



# Reading Economic Summit

*10/7/2020*

# Level Set

- We are in a self-induced recession
  - Health Emergency
- MA closed on St. Patricks Day – reopened in July
- White collar workers – and most of Reading – still working from home
- Medical Crisis that became an Economic Crisis
  - Banking Agencies - intend to take whatever steps necessary to ensure that we do not take action at this moment to create a banking crisis.
  - Banks directed to work with customers as much as feasible

# COVID reaction – Banking is an Essential Business

- Branches moved to Driveup Only mode
  - Reopened July 1 with social distancing, mandatory masks and disinfecting
- Forbearance
  - 23% of all loans at RCB were granted forbearance
  - 60% commercial borrowers
  - 40% consumer/residential borrowers
  - waived all late charges and overdraft fees for 90 days
  - 10% remain in distress at this time
- PPP - **SBA response was remarkable** – standing bup a national program in a matter of days – and no other way to hit every state
  - 280 loans Round 1 and another 300+ round 2 at RCB (2.5X payroll)

# Challenges ahead

- Unemployment
- Landlords are people too (and have bills and mouths to feed)
- Sector by Sector challenges
- Inequity
  - In workloads
  - In what our responsibilities are at home (teaching and working)
  - In how we work and where - how exposed we are
  - In how strongly we feel about Covid and remaining closed at home
  - All of this affects consumer confidence, spending and financial circumstances

# Jerome always says it better



The burdens of the downturn have not been evenly shared. The initial job losses fell most heavily on lower-wage workers in service industries facing the public—job categories in which minorities and women are overrepresented.

In August, employment of those in the bottom quartile of the wage distribution was still 21 percent below its February level, while it was only 4 percent lower for other workers.<sup>2</sup> Combined with the disproportionate effects of COVID on communities of color, and the overwhelming burden of childcare during quarantine and distance learning, which has fallen mostly on women, the pandemic is further widening divides in wealth and economic mobility.

# Stimulus at Work – Cares Act did what was intended

SEPTEMBER 15, 2020

## Measuring the Nation's Social and Economic Well-Being

		2018	2019
 Median household income (in 2019 inflation-adjusted dollars)	↑	\$64,324	\$68,703
 Percentage of people in poverty	↓	11.8%	10.5%
 Supplemental Poverty Measure	↓	12.8%	11.7%

- 14% of Americans lost their Jobs due to COVID
- >19.0% Unemployment
- **But yet the Poverty Rate is projected at 9.2% for 2020 by the Urban League**
- Stimulus – \$1200-2400 for working families and
- Additional \$600 weekly jobless benefits

United States<sup>®</sup>  
**Census**

U.S. Department of Commerce  
U.S. CENSUS BUREAU  
[census.gov](https://www.census.gov)

Source: Current Population Survey, 2019 and  
2020 Annual Social and Economic  
Supplements (CPS ASEC)

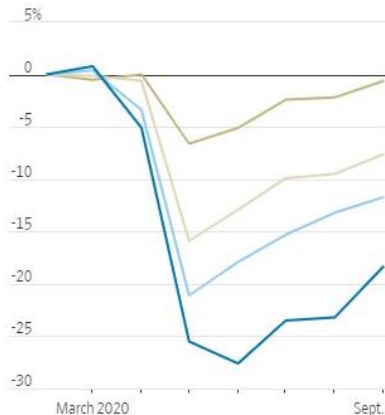
# Recovery is being Experienced differently

## Education

Bachelor's-degree holders have nearly fully recovered from pandemic job losses, while high-school dropouts have 18% fewer jobs.

### Change in employment from Feb. 2020

- Less than a high school diploma
- High school graduates
- Some college or associate's degree
- Bachelor's degree and higher

