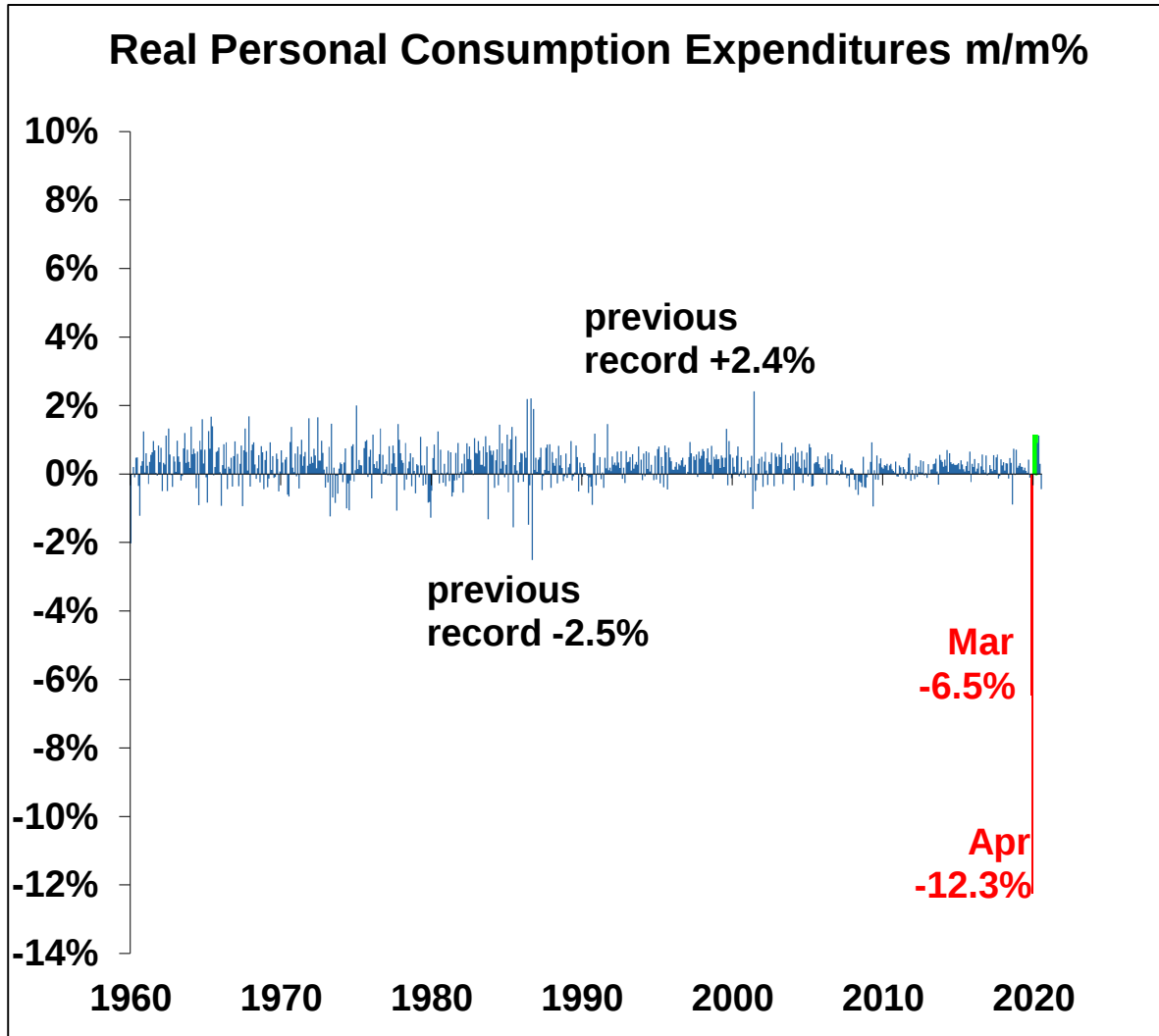
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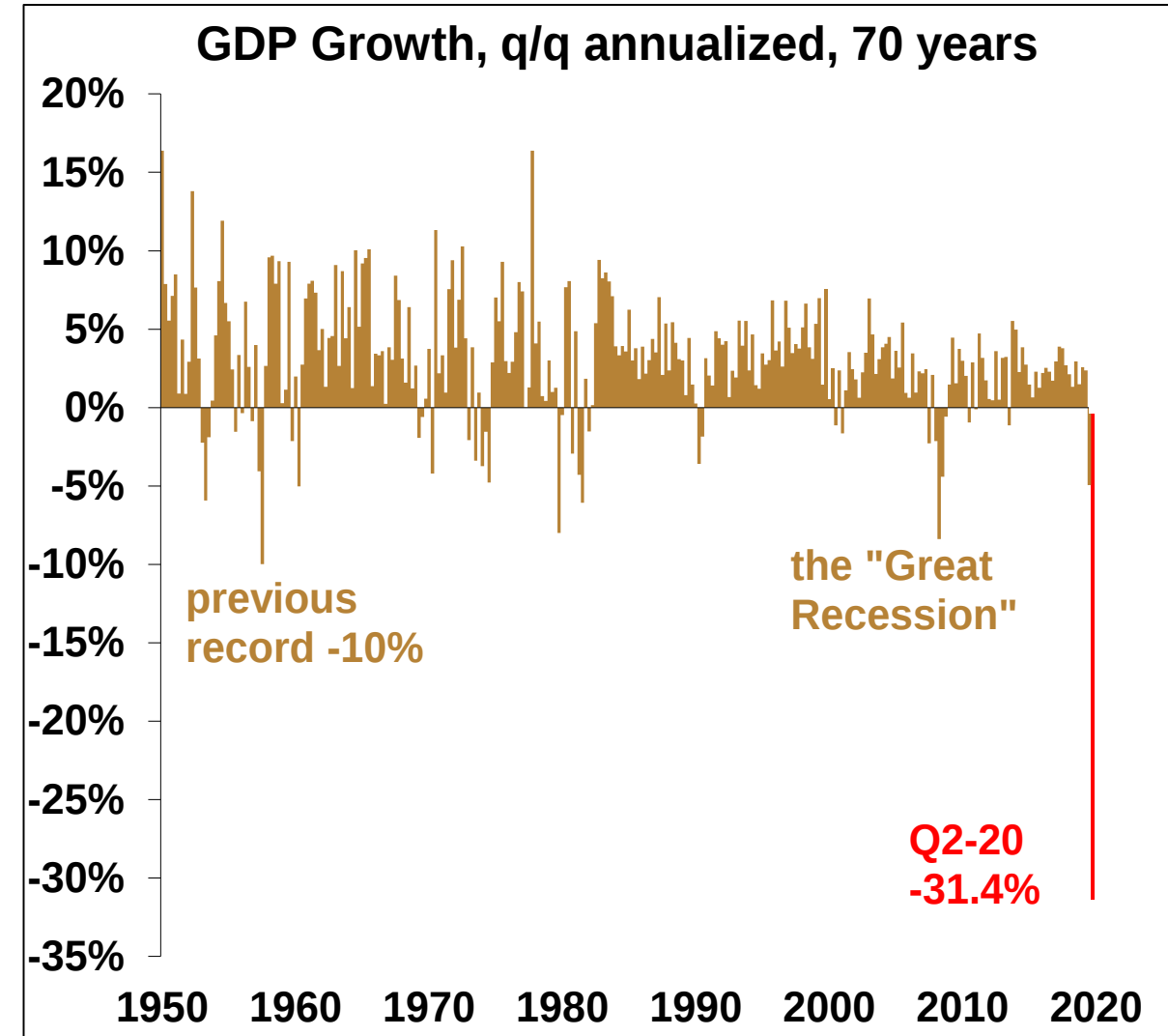
2020 – NOT JUST UNPRECEDENTED, IT WAS COMPLETELY DIFFERENT...



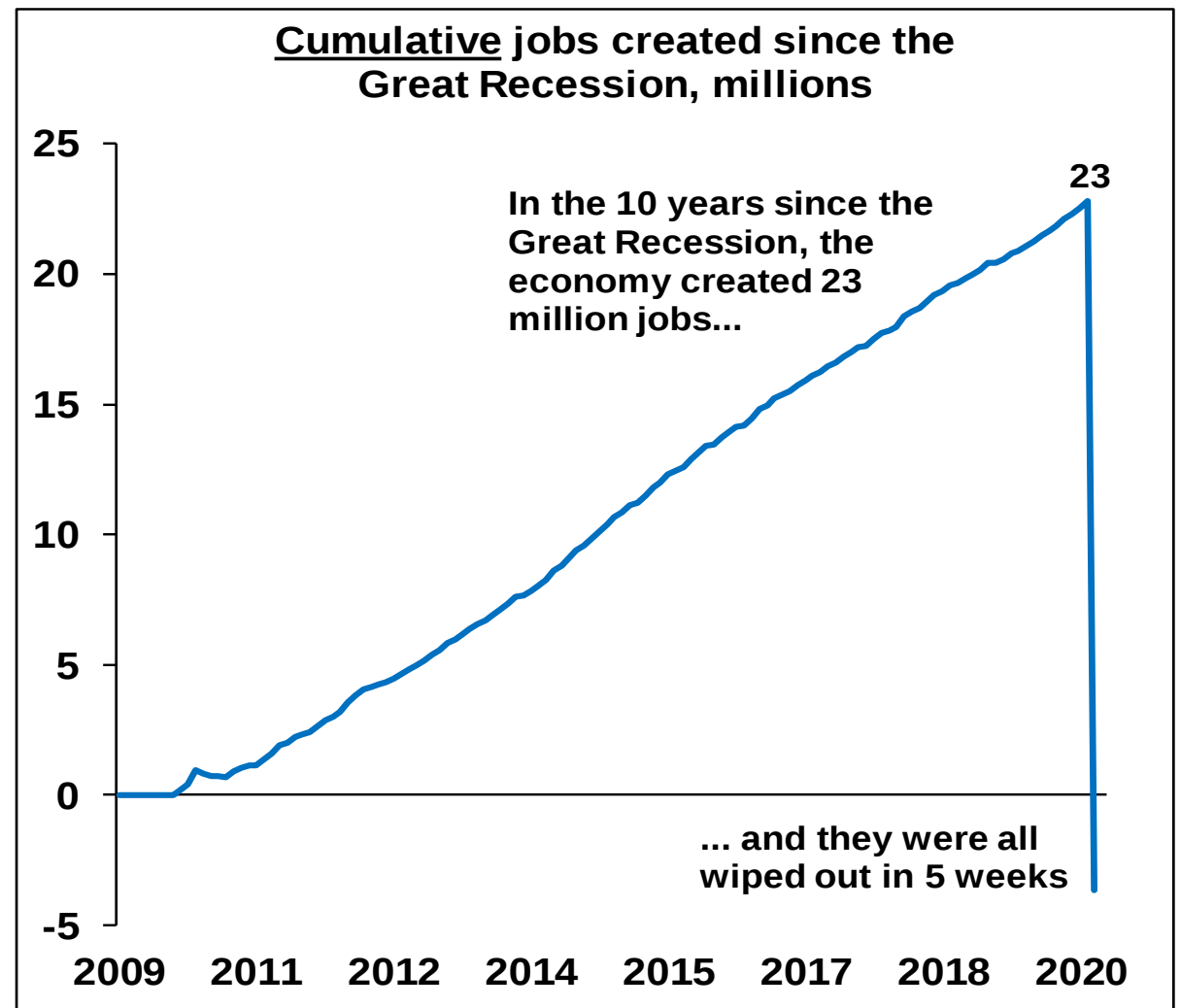
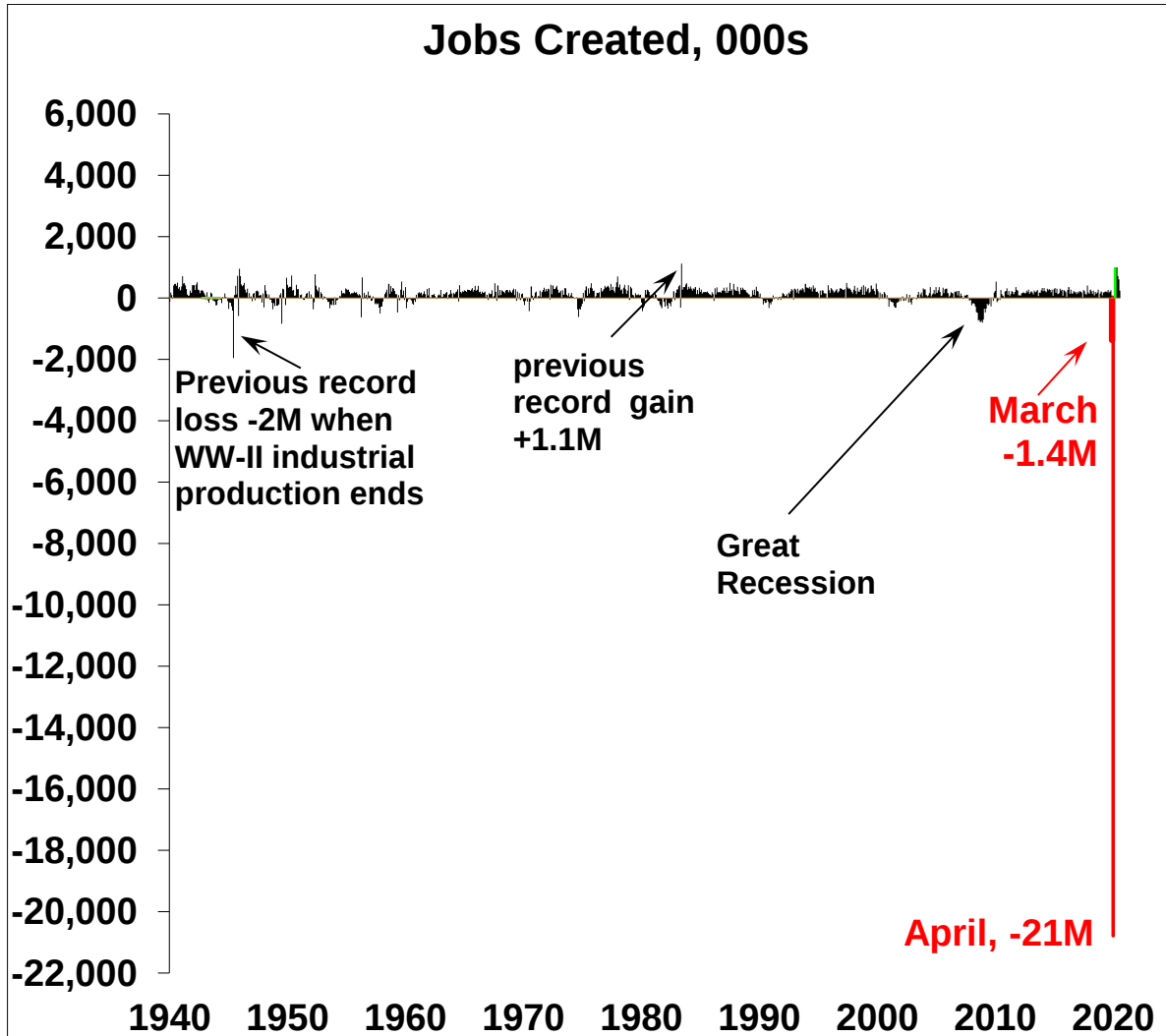
Shutdowns crushed consumption, which drives 70% of all economic activity



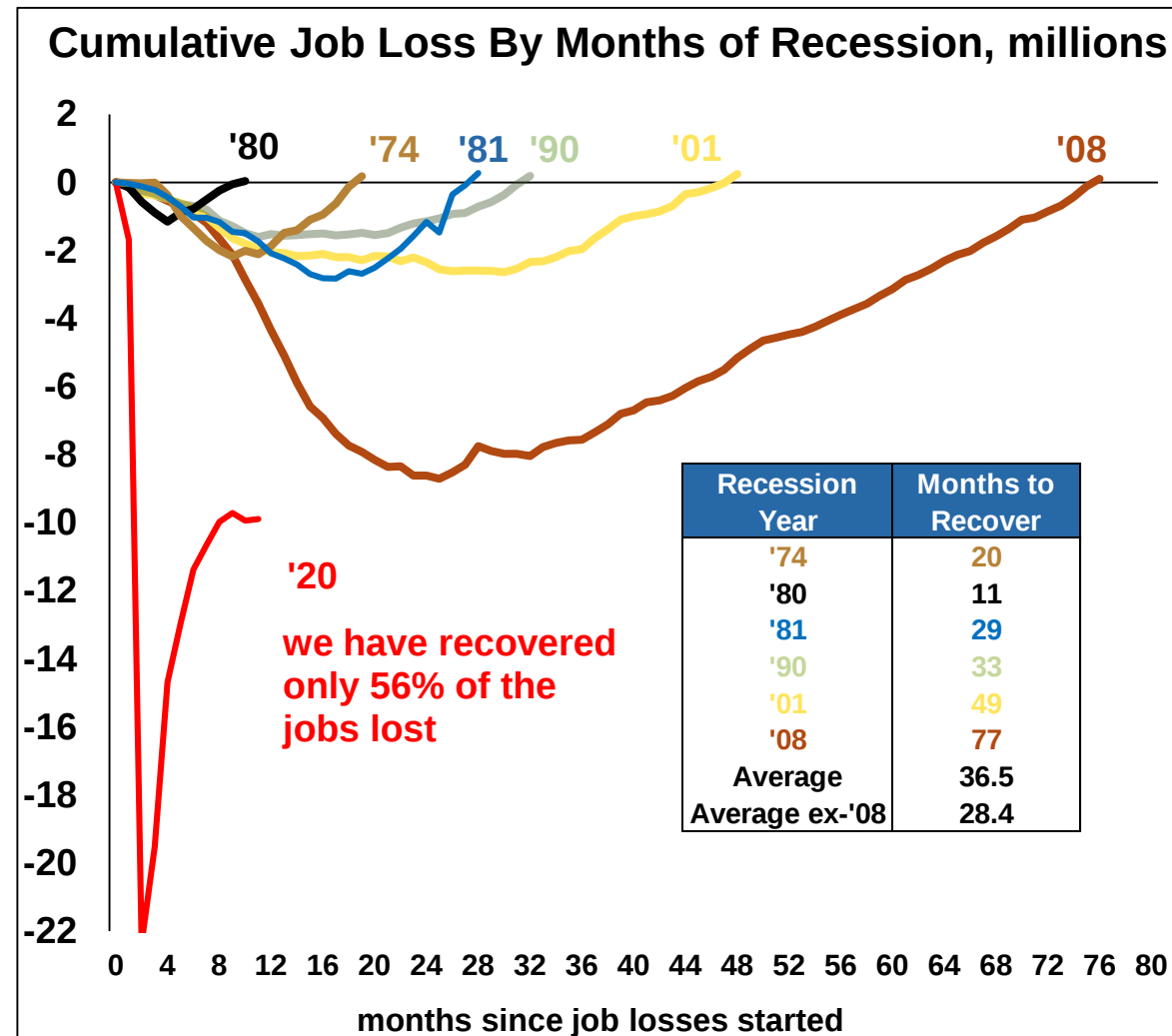
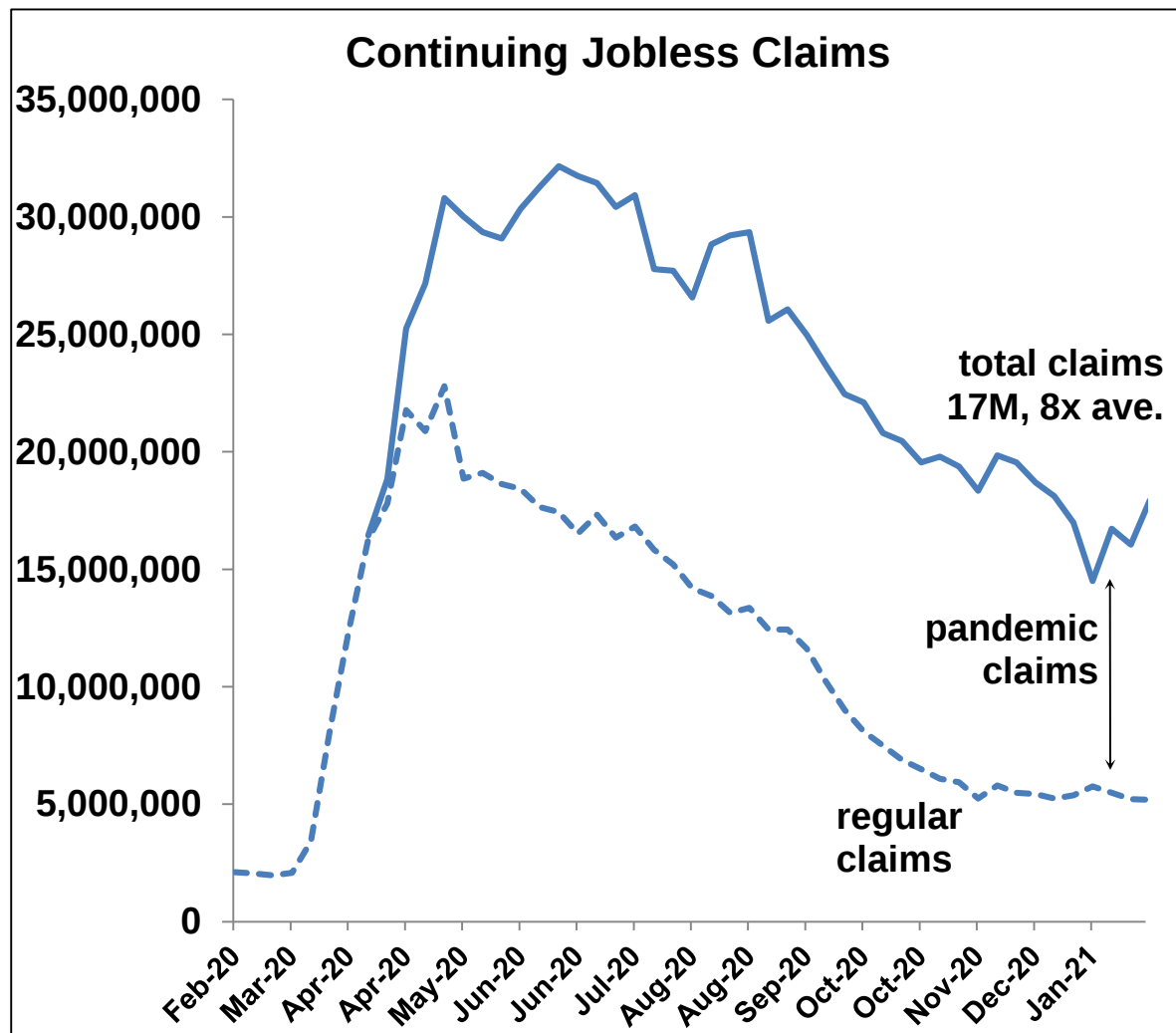
... leading to the worst quarter of GDP since the Great Depression



