Economics & Credit Overview

AccountsRecovery.net Leadership Summit
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The Covid-19 Economy is a Mixed Bag

$2.02 T
Increase in Deposits in Commercial Banks end of Feb to end of May

$95 B
Decrease in Consumer Revolving Credit balances end of Feb to end of May

$123 B
Decline in Monthly Retail Sales end of Feb to end of Apr

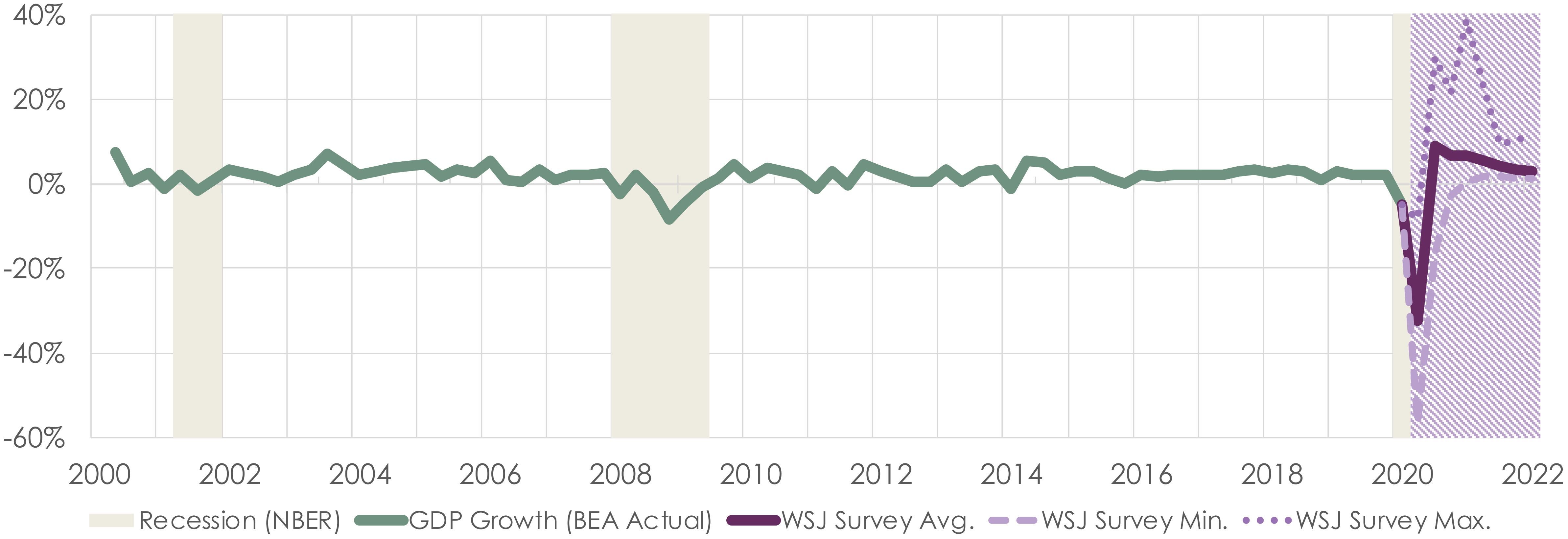
5.3%
Change in Existing Home Sales Price Apr ‘20 vs Apr ‘19

43.1 M
Number of Initial Claims for unemployment benefits filed since end of Feb to end of May

Source: AC Cutts & Associates; Plum Sage LLC; Board of Governors of the Federal Reserve Bank, Federal Reserve Bank of St. Louis (FRED; Series H.8 Assets and Liabilities of Commercial Banks in the United States); US Census Bureau; National Association of Realtors; U.S. Department of Labor

GDP Growth: Official Recession, Expected to Worsen

WSJ Economic Forecasting Survey GDP Growth (SA, quarterly annualized, %)



Source: Plum Sage LLC; National Bureau of Economic Research; U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis (FRED) Real Gross Domestic Product [GDPC1] quarterly growth annualized; Wall Street Journal Economic Forecasting Survey, May 2020.