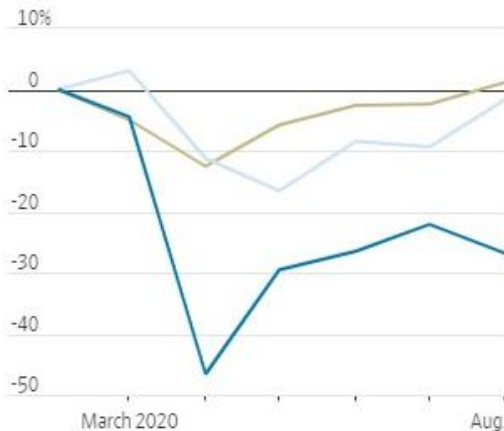


Note: 25 years and older, seasonally adjusted  
Source: Labor Department

## Wage Difference

Change in number of workers earning various wage ranges, from February 2020

- Less than \$16/ hour
- \$16-\$28/hour
- More than \$28/hour



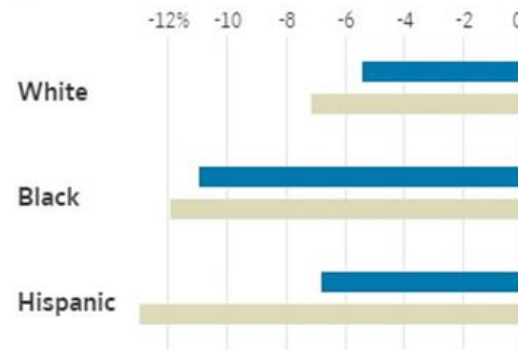
Note: Seasonally adjusted  
Source: Evercore ISI

## Recovery by Race and Gender

White men are closest to fully regaining the jobs lost due to the coronavirus pandemic, while Hispanic and Black women have the furthest to go.

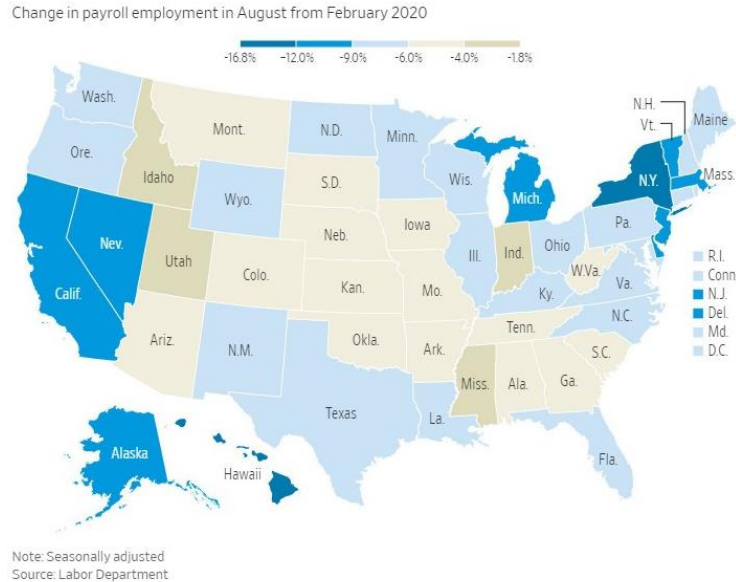
### Change in employment from February 2020

- Men
- Women



Note: As of September, people 20 years and older, seasonally adjusted  
Source: Labor Department

# Unemployment – more harshly experienced in Tourism rich states



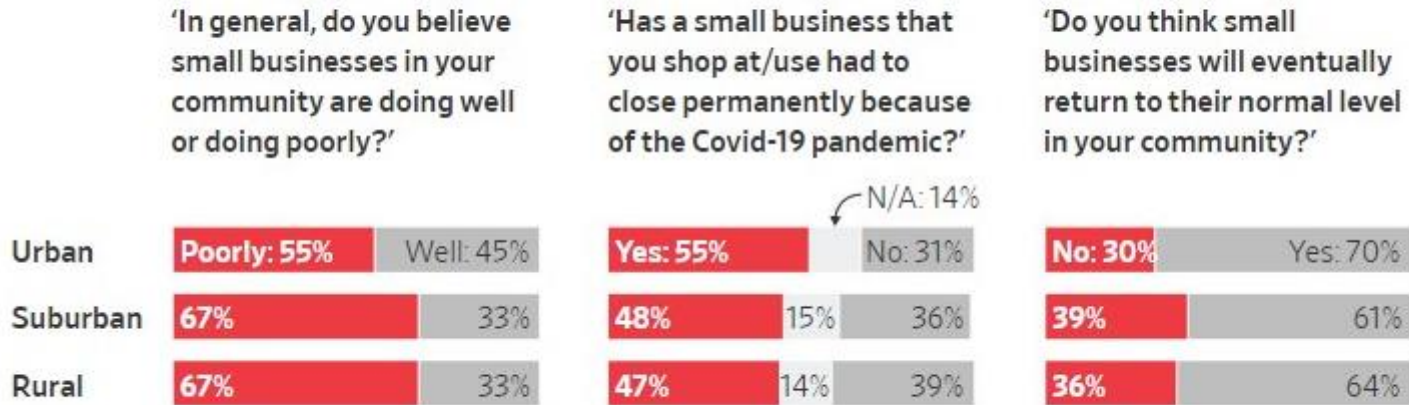
- Service Industries
- Restaurants
- Hotels
- Medical Offices
- Hospitals
- Retailers