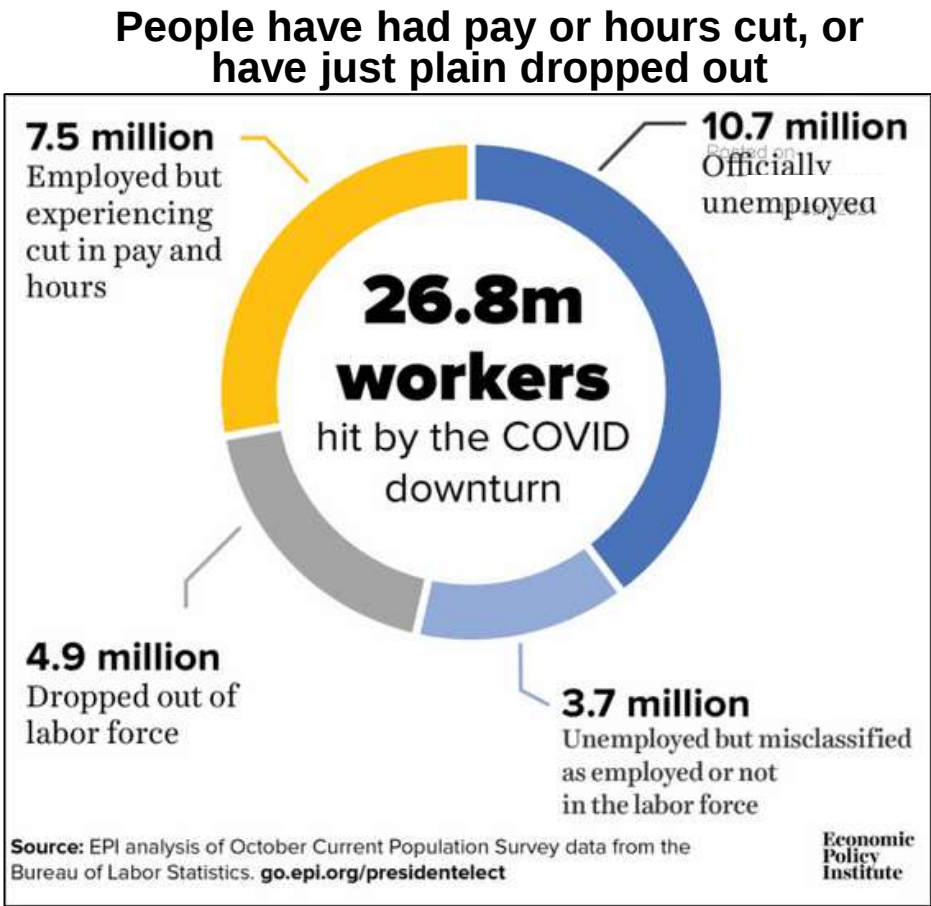
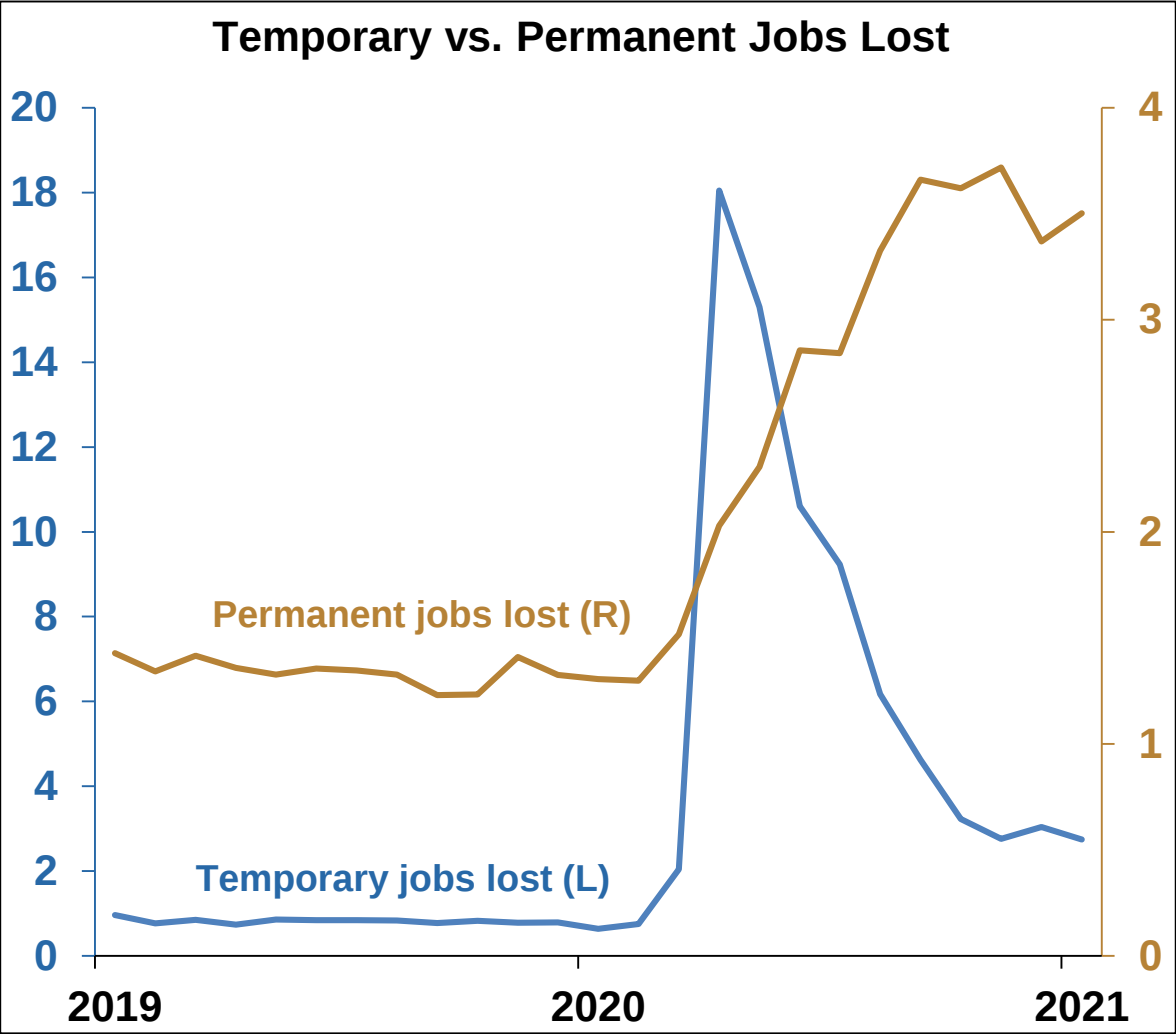
JOB LOSSES WERE EVEN WORSE. AGAIN NOT UNPRECEDENTED. BUT COMPLETELY DIFFERENT. WE WERE LUCKY TO ESCAPE



HOW LONG TO GET JOBS BACK?

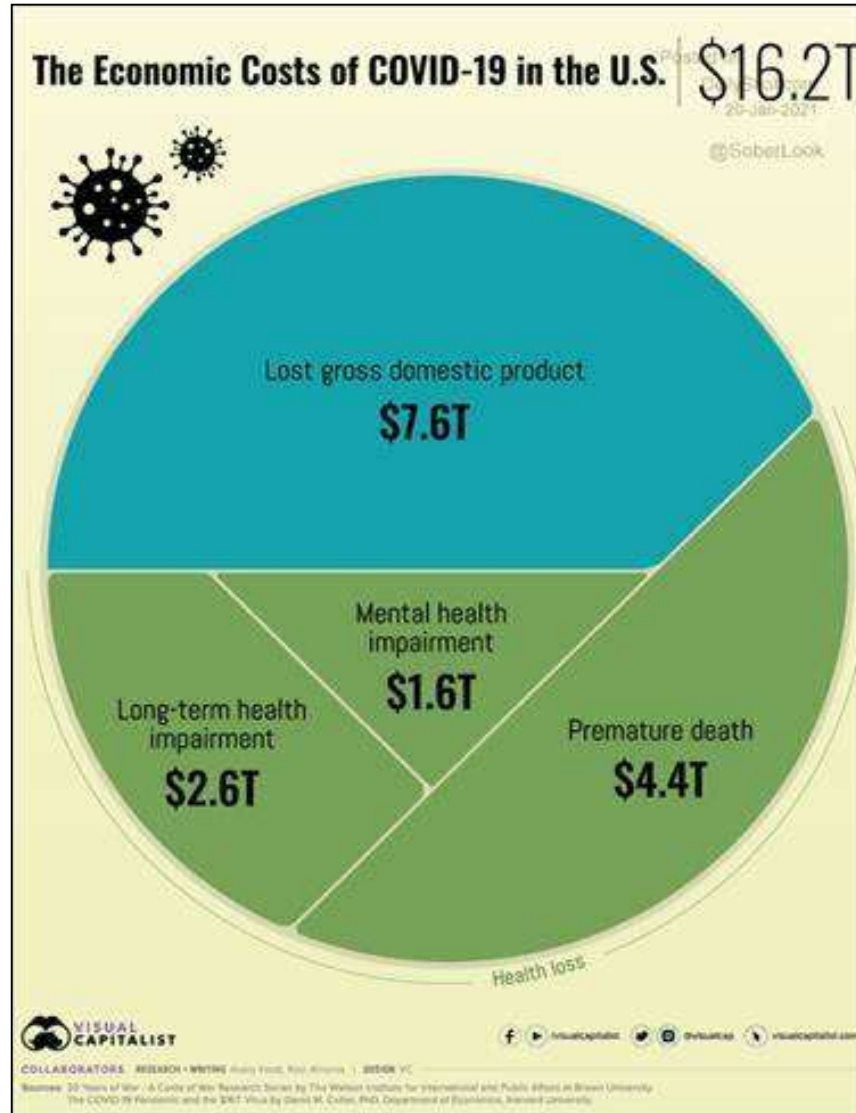


COVID SHUTDOWN HAS RESULTED IN *PERMANENT* JOB LOSS AND IT'S NOT JUST THE UNEMPLOYED



AND IT'S NOT JUST THE JOBS LOST

The human cost has been twice the lost GDP



And it has hit some groups worse than others

And it's hit some groups and industries harder than others:

- Women
- Low wage earners
- African Americans
- Services in general
- Retail (ex-Amazon)
- Bars and restaurants
- Travel

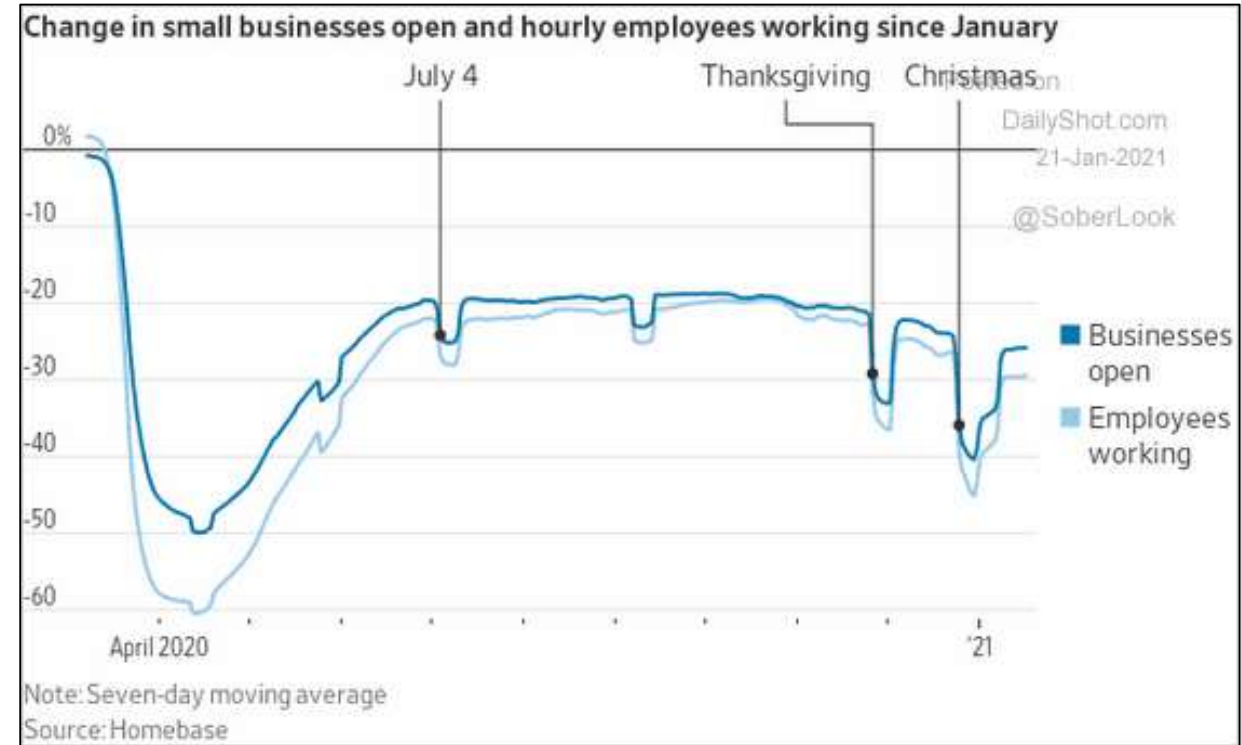
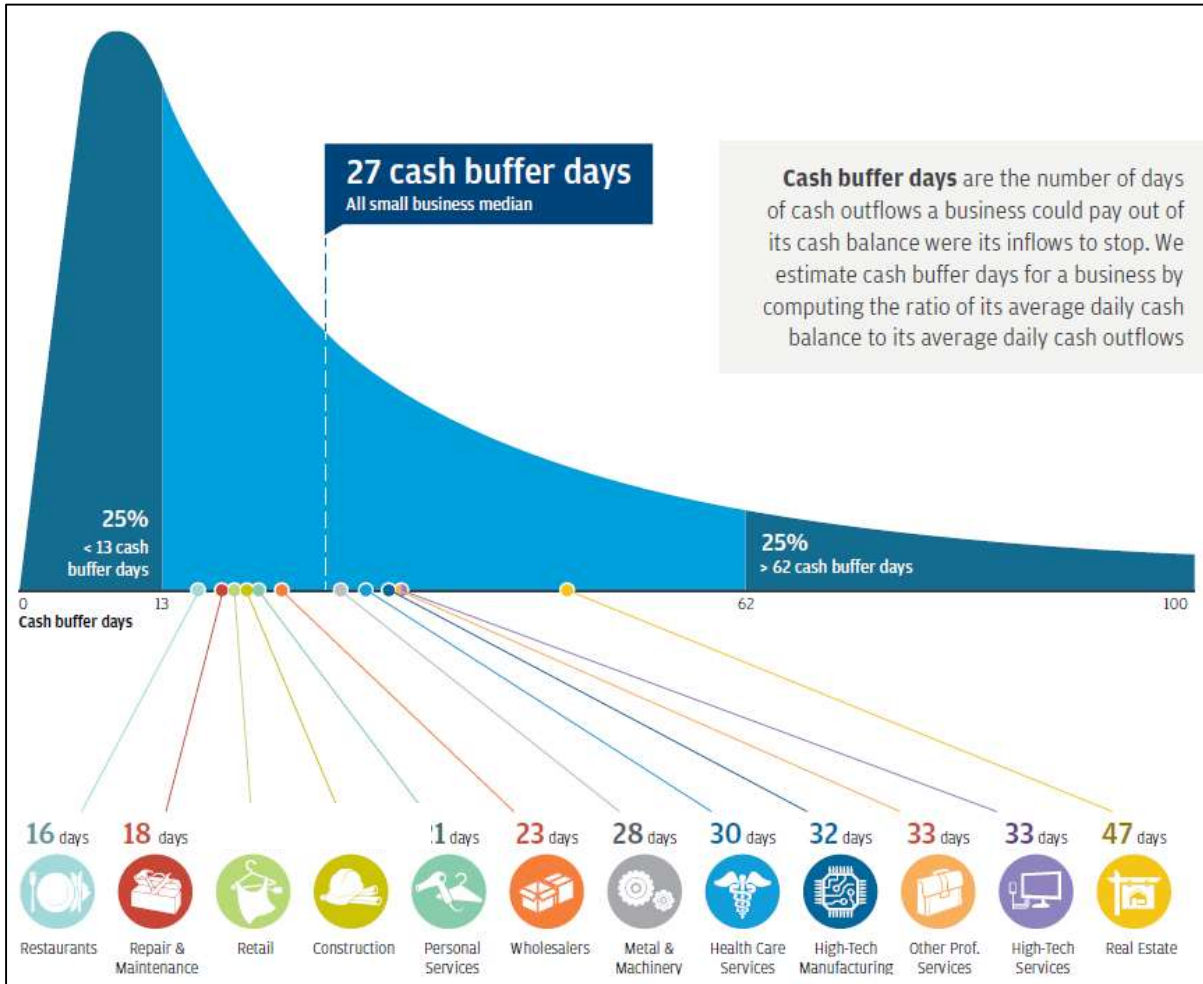
This is the “K-shaped” recovery.

The economy as a whole recovers...

...but, some do better...