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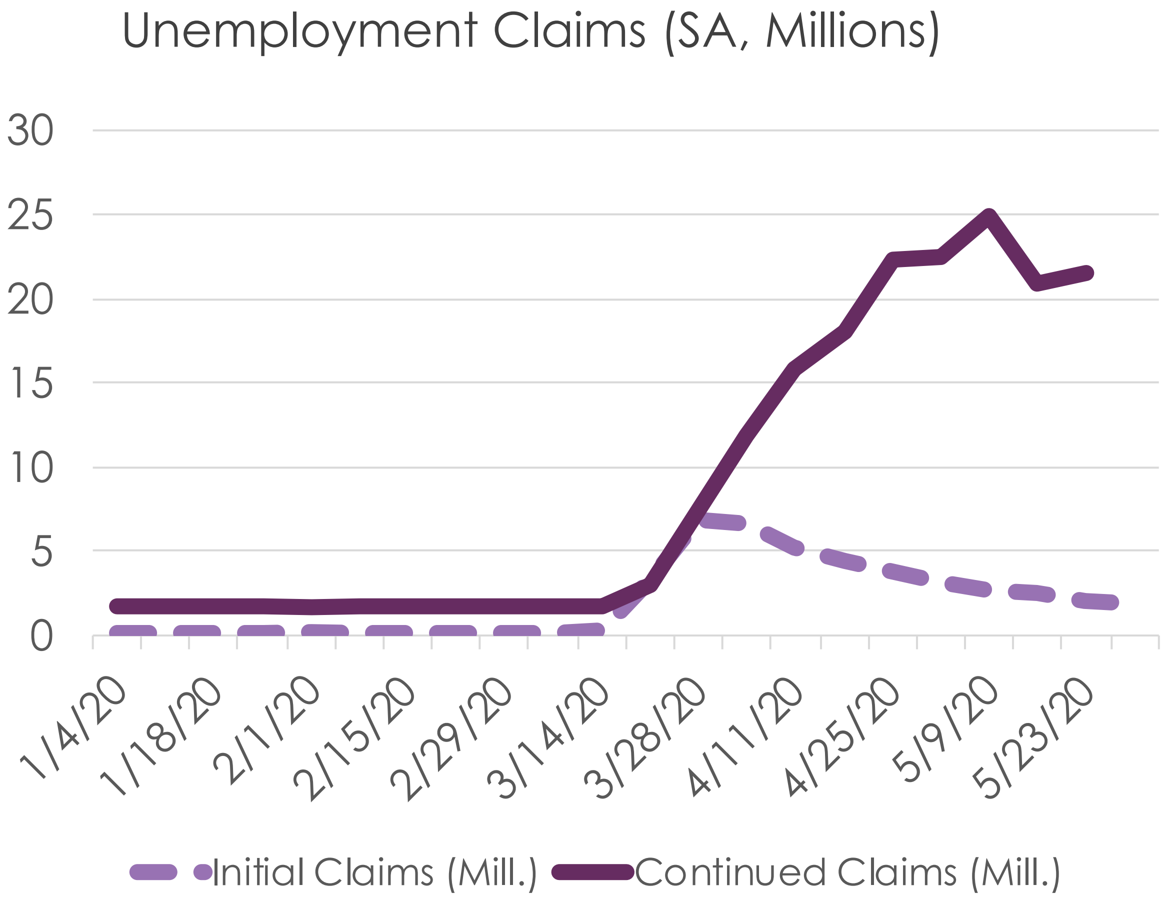
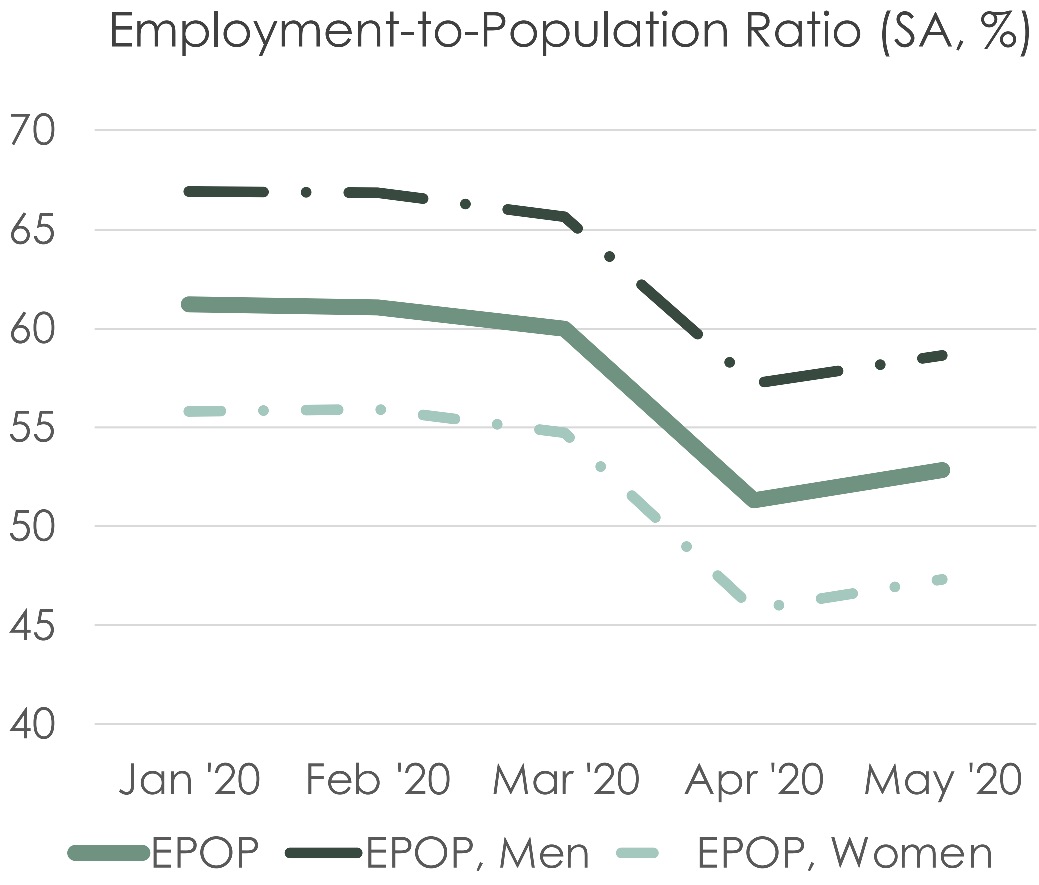
Unemployment has Reversed, but Permanent?