# Community Support will determine outcome

## Pandemic Effects

A Harris Poll found that people in rural and suburban areas were more likely to see small businesses struggling.



Note: Totals may not add to 100% due to rounding.

Source: Harris Poll survey of 1,971 adults in the U.S. conducted Sept. 24-Sept. 26

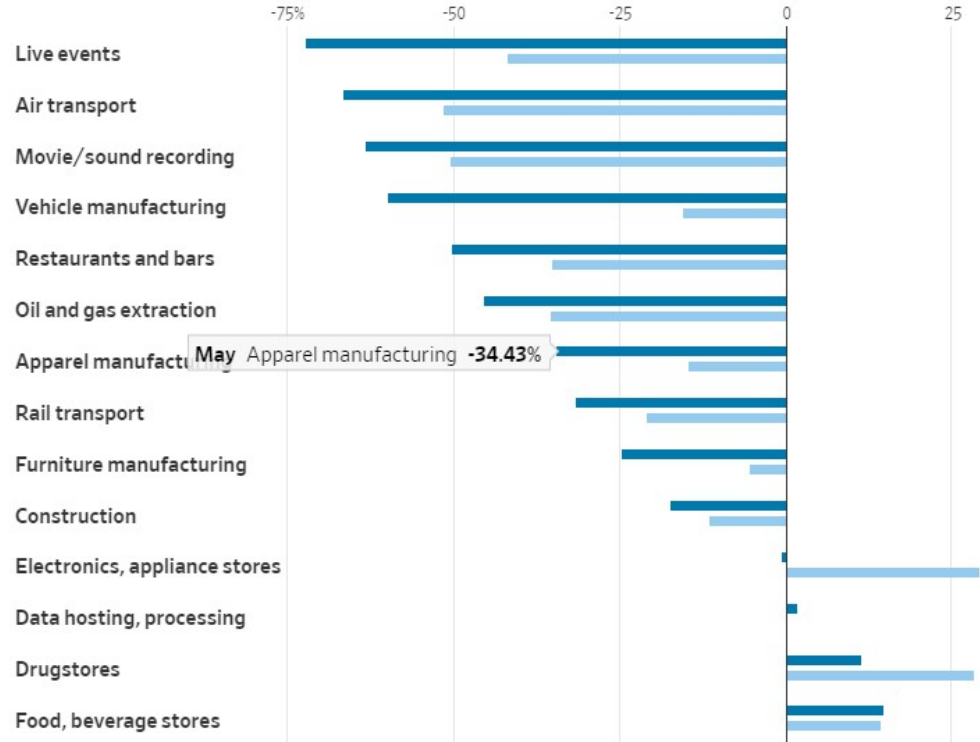
If we love our downtown and our community businesses, we need to support them with our dollars now more than ever!

That includes our non-profits and the Arts!

## Changing Fortunes

Change from a year earlier in business-to-business spending for select industries

■ May ■ August



Source: Cortera via Moody's Analytics

# Where will people want to live

- Suburbs are attractive again
  - Boise Idaho????
- Will we ever be willing to commute like that again
  - Number of days at work?
- How long before office buildings in Boston return to capacity
  - Record breaking amounts of space in the sublet market
- PRO: Your home has never been so valuable and contractors are busy – which has never happened in prior recessions
  - Home Offices renovations