K
...than others

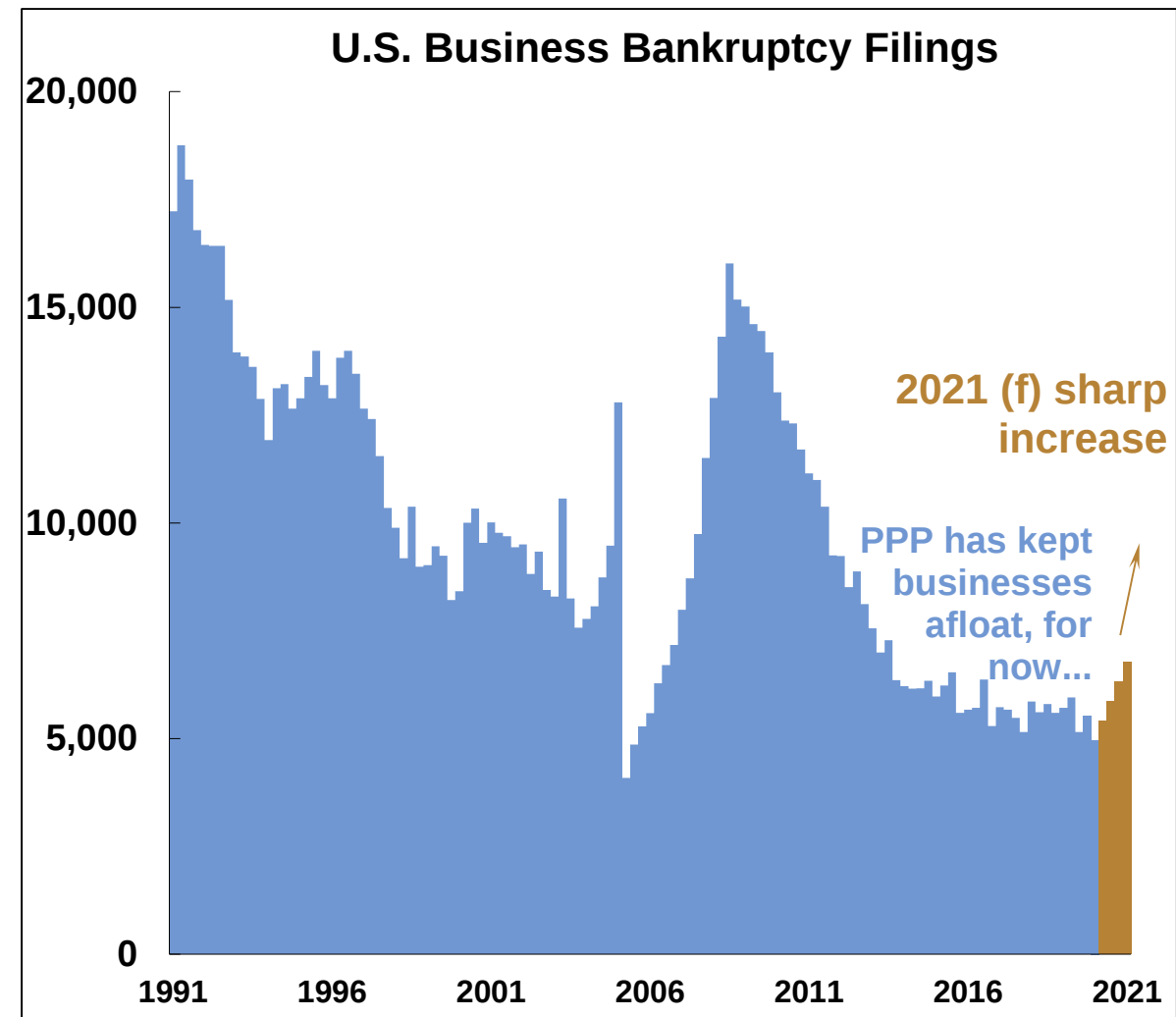
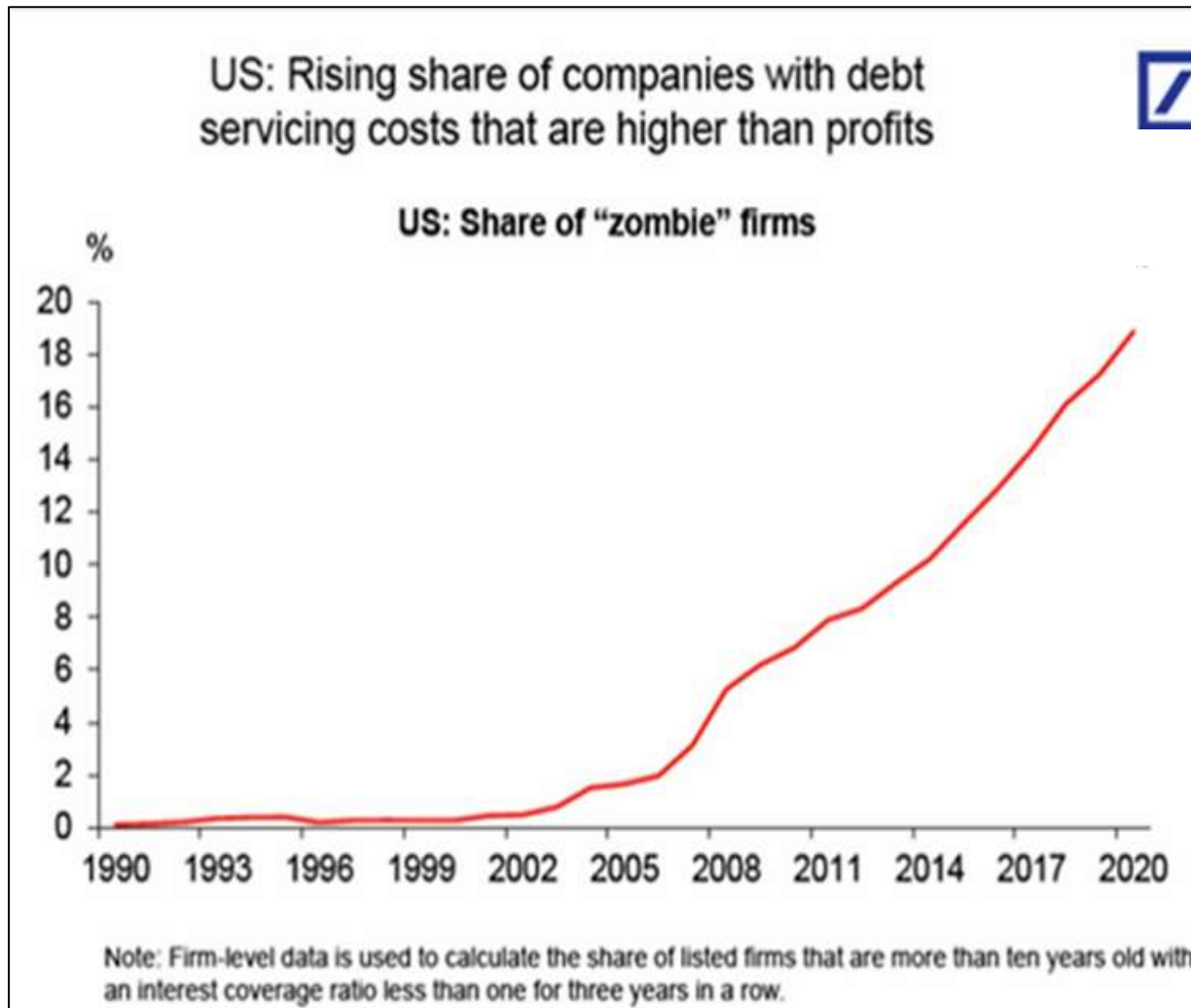
LOSSES IN SMALL BUSINESSES AND SMALL BUSINESSES ARE FRAGILE WITHOUT PPP



SMALL BUSINESS AT RISK, MORE ZOMBIE COMPANIES, PPP RUNNING OUT MEANS MORE BANKRUPTCIES



“Zombie” companies have too much debt and can only pay back interest, leaving no profits. They can’t invest, can’t grow and skate on the edge of bankruptcy.

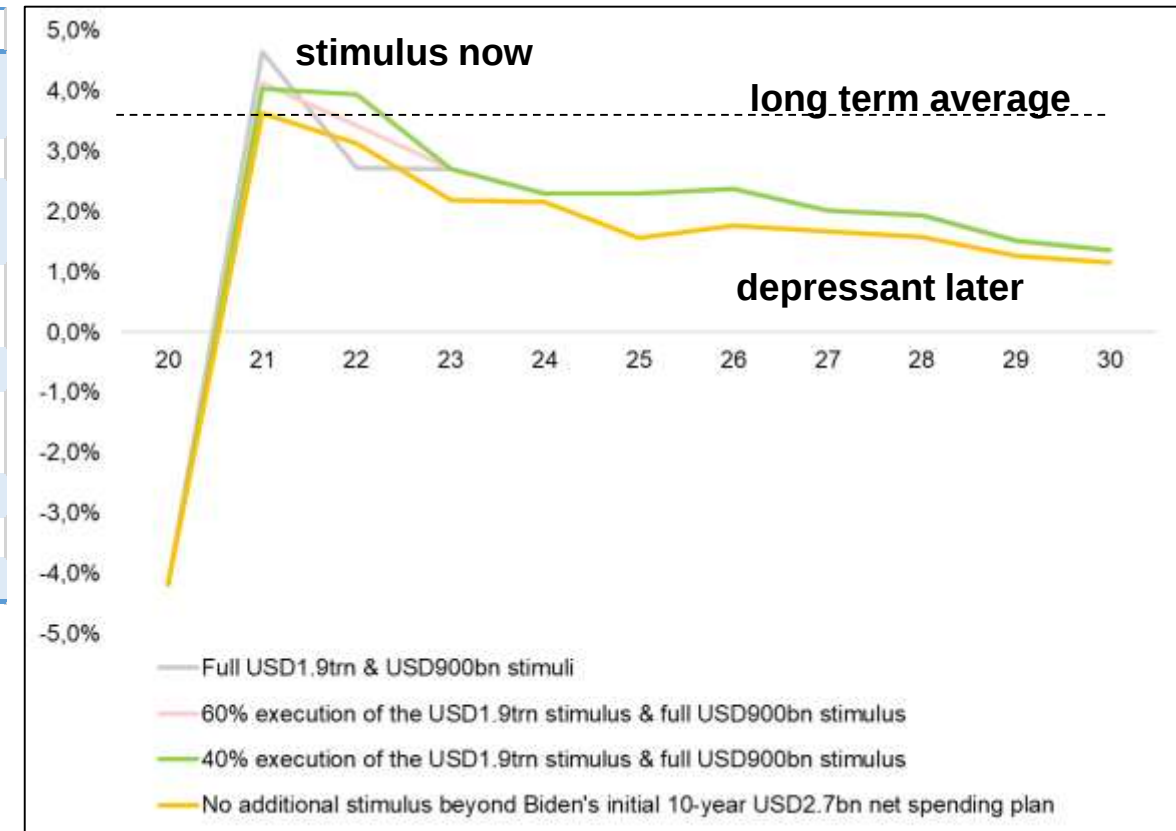


THE TERM “STIMULUS” IS WEARING THIN. IT SHOULD BE “STIMULUS NOW, DEPRESSANT LATER.”

Expense categories	Amount (Bn)
Provide \$1,400 per person "Recovery Rebates" on top of the \$600 already issued	465
Provide aid to state and local governments	350
Increase Unemployment Insurance supplement to \$400/week and extend emergency UI provisions through September	350
Provide funding for a national vaccination program, testing, and other COVID containment efforts	160
Fund school reopening and increase funding to schools and colleges	170
Expand the Child Tax Credit to a refundable \$3,000 per child, \$3,600 for children under 6 (assuming one year)	120
Provide rental and small landlord support	30
Provide support to childcare providers	25
Other policy changes	200

1.87 T

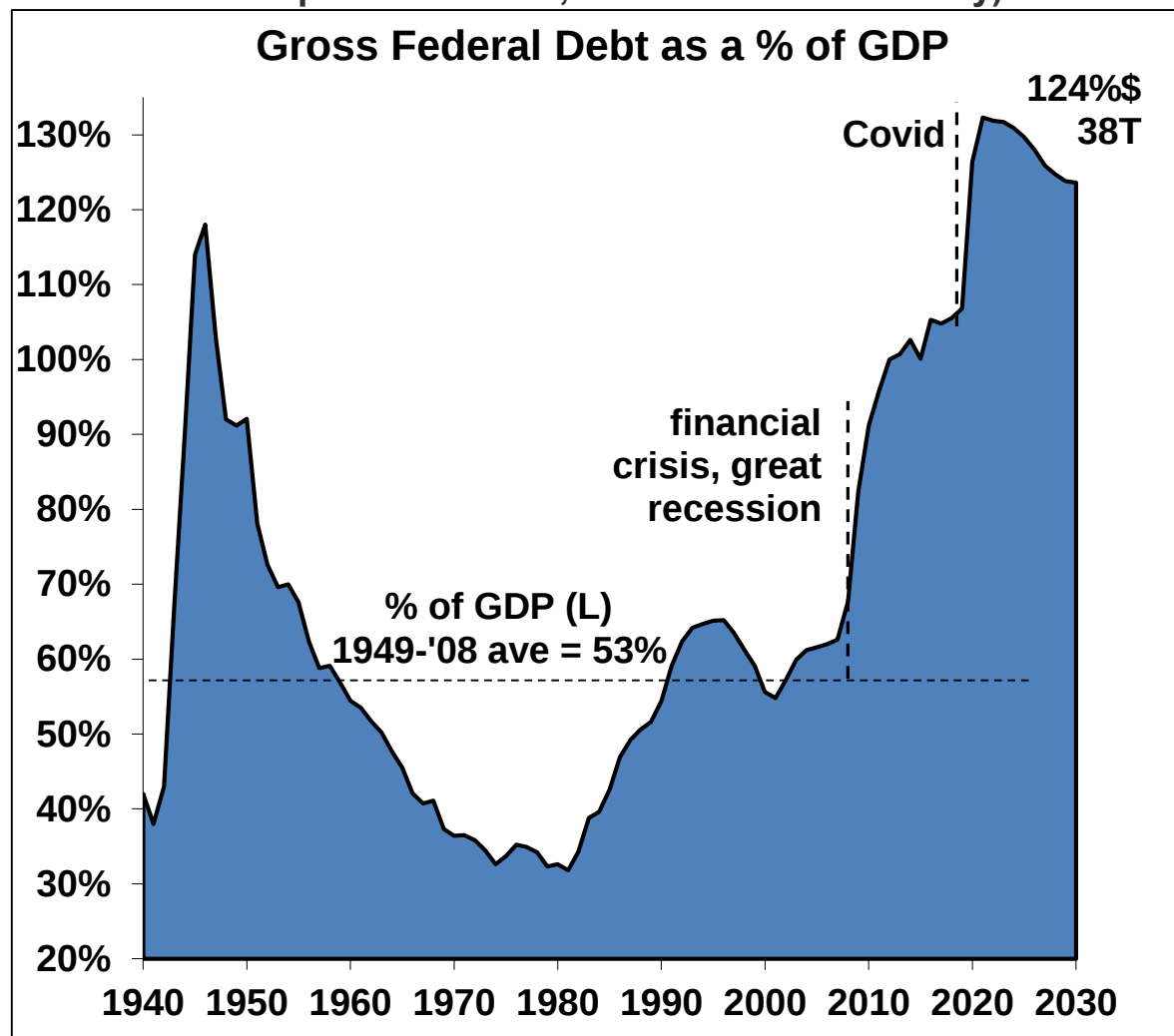
GDP growth in alternative scenarios of ARP



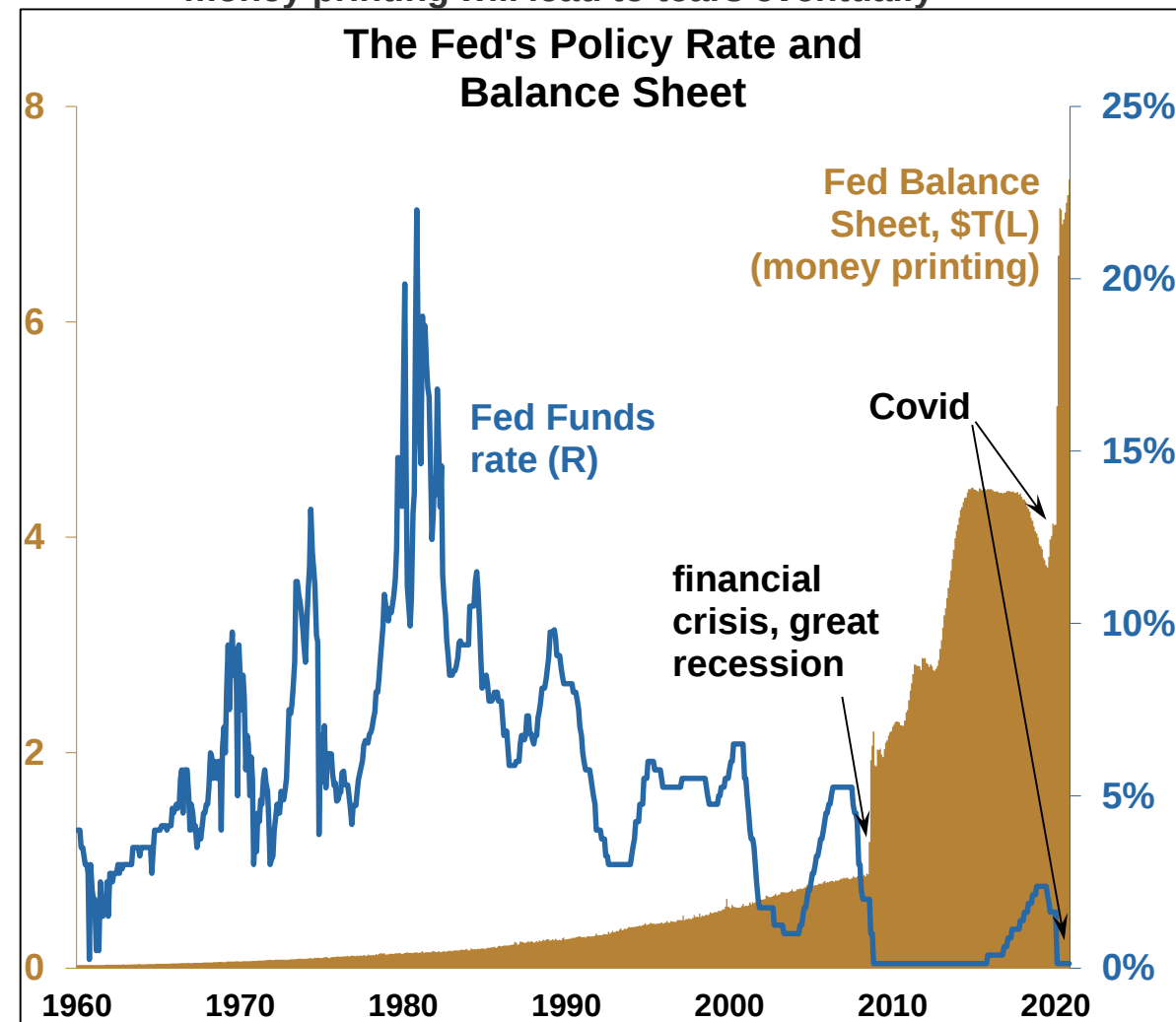
IN THE LONG TERM, STIMULUS PROGRAMS WILL CAUSE PROBLEMS EVEN IF THEY GIVE A BOOST NOW



Stimulus adds debt, slowing growth later (entitlements make debt impossible to cut, but that's another story)



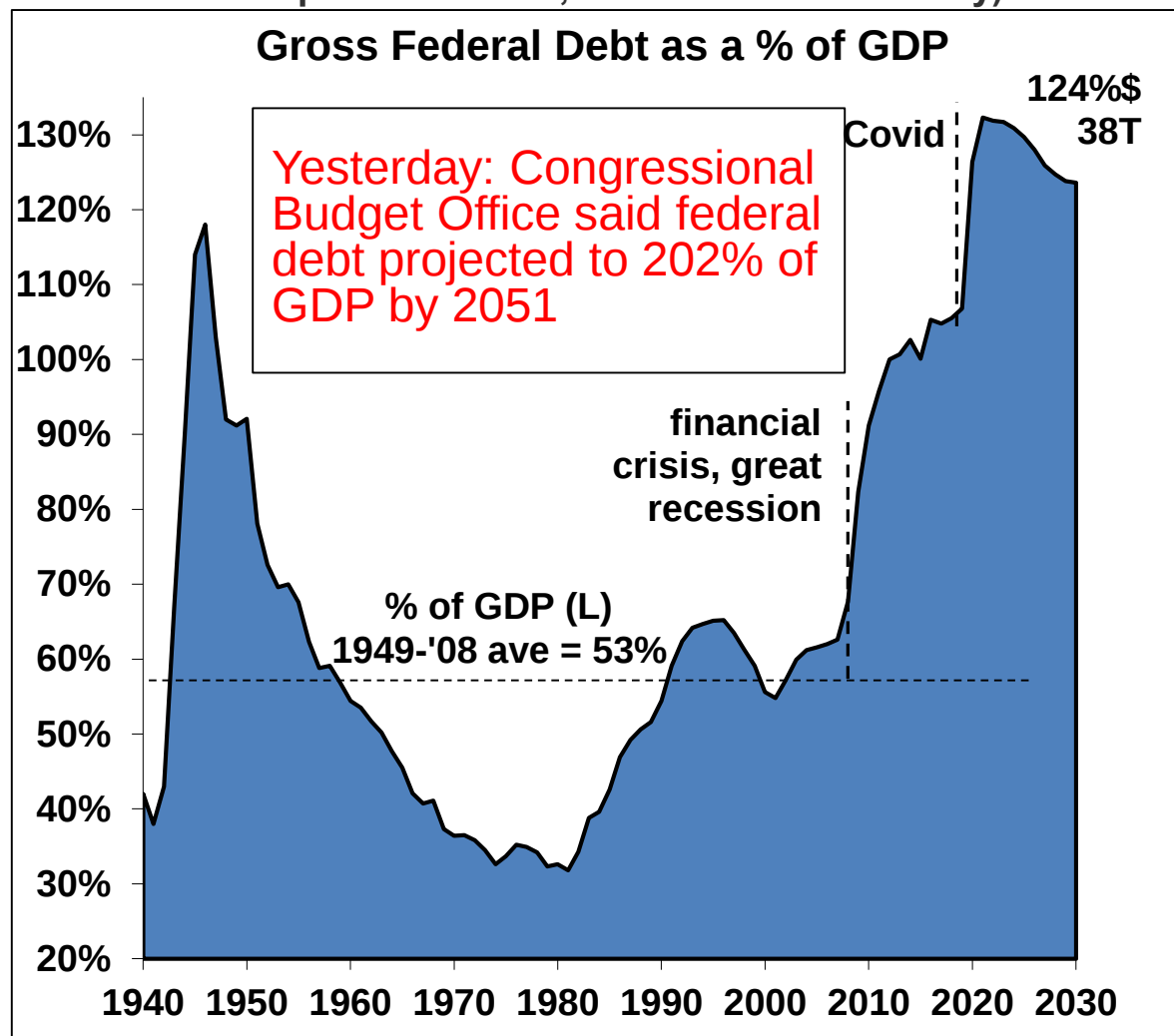
The Fed's incredibly loose policy of 0% rates and endless money printing will lead to tears eventually