Source: Plum Sage LLC; AC Cutts & Associates; U.S. Employment & Training Administration; U.S. Bureau of Labor Statistics, Current Population Survey; Federal Reserve Bank of St. Louis (FRED) [ICSA; CCSA; LNS].

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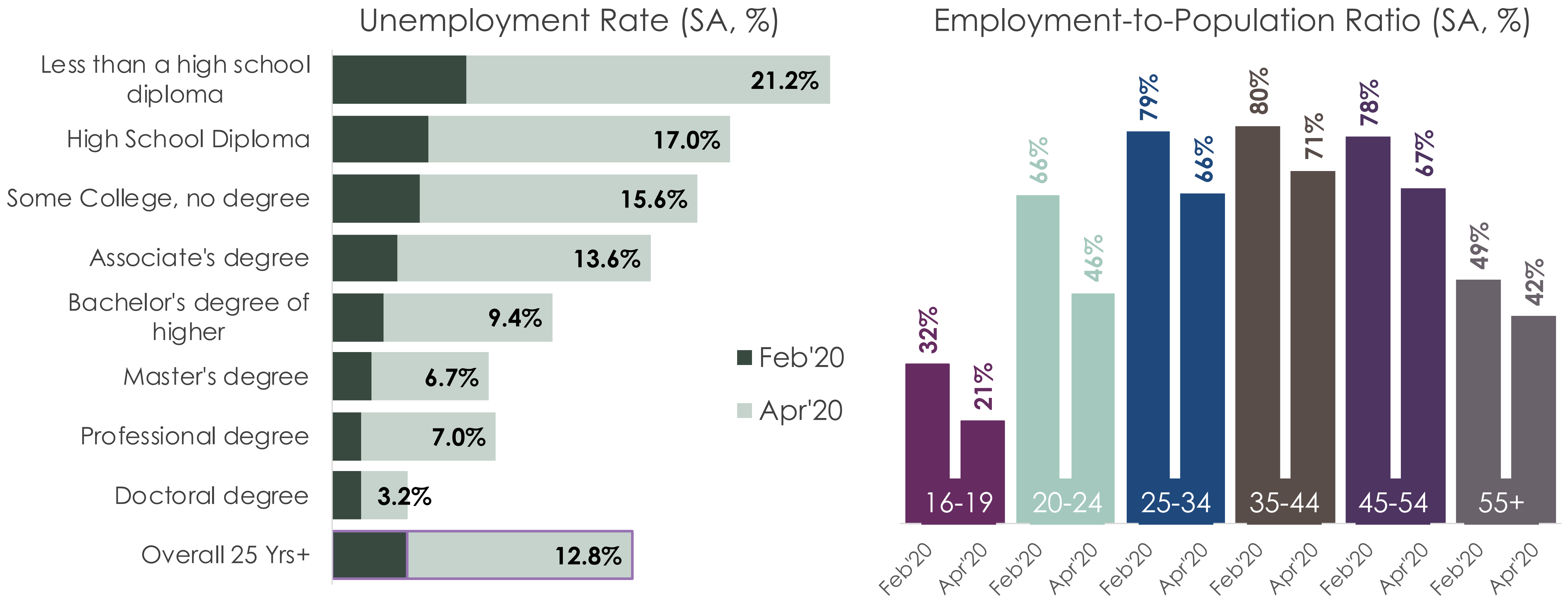
Covid-19 Unemployment Impacts are Uneven