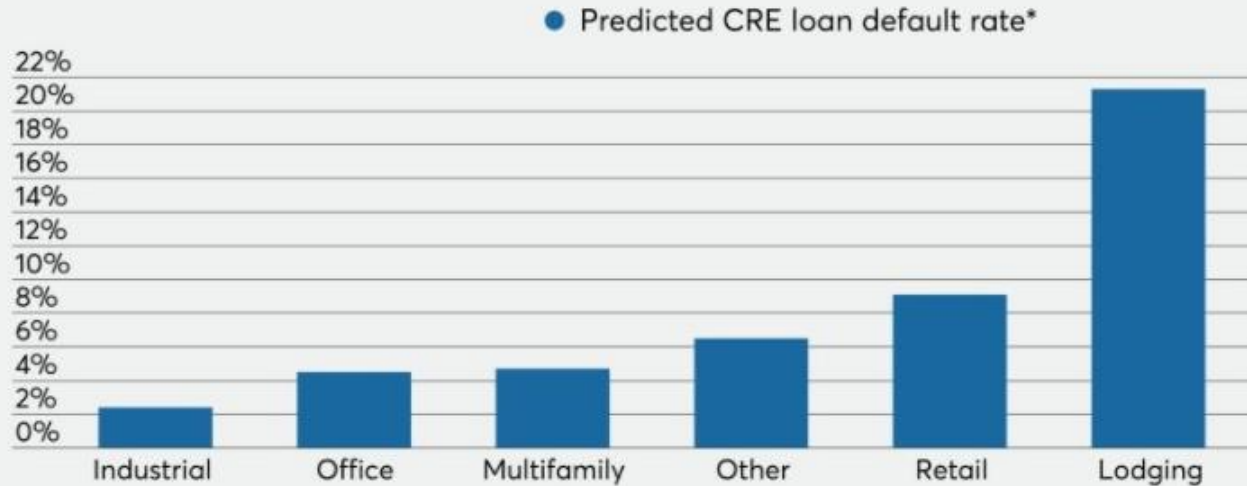
# Commercial Real Estate Owners

- Major Cities – Globe 'Will big cities bounce back or fade away'
  - If you commute 3 days a week = 40% less consumer spending
  - Half of MA workforce isn't expected to return to the office even after the vaccine is available.
- Tenants renegotiating
  - Their revenues are down – medical/hospitality/daycare
  - They don't need as much space
  - Sublet space in Boston ballooned to 1.5 million
- Our landlords tell us
  - Current rental rules on evictions are intended to help renters
  - Others are taking advantage
  - They are working with folks that have lost a household member to COVID or are temporarily without work.

# Projected default rates pose risk for Banking industry

## Trouble ahead

Lodging and retail are projected to be the hardest-hit sectors in a forecast of CRE loan default rates attributed to the pandemic crisis



Source: Trepp (\*cumulative projection for portfolio of 13,000 loans)

# Banking

- PPP will sustain us for 12 months
- Largest deposit growth rates seen in years – but no where to put the money
  - PPP, Stimulus, and reductions in consumer spending
- FRB indicates interest rates will remain low for some time
  - all banks will be earnings challenged
- Rates are zero bound – refinances and repricing ARM mortgages will drive down earnings.
- Will mean growth is needed to offset declines in profitability at the margin
- Likely acceleration in mergers and acquisitions
- Tools provided by FASB will help avoid failures

# Consumers

- Refi if you can – unfortunately those with changed circumstances will be unable to do so
- Appraisals are taking 45 days (inequity of workloads)
- Major employers are re-evaluating workforce as PPP expires and a second round is frozen in Congress.
- Home appreciation is strong
  - Consumer confidence building
- If you are having difficulty – communicate with your financial institution

## More Stimulus is needed – Back to Jerome

The expansion is still far from complete. At this early stage, I would argue that the risks of policy intervention are still asymmetric. Too little support would lead to a weak recovery, creating unnecessary hardship for households and businesses.

Over time, household insolvencies and business bankruptcies would rise, harming the productive capacity of the economy, and holding back wage growth. By contrast, **the risks of overdoing it seem, for now, to be smaller.** Even if policy actions ultimately prove to be greater than needed, they will not go to waste. The recovery will be stronger and move faster if monetary policy and fiscal policy continue to work side by side to provide support to the economy until it is clearly out of the woods.

The word he used was **'tragic'**