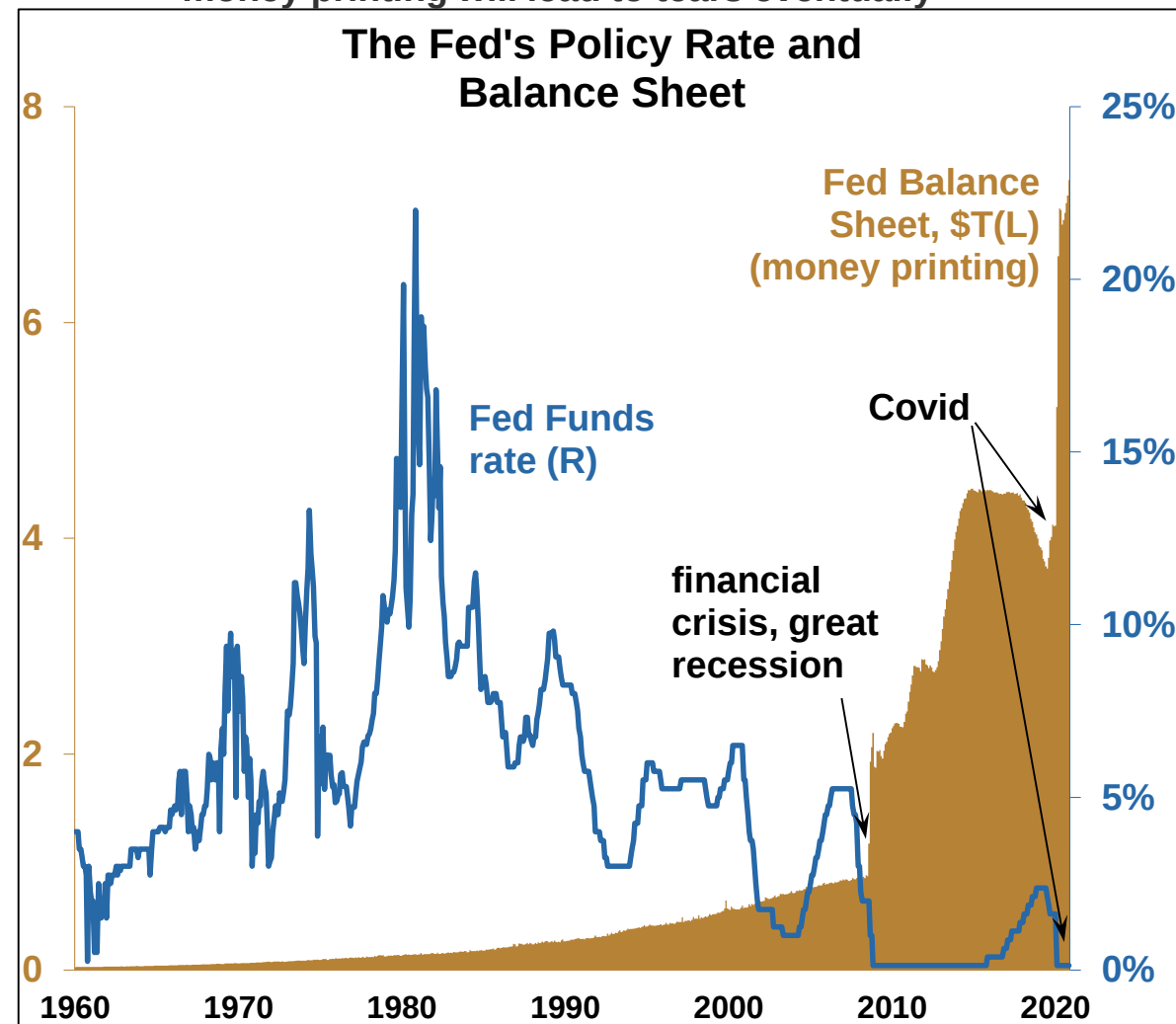
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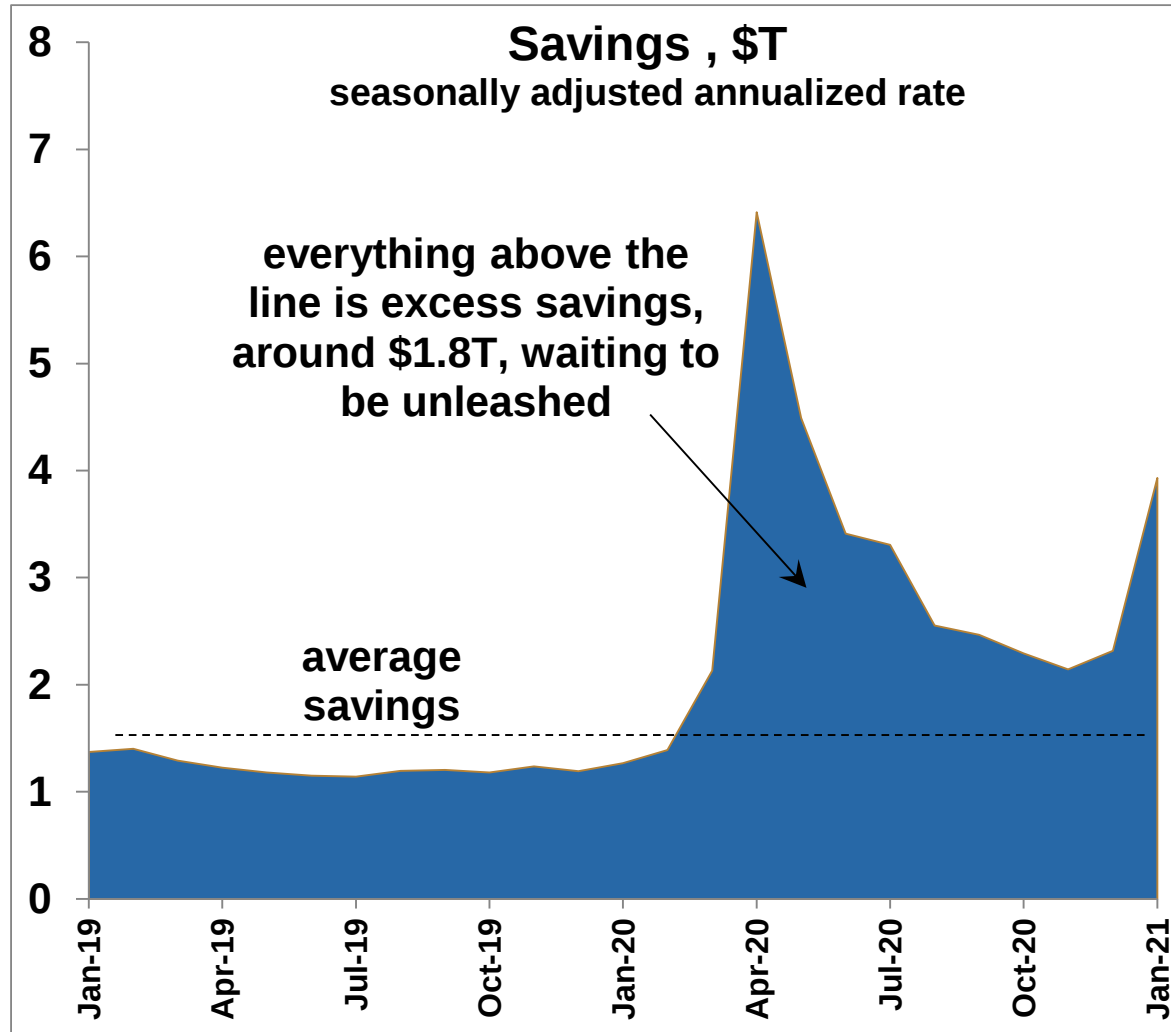
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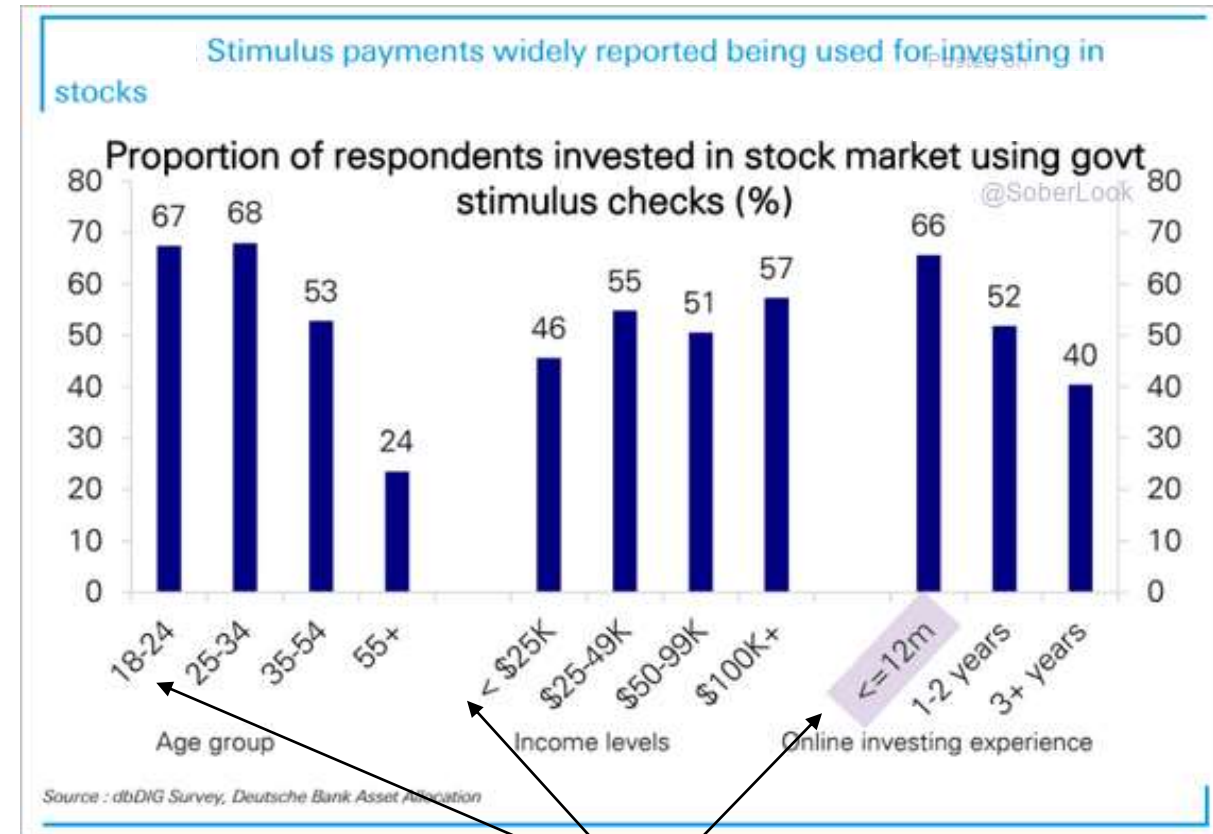
DO WE NEED MORE STIMULUS?



So far consumers have saved much of the stimulus money, or...



...bet it (not invested it) in the stock market!



Robinhood, Reddit, shorts, options... danger

- The response to Covid in Q1 and Q2 of 2020 devastated the economy. We were lucky to get out.
- Massive job losses which will take until 2022-2023 to recover.
- Bankruptcies to rise as PPP wears off.
- Stimulus helps now, boosting consumption and GDP now.
- But hurts GDP in the long run with too much debt.
- Do we really need more stimulus when people have already saved (not spent) or gambled stimulus money they've been given? Can't we wait?
- So there are problems...
- But, the near term outlook is quite strong.

BUT THE OUTLOOK IS QUITE STRONG

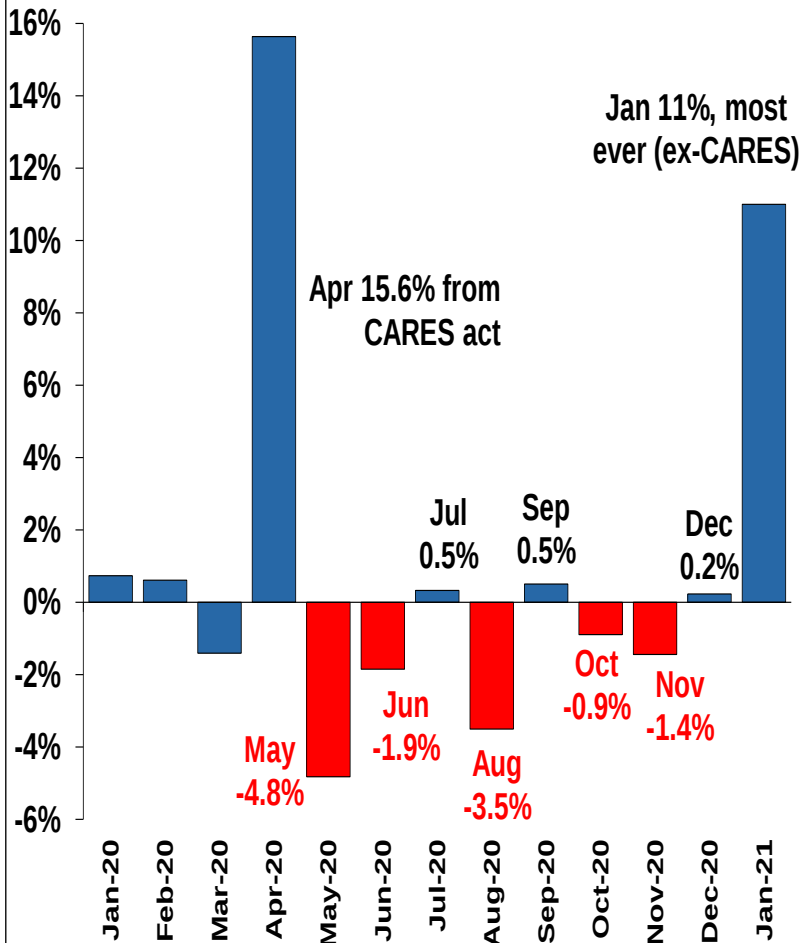
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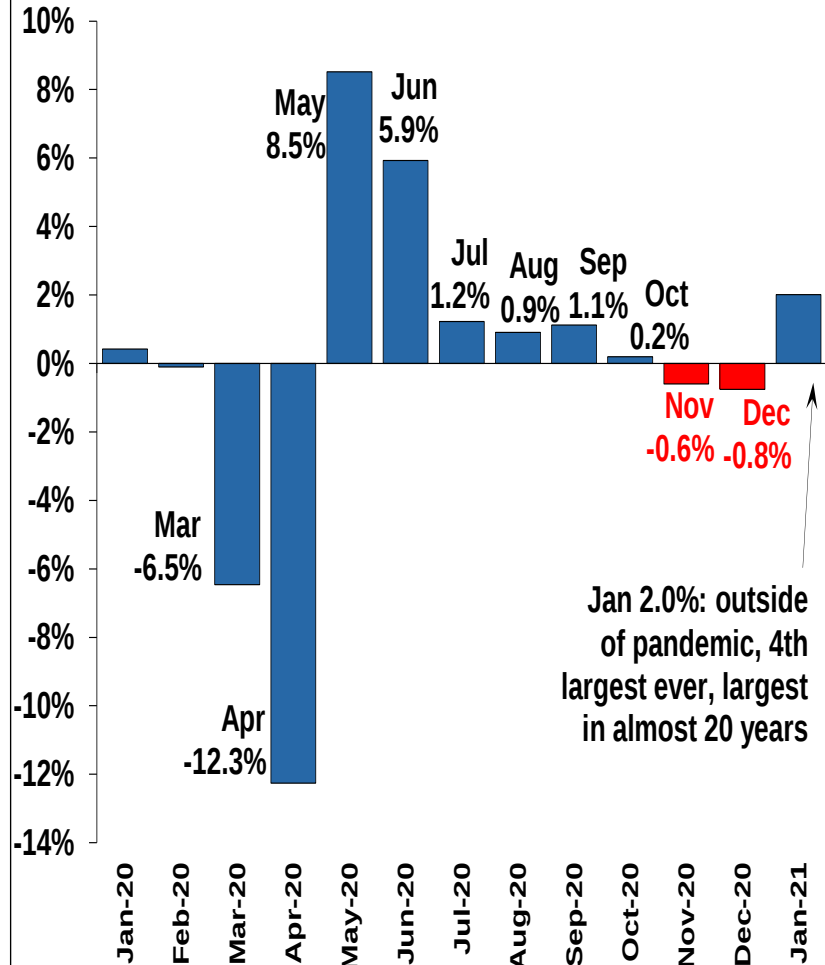
DECEMBER STIMULUS BOOSTED CONSUMPTION. JOBS WILL FOLLOW