Source: AC Cutts & Associates, NBER, U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis (FRED); Unemployment rate for persons 25 years old and older, April 2020 data. For noninstitutionalized civilians 16 years and older. Employment to population ratio for 55+ calculated with 55-75 population ages

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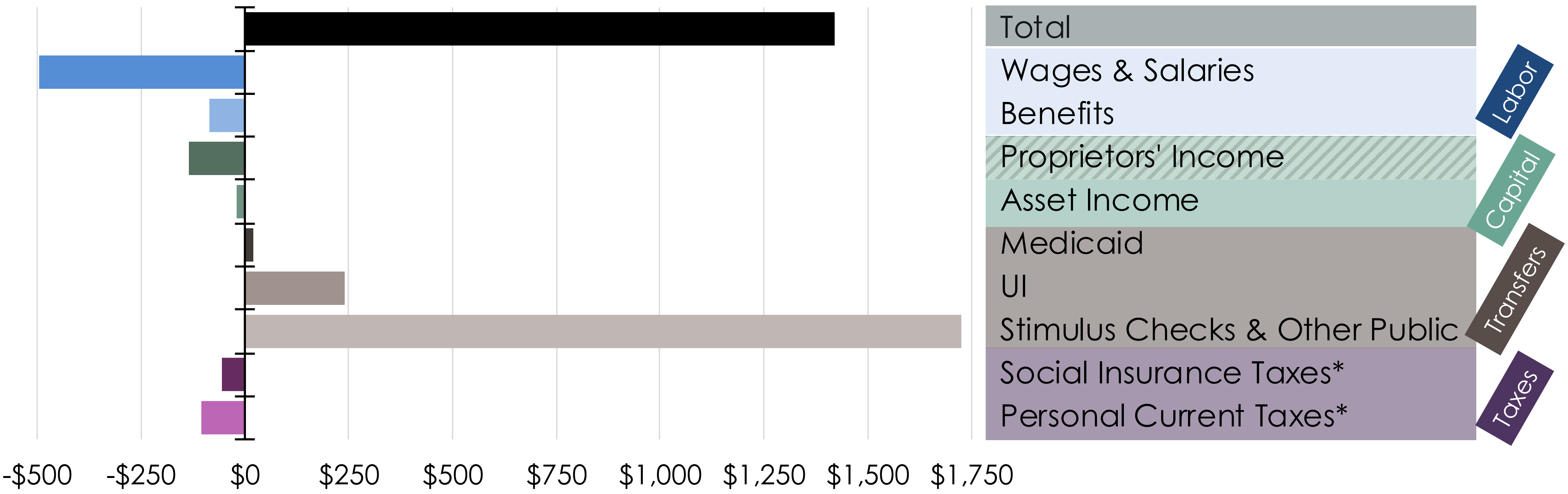
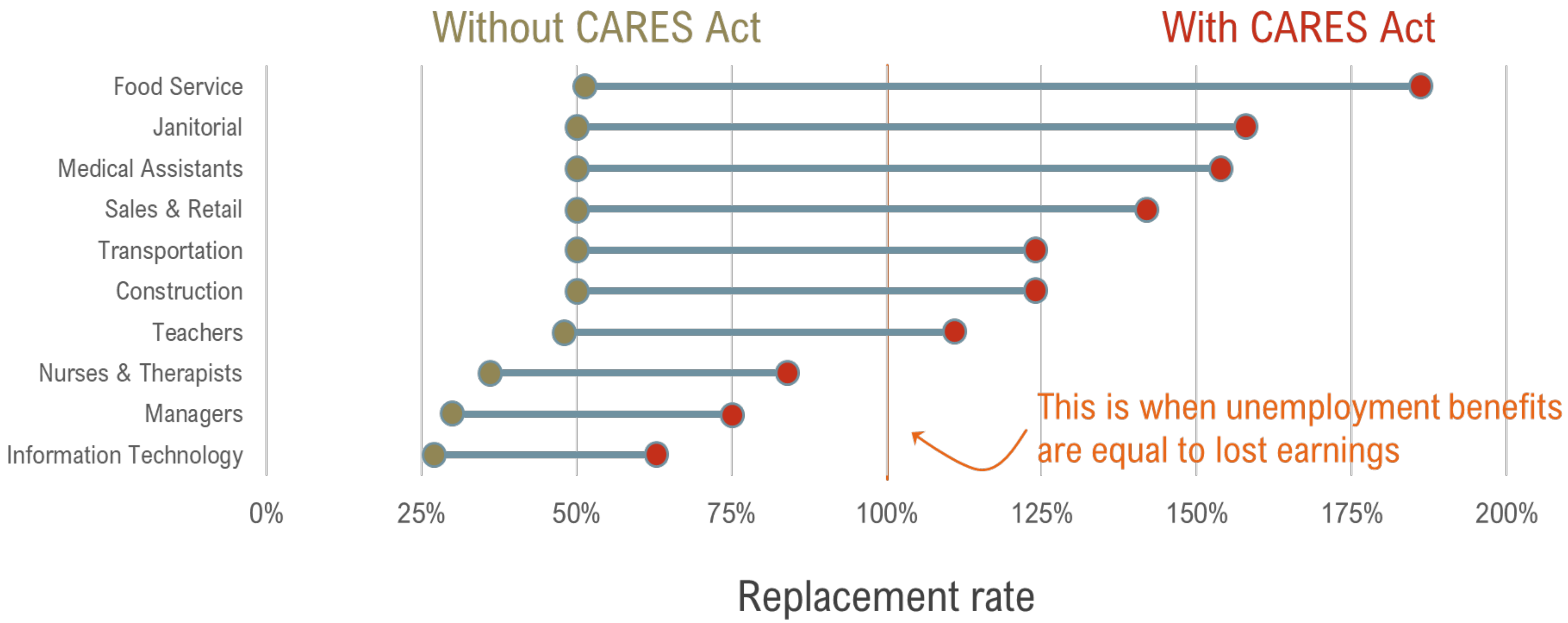
Household Incomes Increased by Transfers