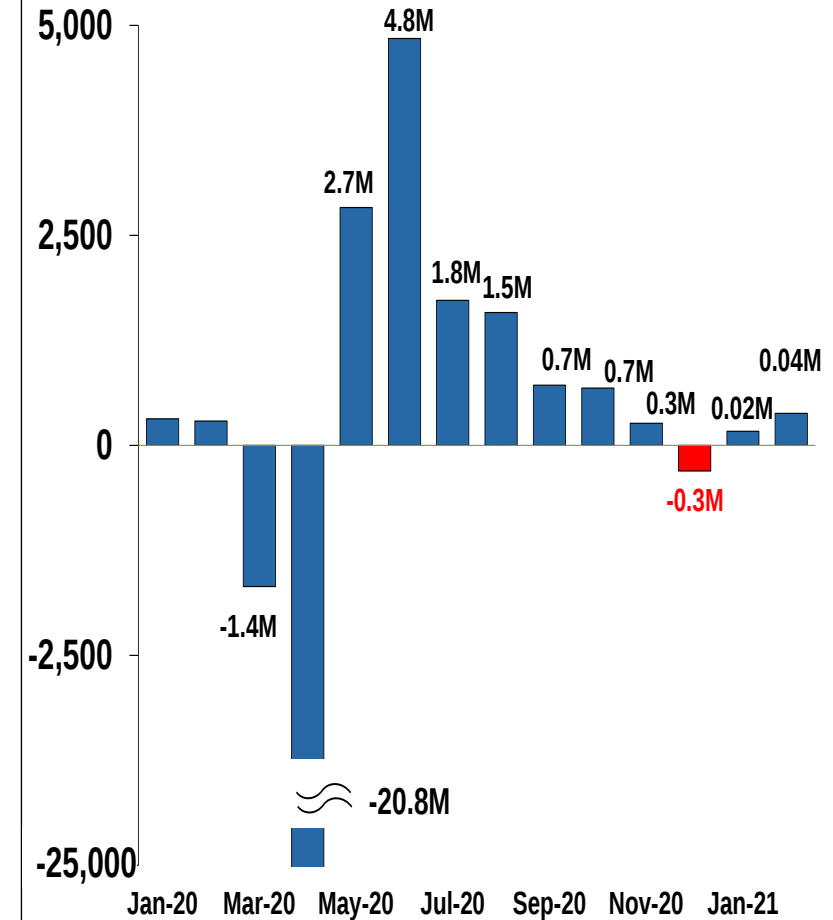
Real Personal Income m/m%



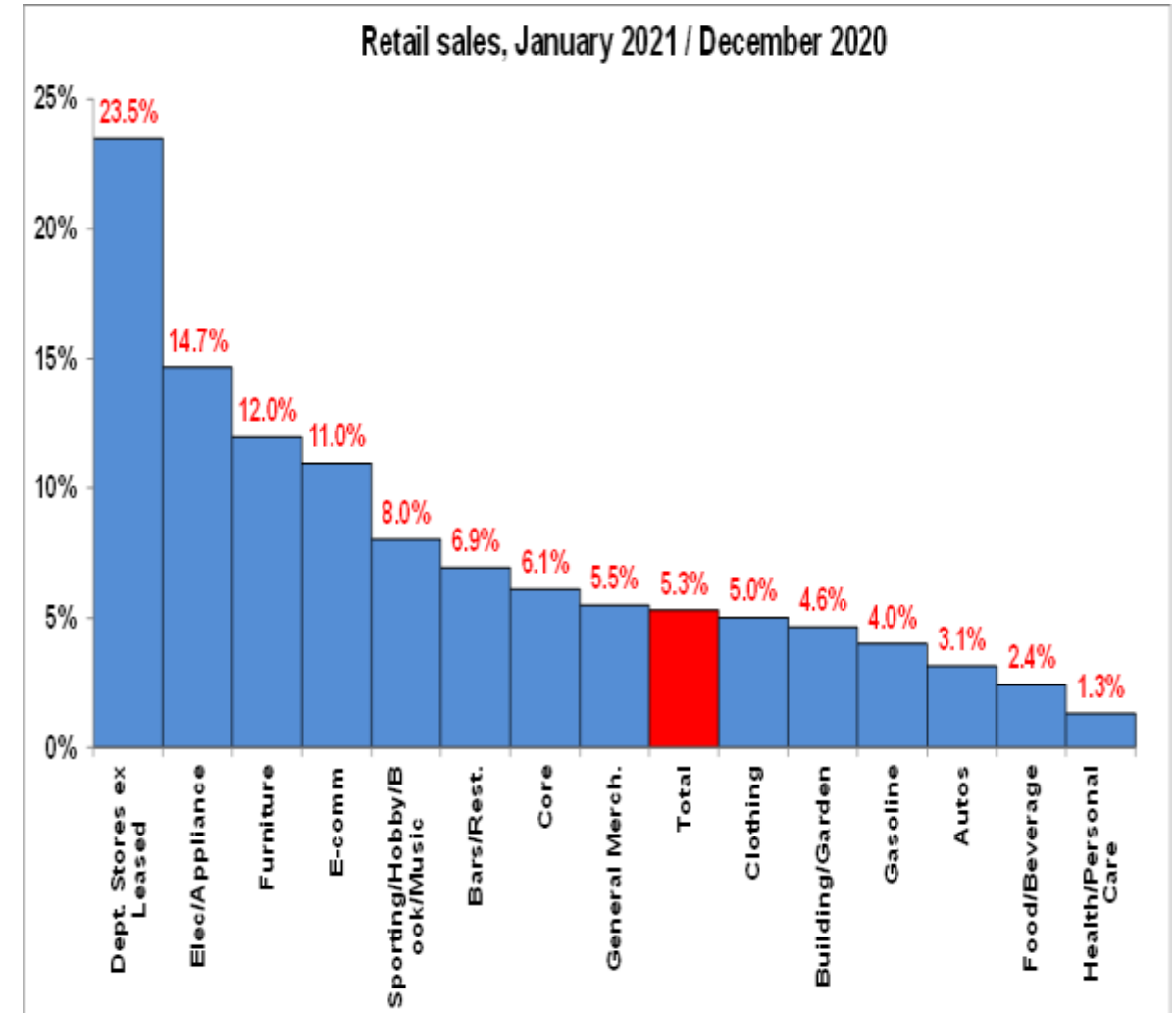
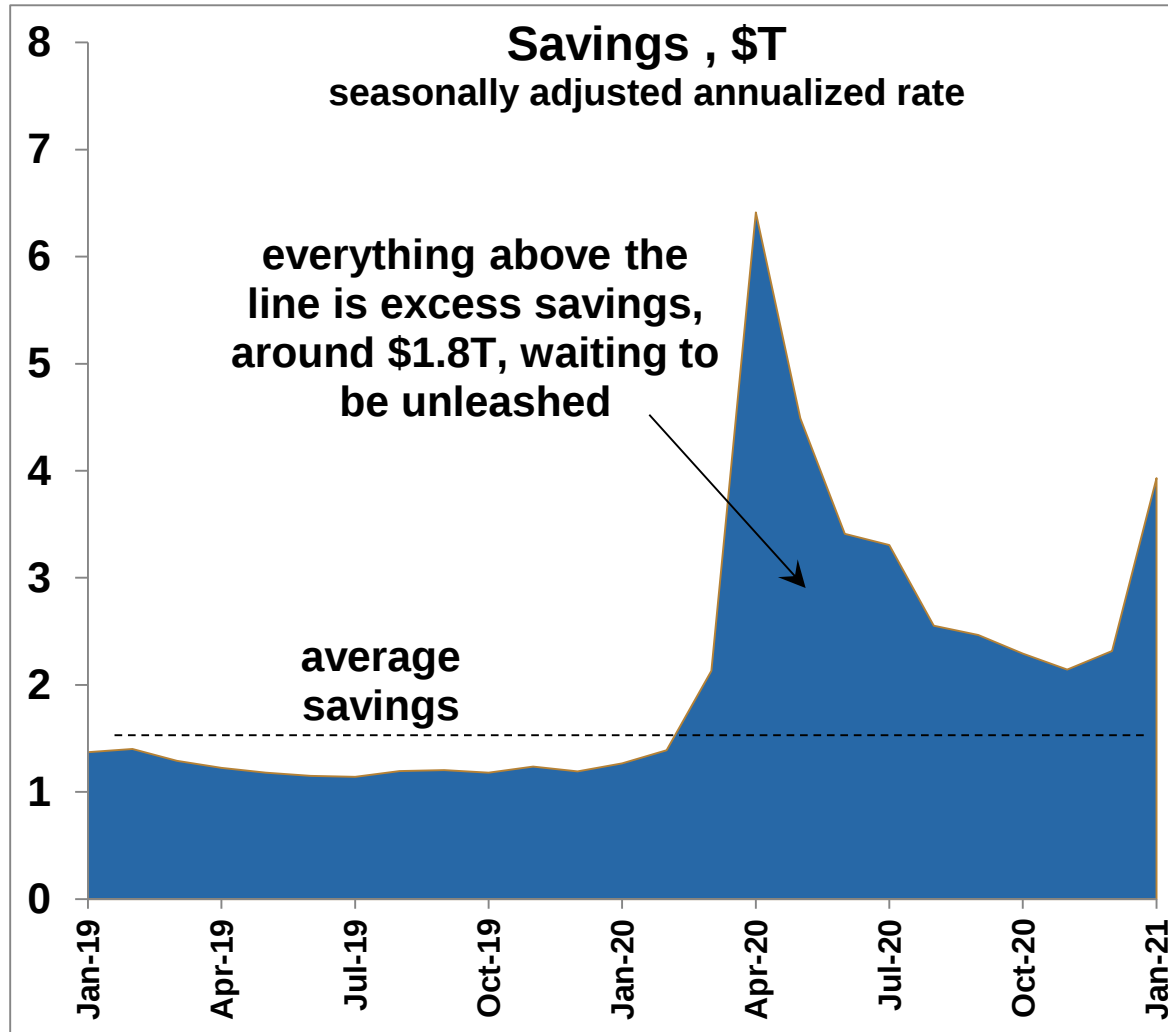
Real Personal Consumption Expenditures m/m%



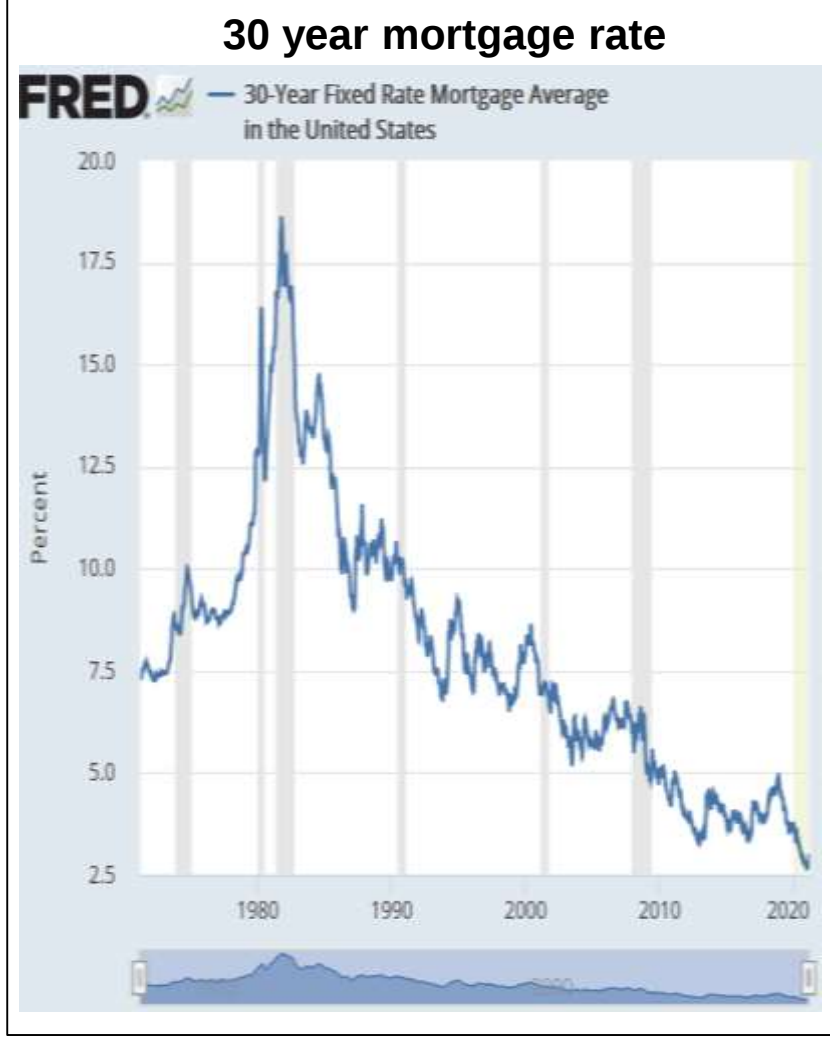
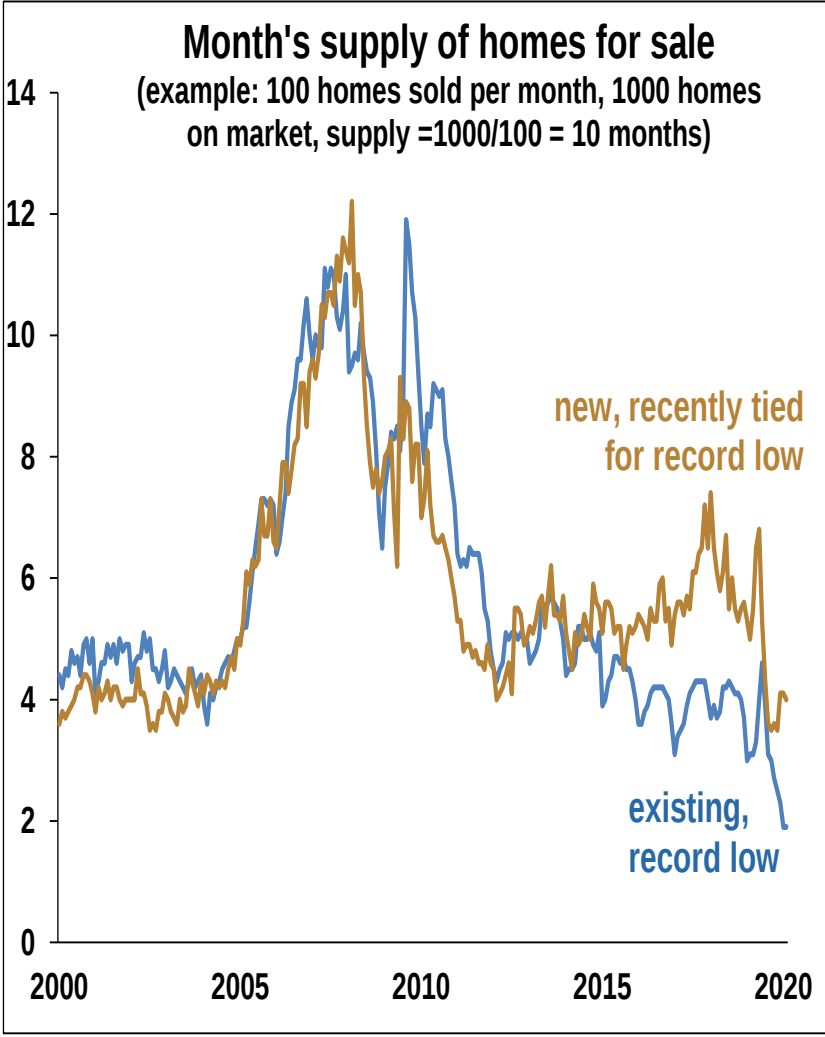
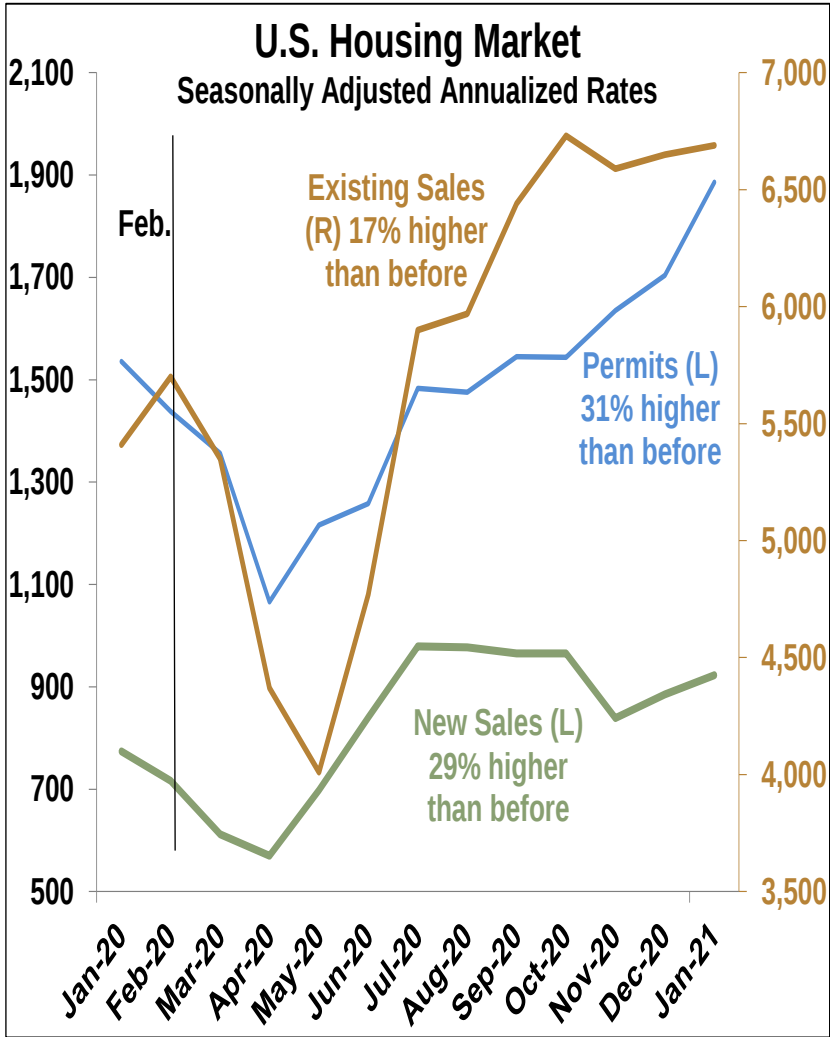
Jobs Created (000s)



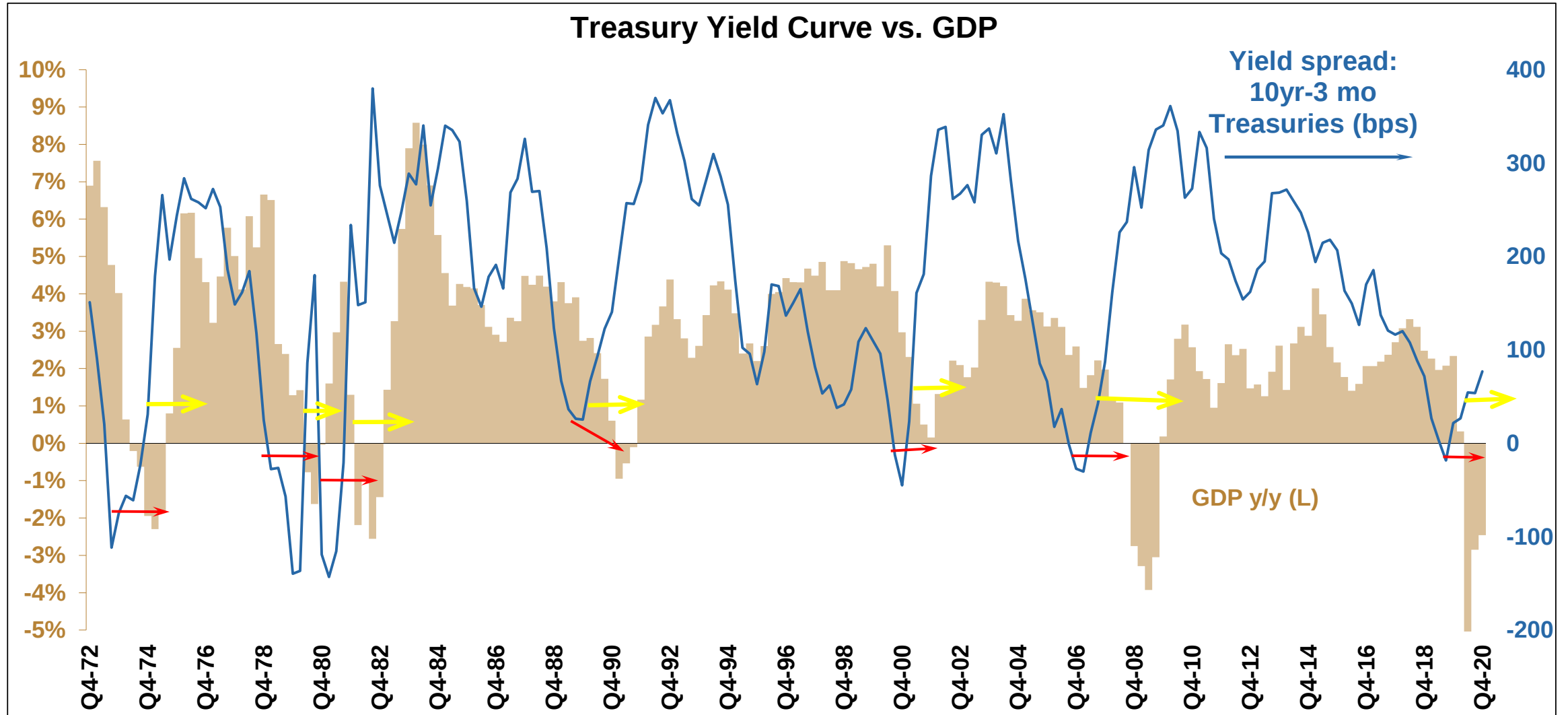
THAT EXCESS SAVINGS MAY HAVE ALREADY BEEN UNLEASHED ON JANUARY RETAIL SALES



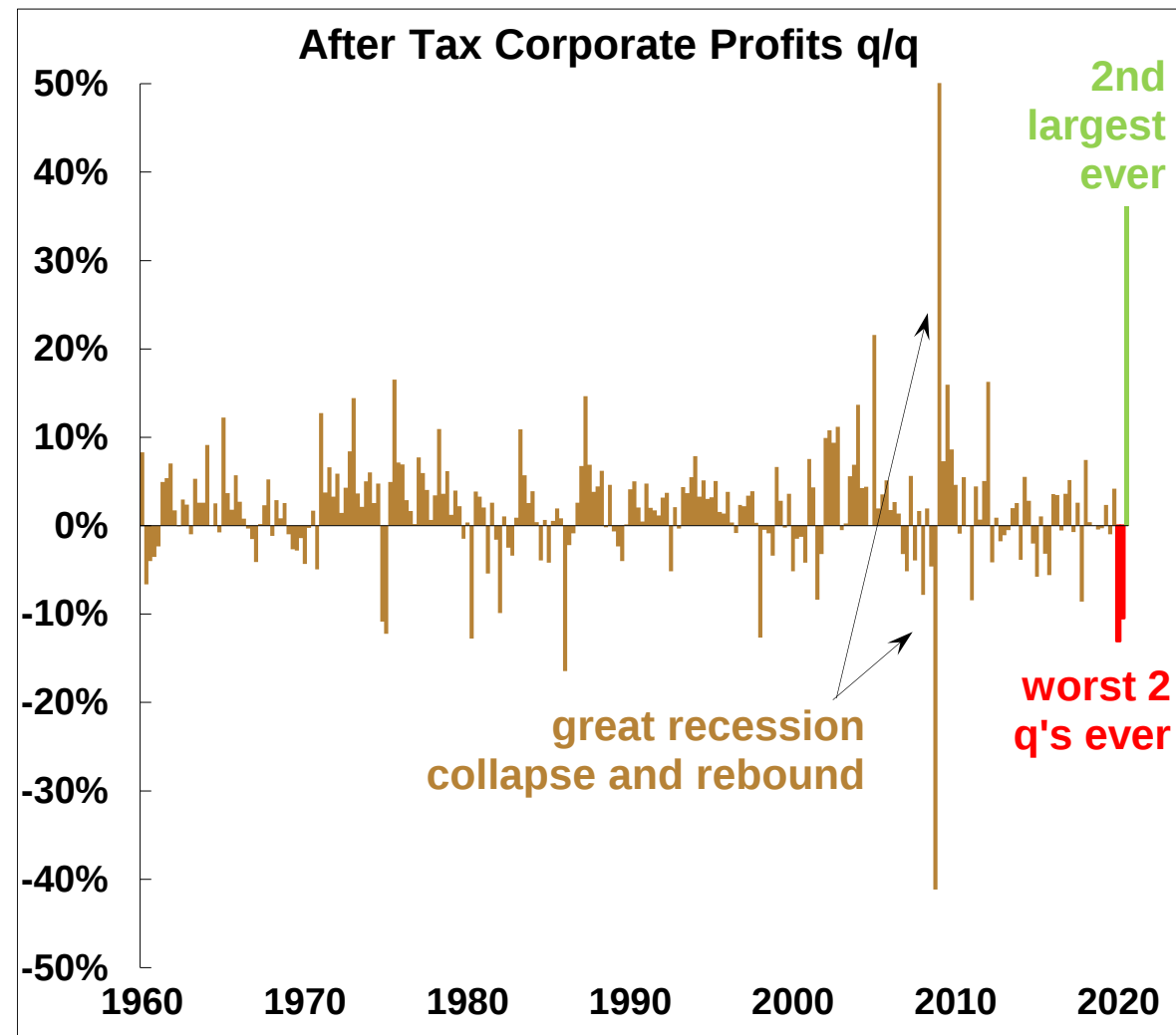
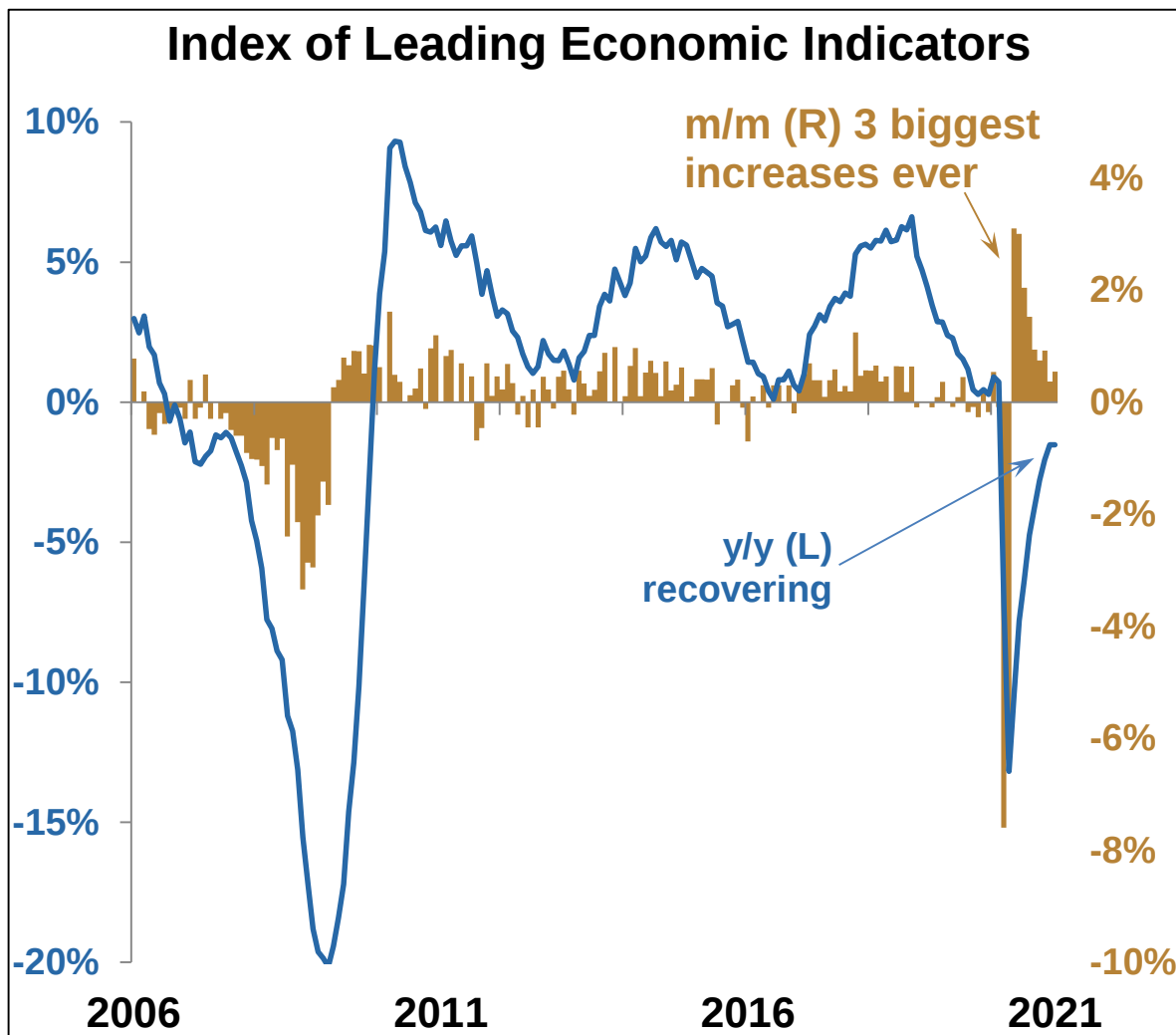
HOUSING WILL REMAIN STRONG WITH HUGE DEMAND, RECORD LOW MORTGAGE RATES AND SUPPLY



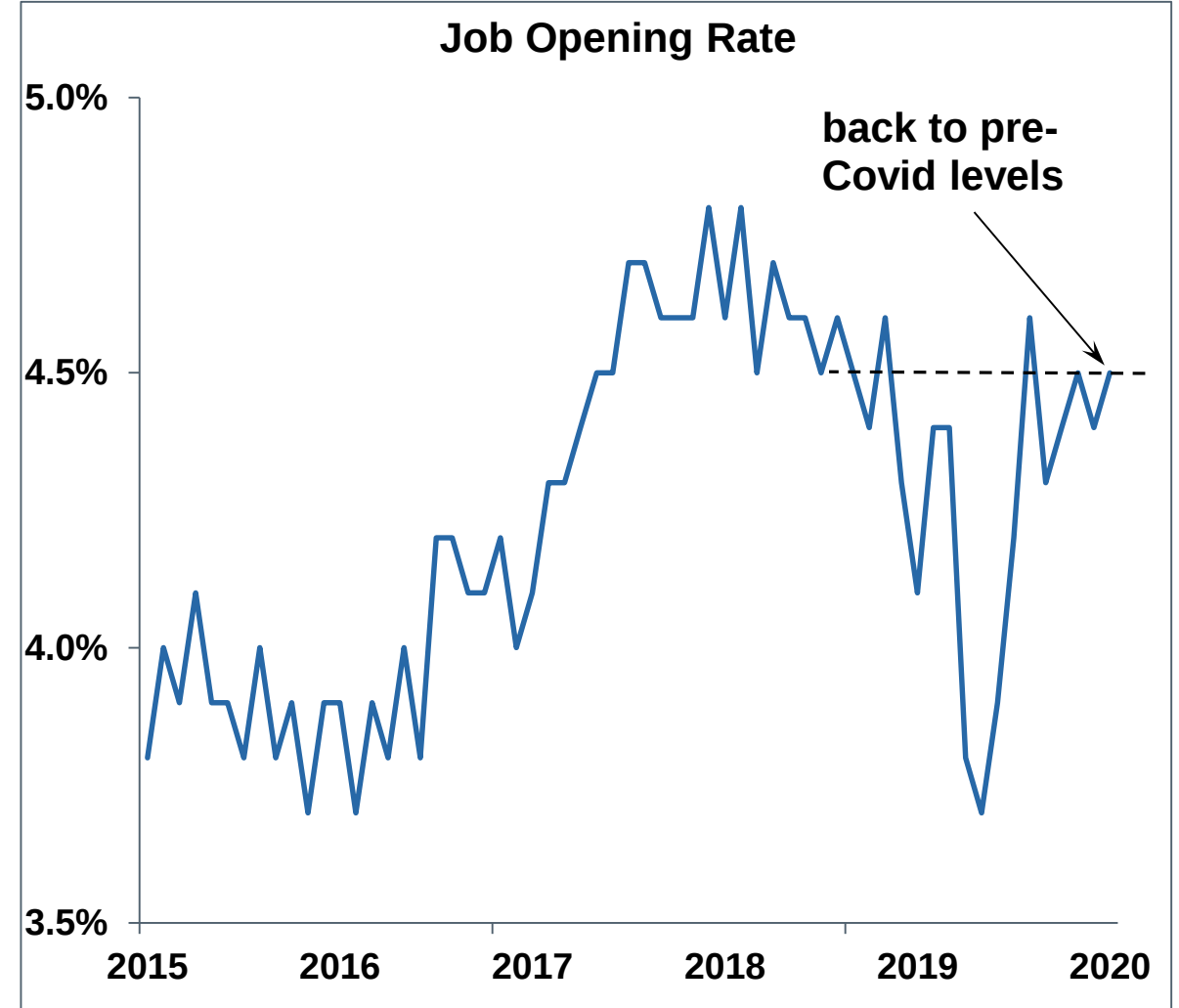
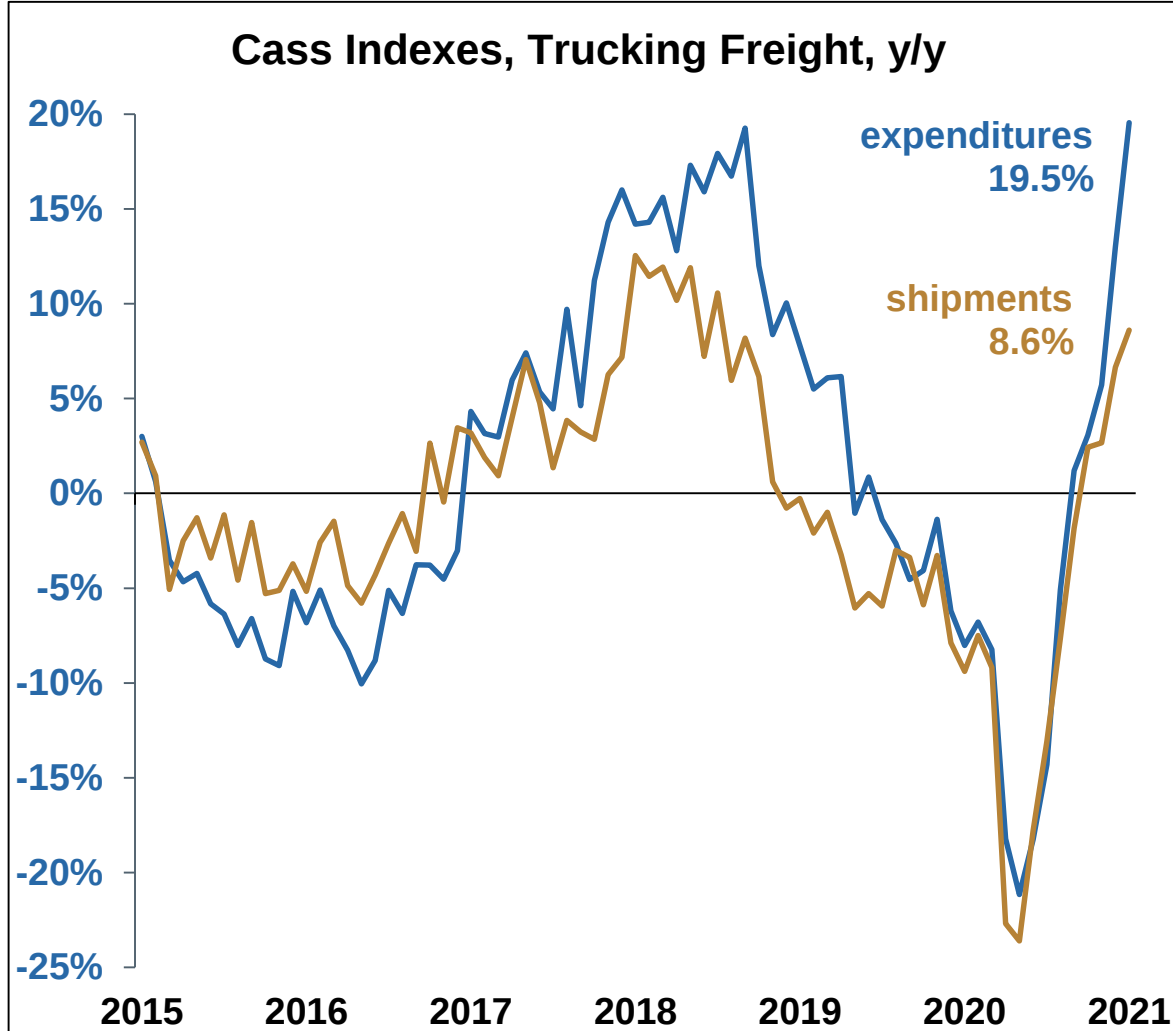
A VERY STRONG GOOD: THE YIELD CURVE IS POSITIVE



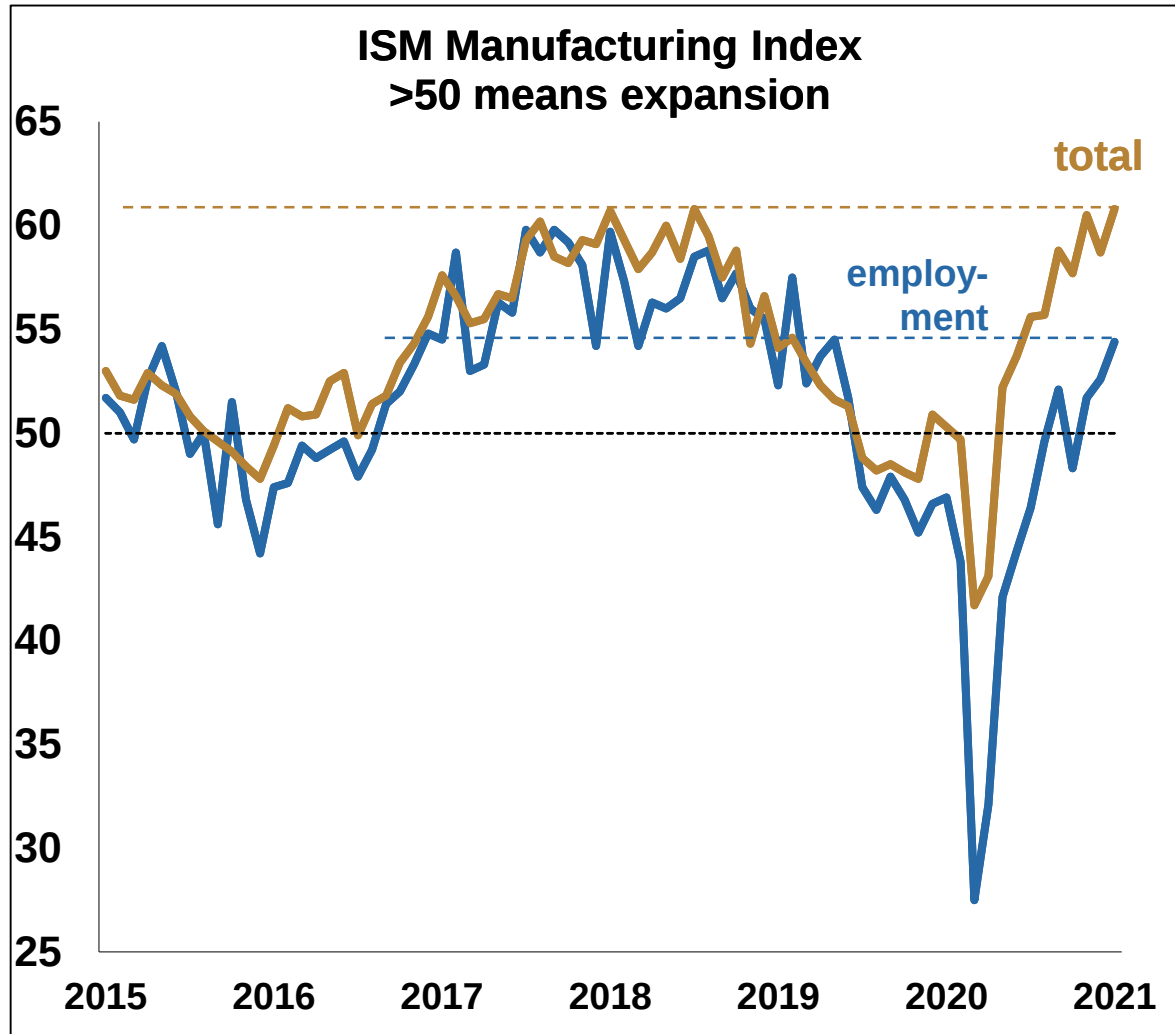
LEADING ECONOMIC INDICATORS AND CORPORATE PROFITS HAVE MADE RECORD REBOUNDS



TRANSPORTATION INDICATORS AND DEMAND FOR LABOR BOTH VERY STRONG



LABOR SHORTAGES, PARTICULARLY IN MFG: FEAR OF COVID. RETIREMENT, CHILD CARE, UNEMPLOYMENT BENEFITS

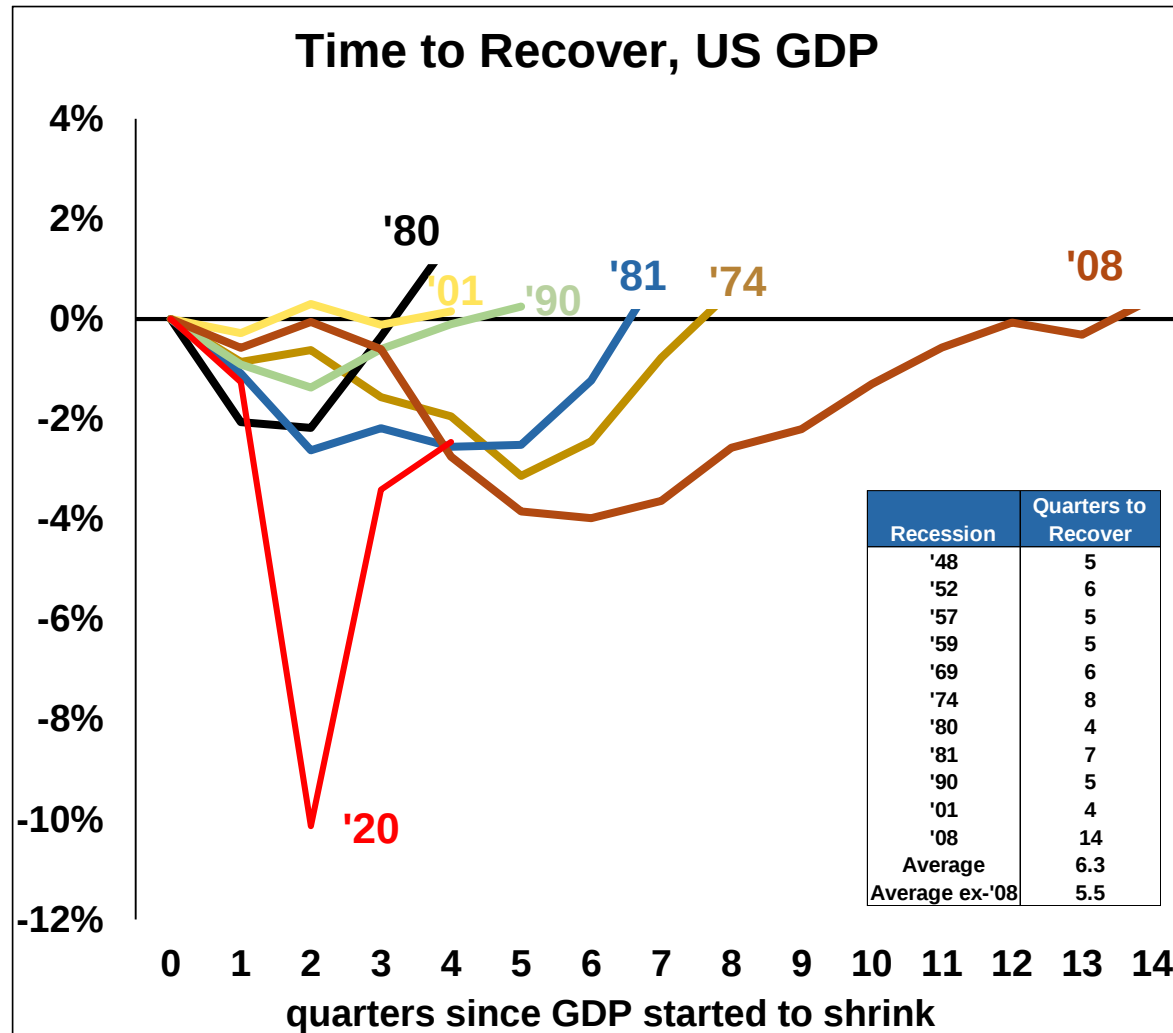


- ISM commentary:
- Suppliers are complaining of [a lack of] available resources [people] for manufacturing, creating major delivery issues.” (Computer & Electronic Products)
- We are still struggling keeping our production lines fully manned. (Food, Beverage & Tobacco Products)
- “Labor shortages at suppliers are affecting material deliveries and prices.” (Plastics & Rubber Products)
- We are overloaded with orders and do not have the personnel to get product out the door on schedule.” (Primary Metals)
- EH clients tell us the same

WE EXPECT 2021 GDP TO GROW AT A STRONG 4.1% IN 2021



How long did it take in previous recessions?