Dollar Change in Average Disposable Income per Household, Monthly Nonannualized Amount



Source: AC Cutts & Associates, Ernie Tedeschi, (@ernietedeschi). Bureau of Economic Analysis. Notes: Not shown are Rental Income, Social Security, Medicare, Veterans Benefits, and Other Transfers, which are all a net zero change. *Inverted; fall in taxes shown as a positive DPI impact. EIP are Economic Impact Payments to households from the CARES Act.

Low Pay Unemployed are Paid More to Stay Home



Source: AC Cutts & Associates, FiveThirtyEight.com, Peter Ganong, Pascal Noel, and Joseph Vavra (May 2020) "US Unemployment Insurance Replacement Rates During the Pandemic." Janitorial category includes groundskeepers. Using the 2019 CPS ASEC to estimate median unemployment benefits by occupation for selected occupations based on nationwide median earnings and state-level benefits rules for citizens with earnings above minimum wage.

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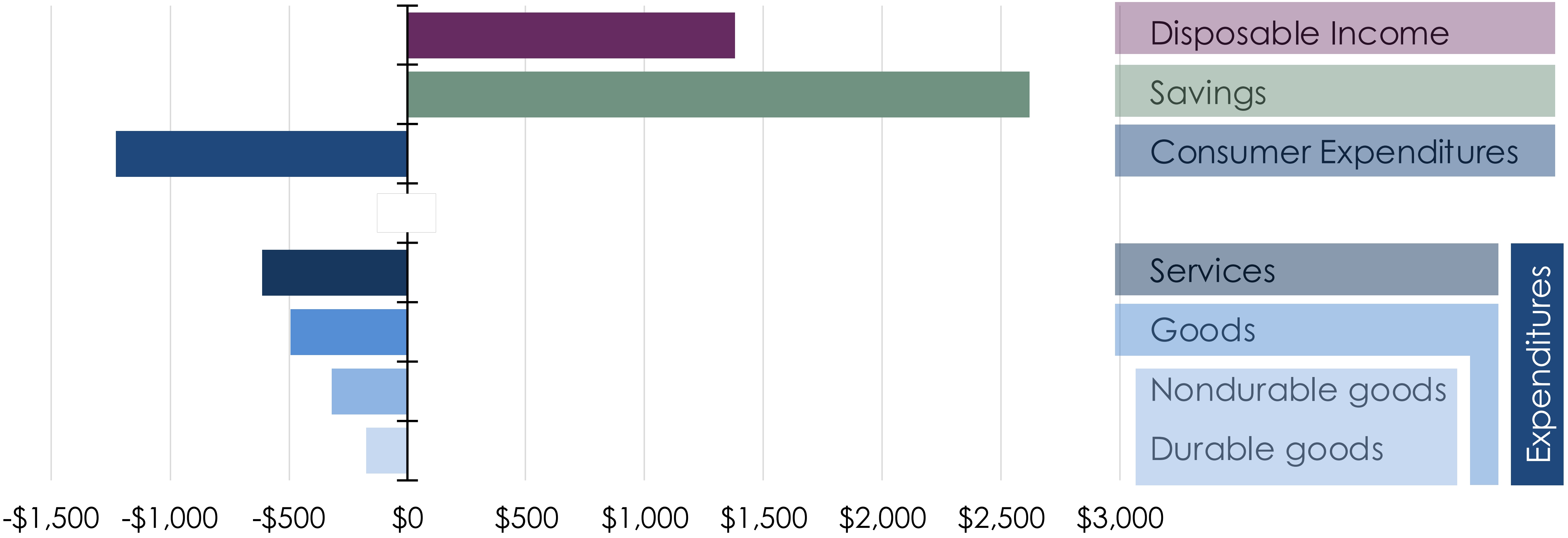
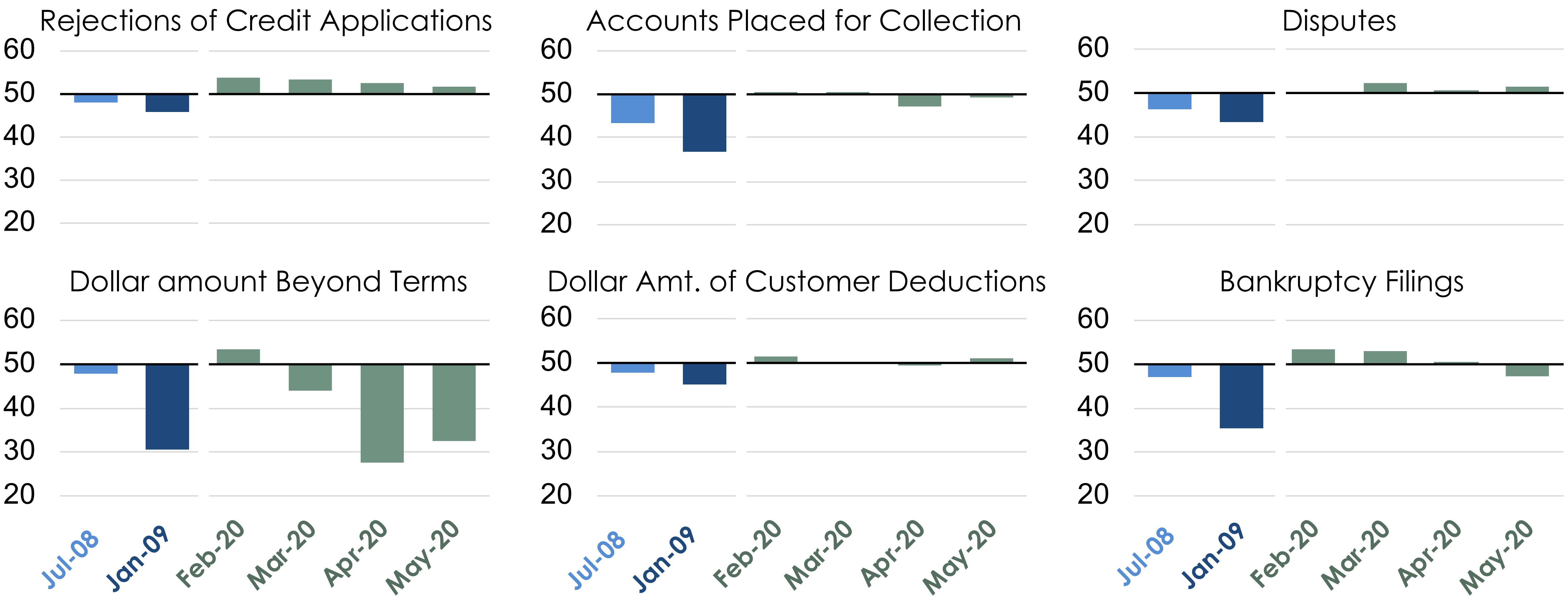
Households Shifted Spending to Saving

Dollar Change in Average Disposable Income & Outlays per Household, Monthly Nonannualized



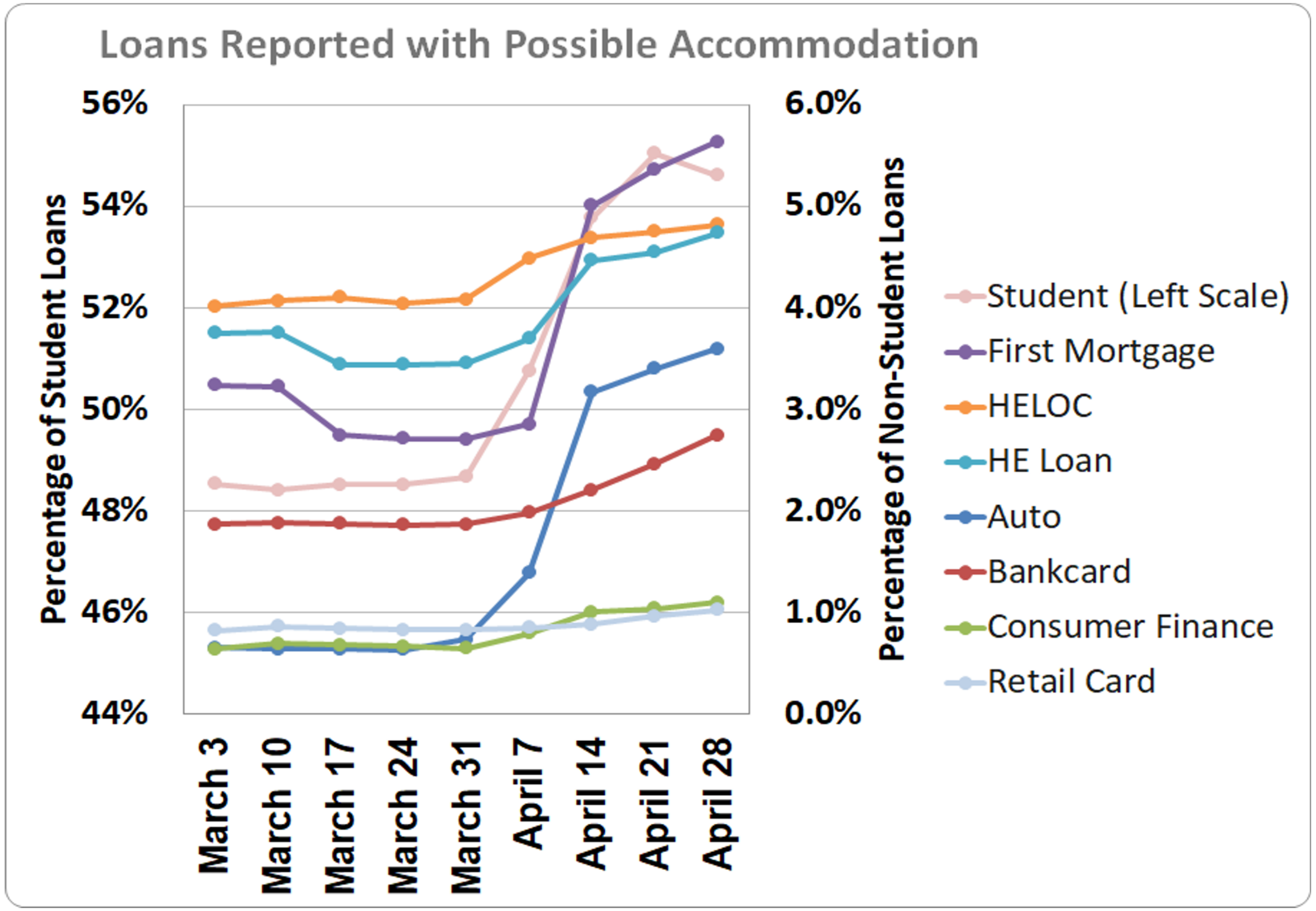
Source: AC Cutts & Associates, Bureau of Economic Analysis.