- 2021 GDP growth forecast 4.1%
- Ave. since WW-II 3.6%
- Ave. Great Recession to Covid 2.3%
- But it will be Q2 or Q3 before we return to previous levels of GDP and economic activity.
- (Risk: if there is a return to Covid shutdowns, it could be later than that, and it could be very dangerous to the economy)
- So Covid is the most important economic variable to watch:

COVID-19 AS OF LAST NIGHT

03

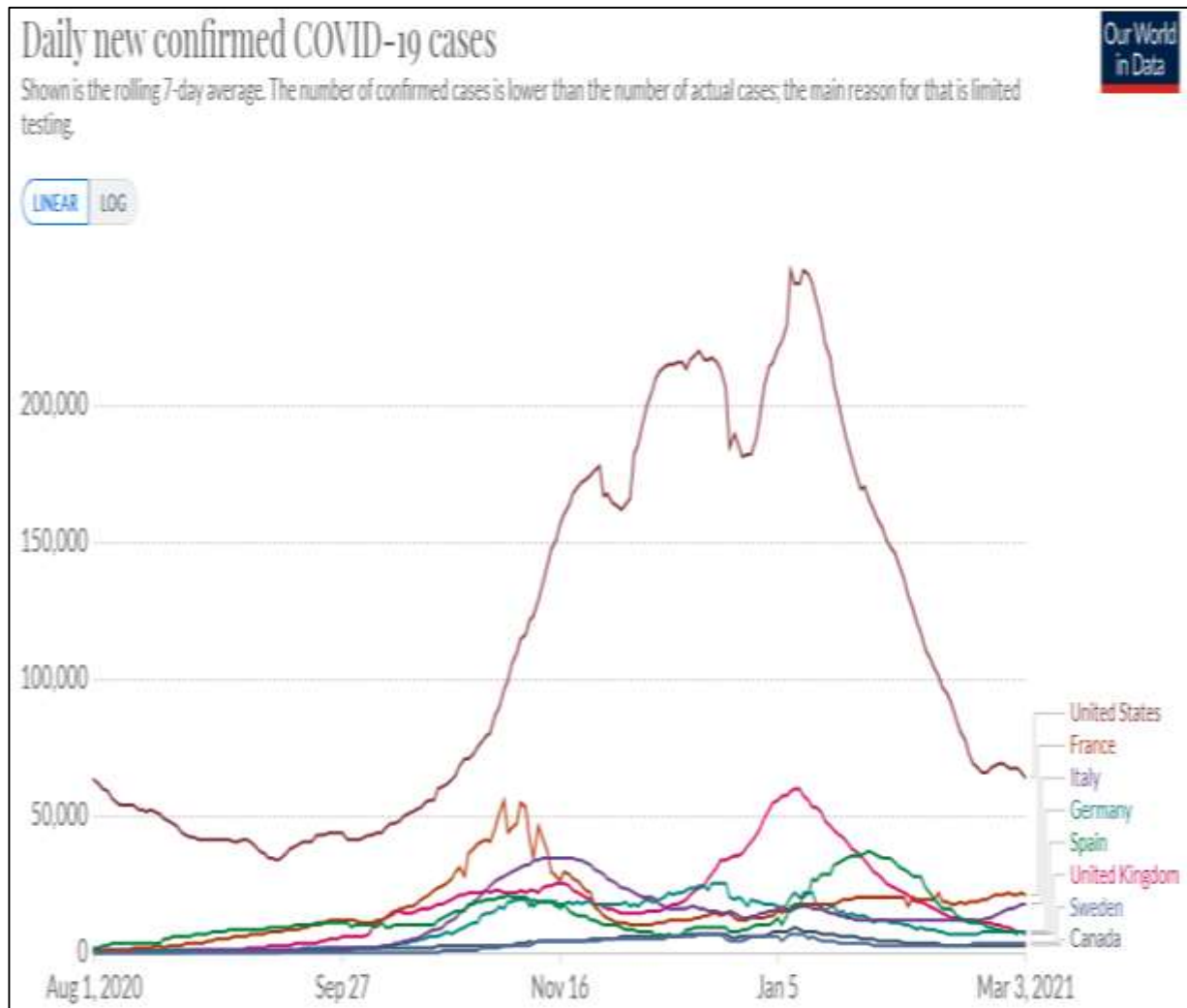


EULER HERMES

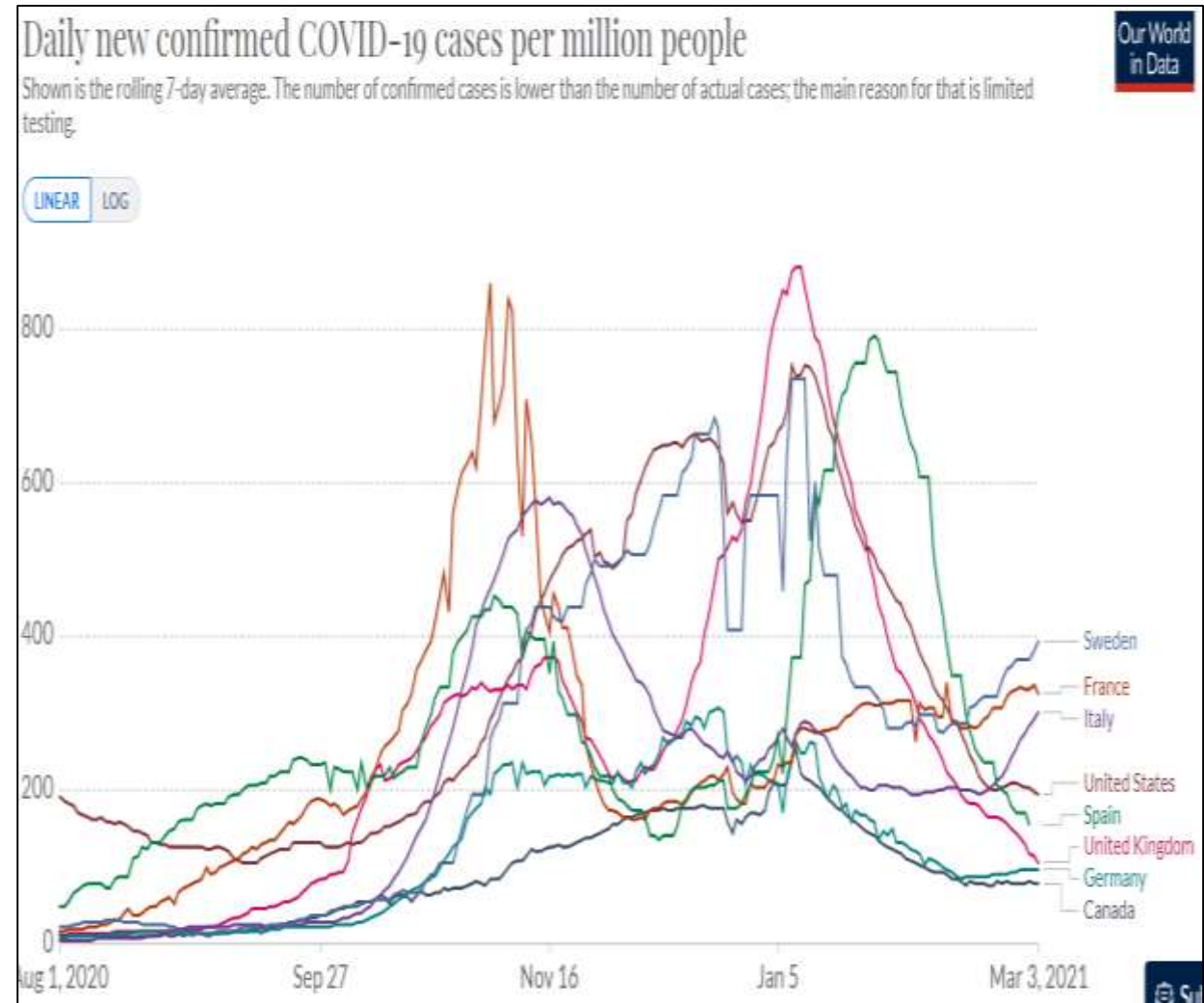
COVID-19 AS OF LAST NIGHT



Daily new confirmed cases – US down 75% from January peak. Lowest since October.



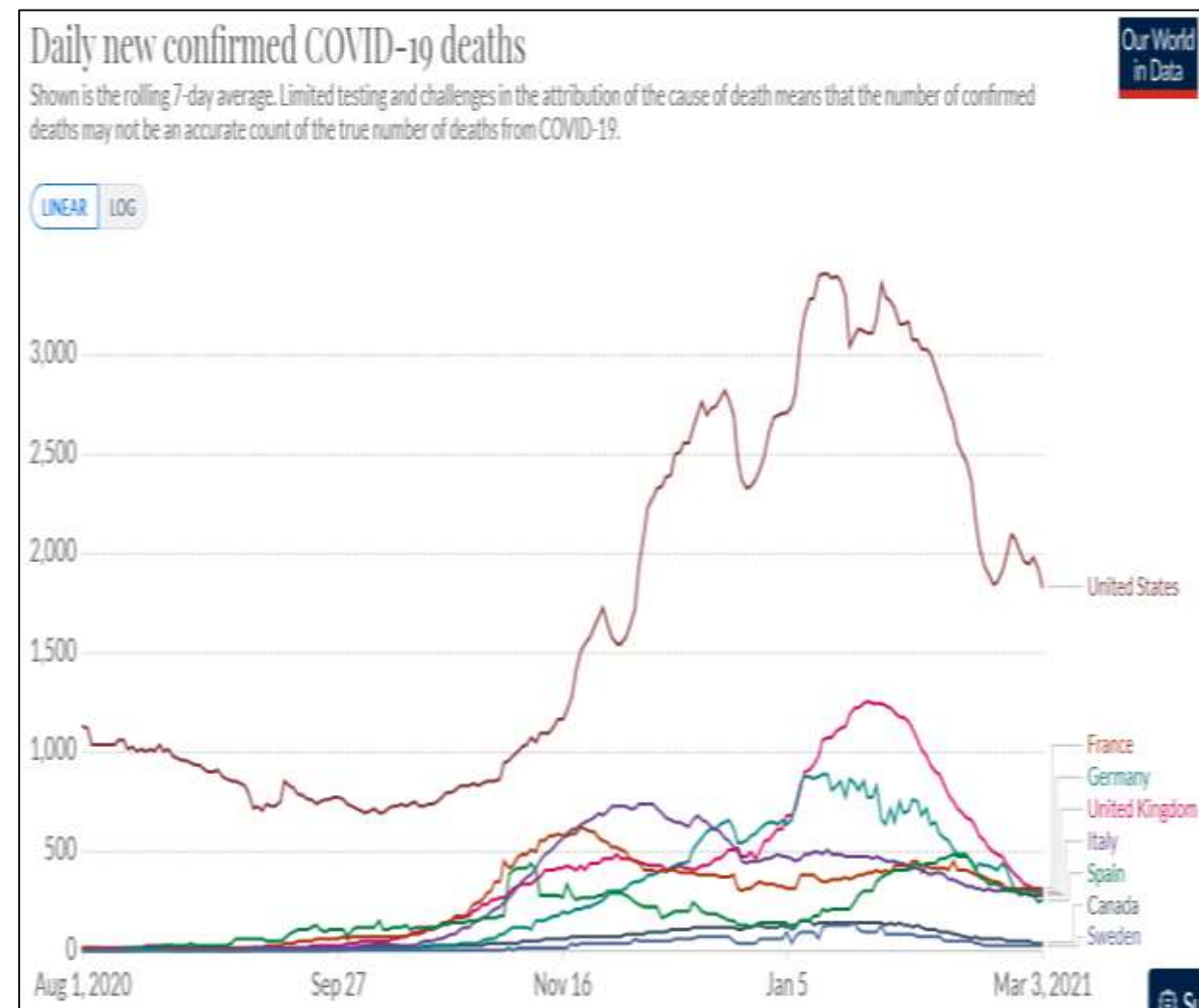
Daily new confirmed cases per million. No, the US is not the worst in the world, by far.



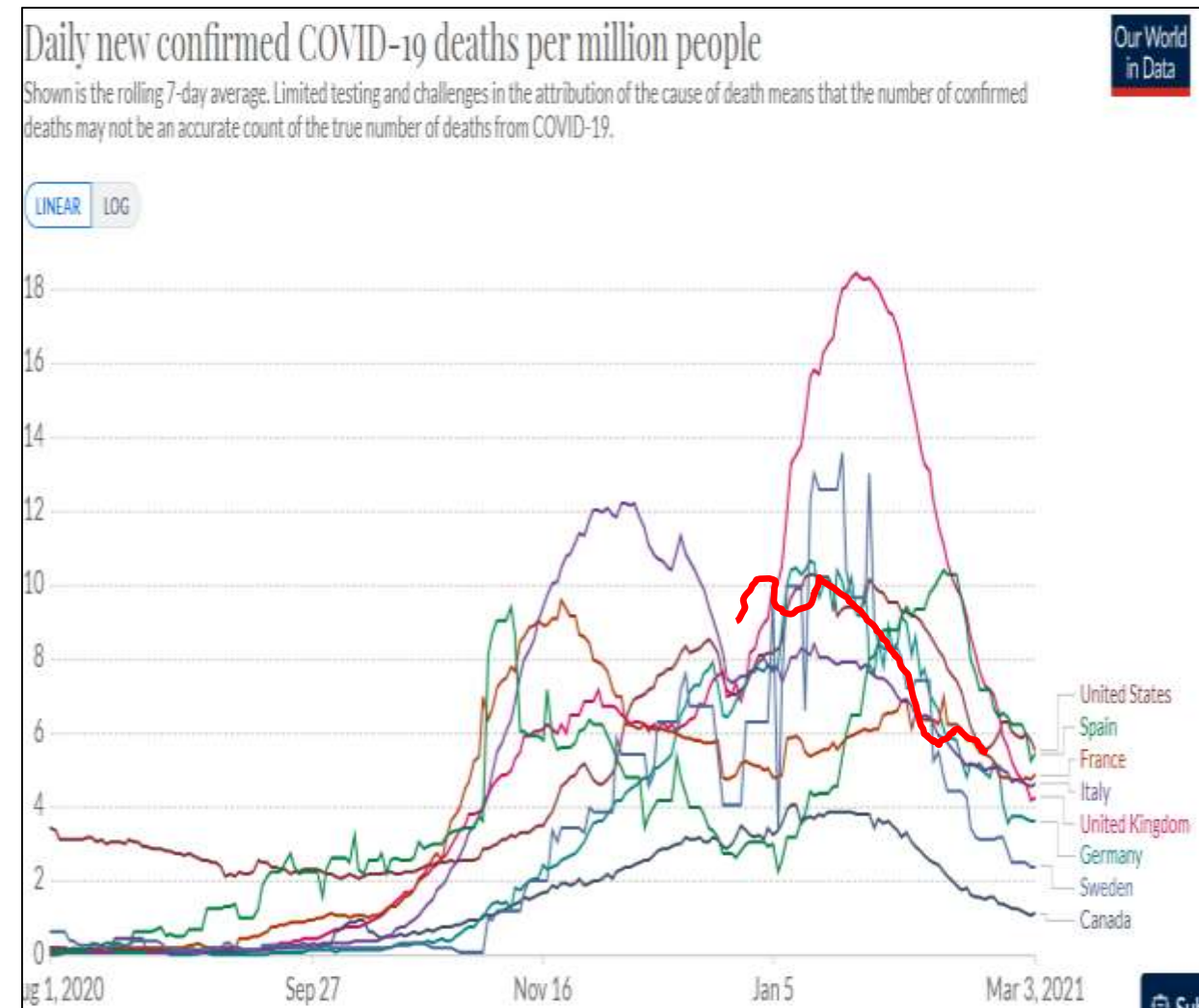
COVID-19 AS OF LAST NIGHT



Daily new confirmed deaths – in the US down 43% from January peak



Daily new confirmed deaths per million. Down everywhere



COVID-19 AS OF LAST NIGHT

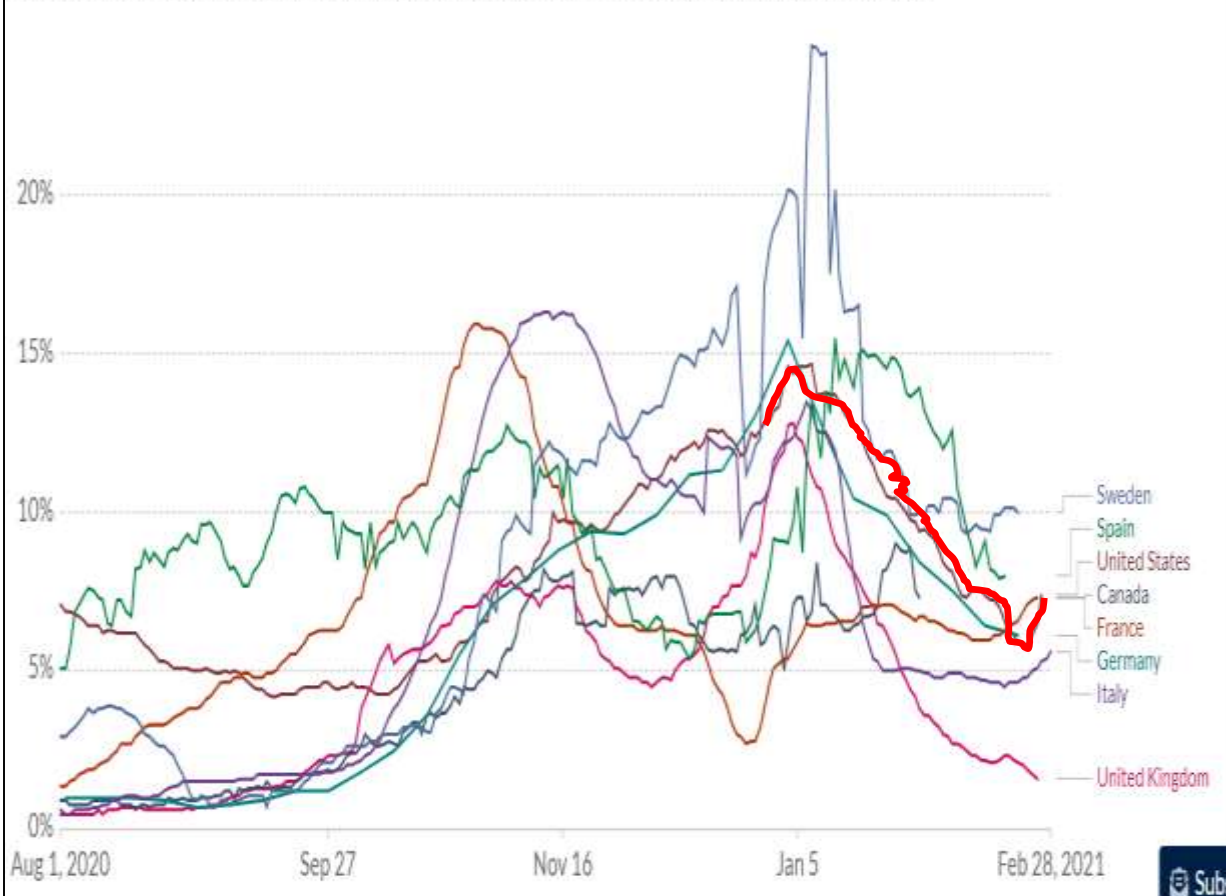


Share of positive tests – mixed... US in longer term falling but a sudden curl back up

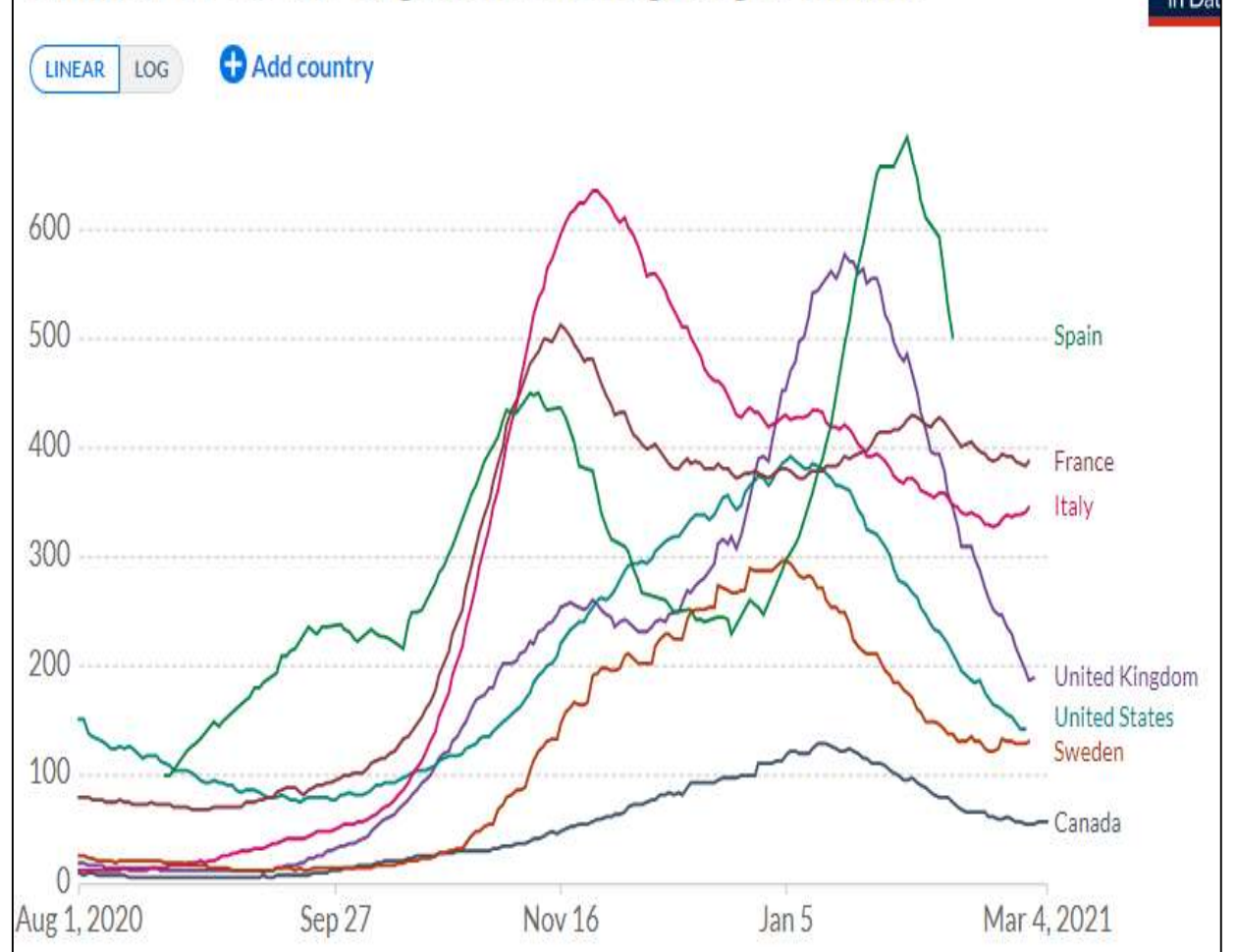
Hospitalizations down 64% from January peak – this is really great news as hospitals were under enormous stress. And no the US is not the worst.

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.



Number of COVID-19 patients in hospital per million



VACCINE ROLLOUT WAS SLOW, BUT NOT “BOTCHED”

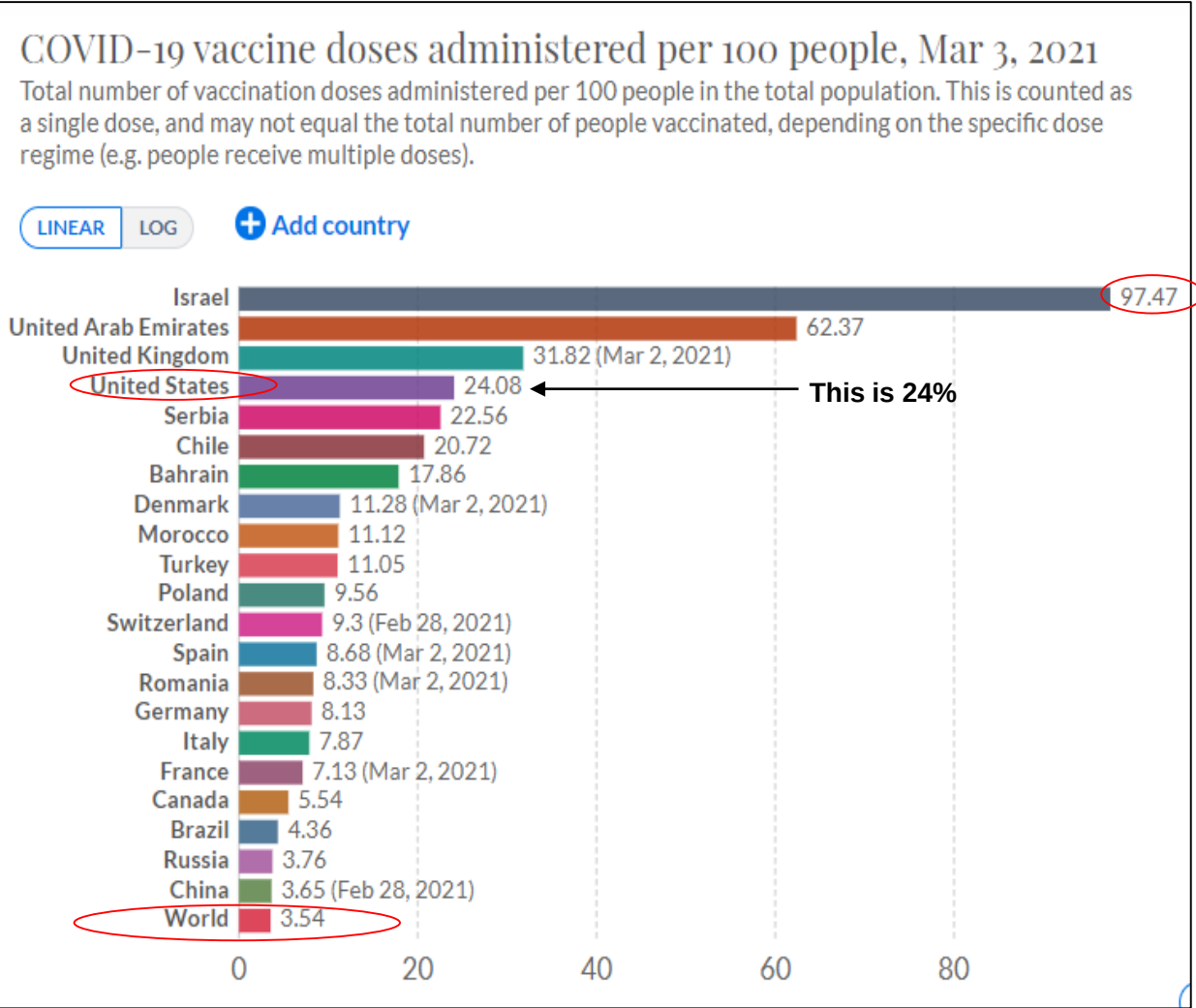


- First, it's only been 2.5 months, including Christmas and New Year's. Of course it started slowly.
 - Complicated distribution and administration plans vary across states
 - Lack of staff to administer shots. Cases and deaths were at all-time highs, staff had to attend to the sick
 - People had to register to be vaccinated in some States, creating extra administrative burdens
 - Providers leaving vaccines on shelves rather than giving them to people who aren't in the current priority group: health care workers, nursing homes, aged, with other diseases. Slows distribution.
 - Health care workers are refusing vaccine.
 - A lack of federal funding.
 - The U.S. is the world's 3rd largest in term of population and area... it takes more time to get to everybody.
-
- But why has Israel been so successful?
 - Centralized chain of command
 - In Israel, all citizens over the age of 18 are required to register with one of the country's four HMOs in a highly digital system that coordinates well with the Israeli government and local officials
 - Israel was an “early bird” in launching negotiations with drug makers and securing large amounts of vaccine doses
 - It's a very small country (149 out of 200) with a relatively small population (95 out of 200).

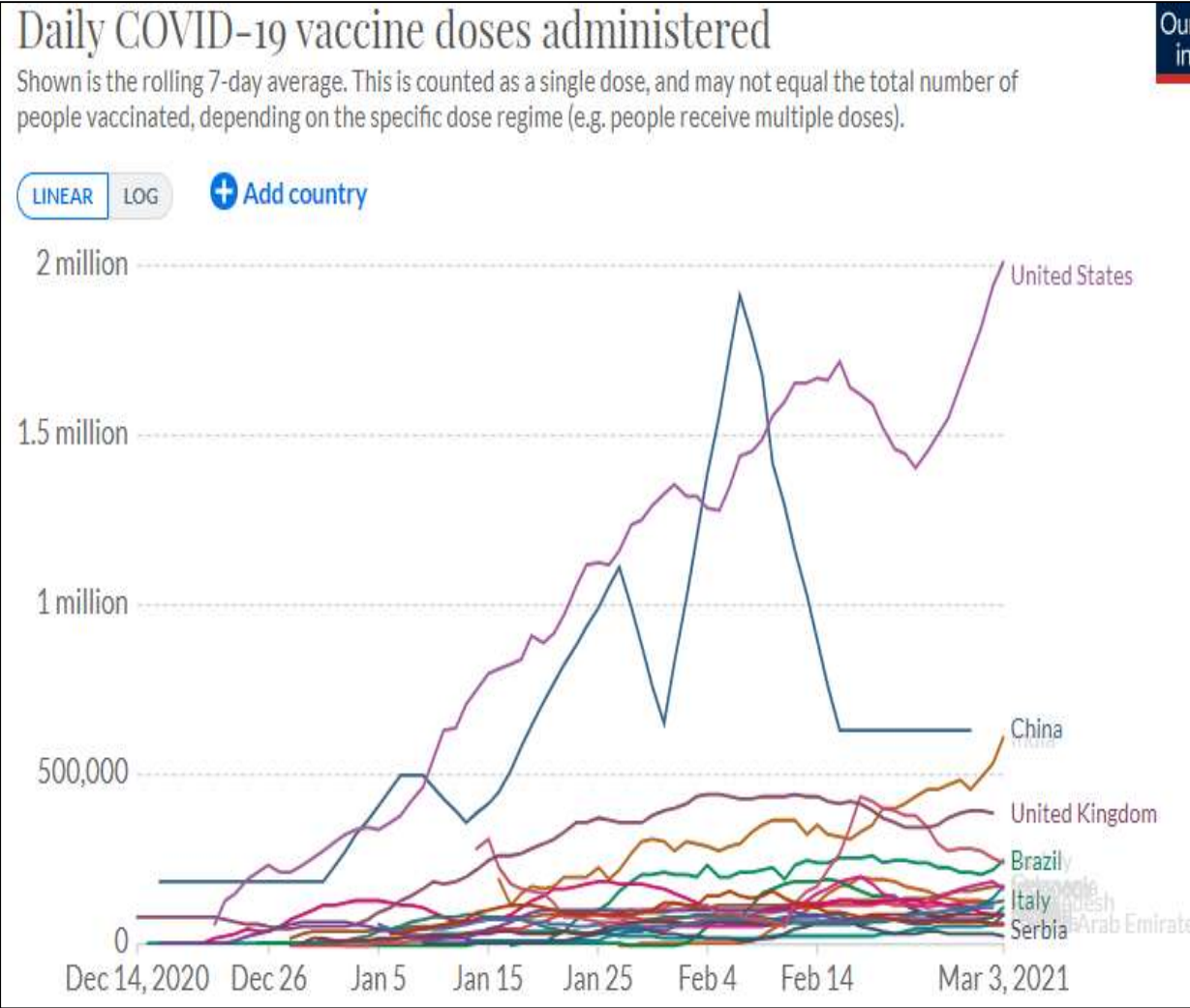
THE VACCINE ROLLOUT STARTED SLOW BUT HAS GOTTEN MUCH BETTER



Total doses administered per 100 – getting there



Rate: daily doses administered – more great news



And per million we are 3rd largest major economy – not one of the worst, one of the best

SCENARIOS TO GET TO HERD IMMUNITY



Most optimistic case

How long to get to herd immunity assuming 70% needed and using 3x confirmed cases

Population	330,700,000
Assume herd immunity is 70% population	231,490,000
Doses administered	80,540,000
+Estimated cases=3xconfirmed	85,920,000
=Current w/some immunity	166,460,000
Number needed for herd minus current total	65,030,000
At vaccination rate today... 2,000,000	
...days needed	33
	early April

Optimistic case

How long to get to herd immunity assuming 75% needed, using only confirmed cases

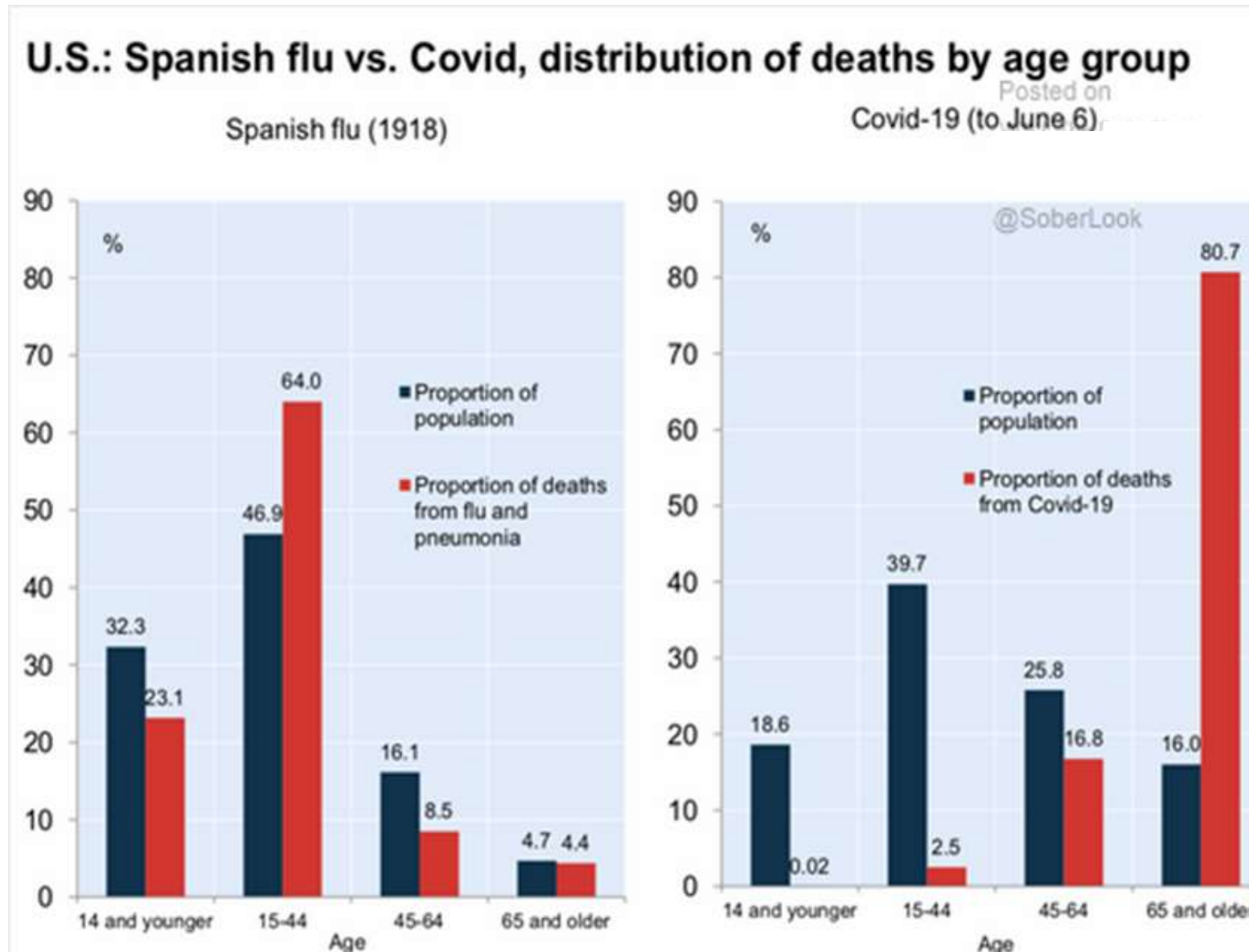
Population	330,700,000
Assume herd immunity is 75% population	248,025,000
Doses administered	80,540,000
+Current confirmed cases	28,640,000
=Current w/some immunity	109,180,000
Number needed for herd minus current total	138,845,000
At vaccination rate today... 2,000,000	
...days needed	69
	middle of May

Less optimistic case

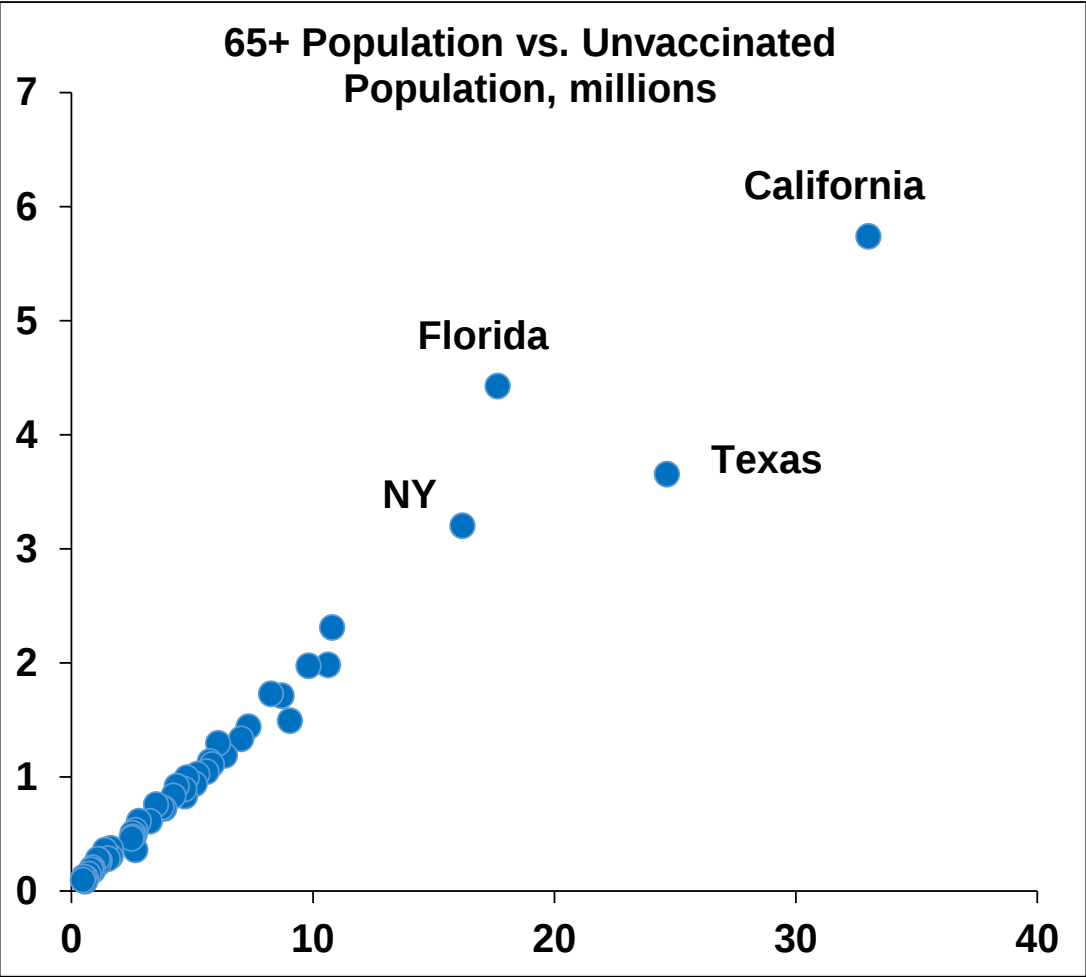
How long to get to herd immunity assuming 85% needed, only those with 2 shots immune

Population	330,700,000
Assume herd immunity is 85% population	281,095,000
Doses administered	80,540,000
+Current confirmed cases	28,640,000
=Current w/some immunity	109,180,000
Number needed for herd minus current total	171,915,000
At vaccination rate today... 1,000,000	
...days needed	172
	mid August

COVID IS HIGHLY CONCENTRATED IN SOME GROUPS: THE OLD, ALREADY SICK, NURSING HOMES (45% OF DEATHS)... TARGETING MAKES SENSE



MORE TARGETS.. AND WARM WEATHER IS COMING, WHICH WILL HELP



CONCLUSIONS

04



CONCLUSIONS



- The response to Covid in Q1 and Q2 of 2020 devastated the economy. We were lucky to get out.
- Massive job losses which will take until 2023 to recover.
- Government response helped in the short term, but slows growth in the long term.
- Bankruptcies to rise... later as PPP wears off.
- Biggest risk is more COVID, which has already permanently destroyed jobs and businesses. Another shutdown could do more damage.
- Vaccine rollout improving. Optimistic view is that big progress will be made by middle of 2021.
- And there are strong economic indicators for 2021: huge excess savings waiting to be unleashed, housing market, yield curve, leading indicators, business confidence, demand for labor, manufacturing, corporate profits..
- It's a good outlook.

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