Unfavorable Credit Factors Led by 'Beyond Terms'



Source: AC Cutts & Associates, National Association of Credit Management. An index value of 50 means that the number of "improving" responses is equal to the number of "deteriorating".

Loan Accommodations Increased Through April



Source: Equifax Inc.

- Student Loans have a large portion in accommodation historically, and added more during April.
  - Deferments for continued school
  - Forbearance and payment plans
- Home Loans have the largest percentage in accommodation outside of Student, with First Mortgages eclipsing Seconds mid-April.
- Auto Loans under possible accommodation increased throughout the month of April.
- ~2.5% of non-student loans are currently reported in possible accommodation.

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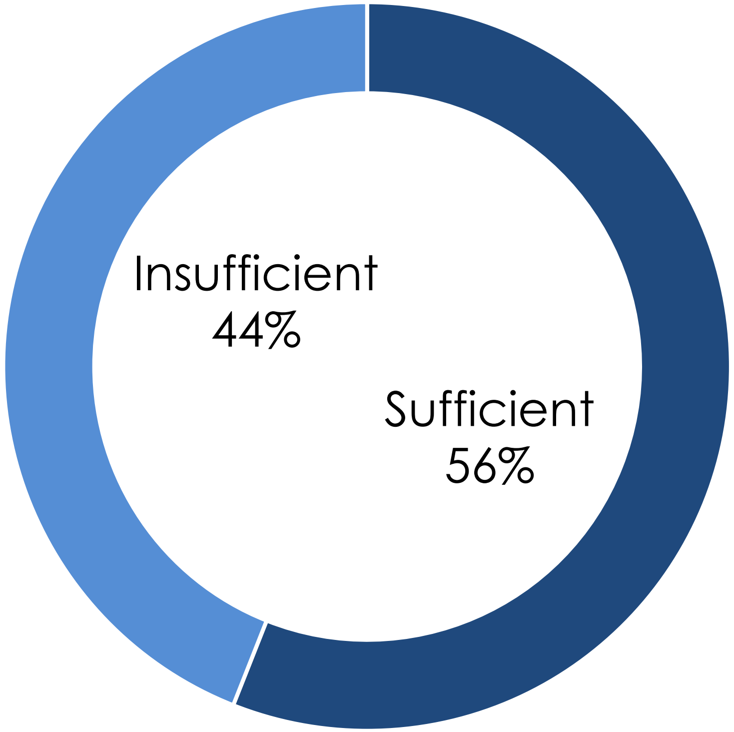
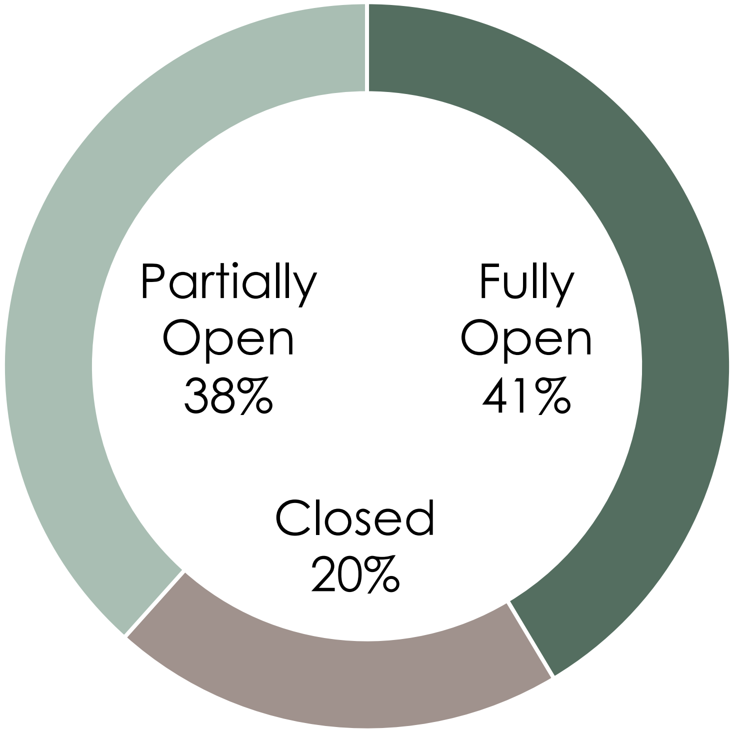
Small Businesses in Survival Mode

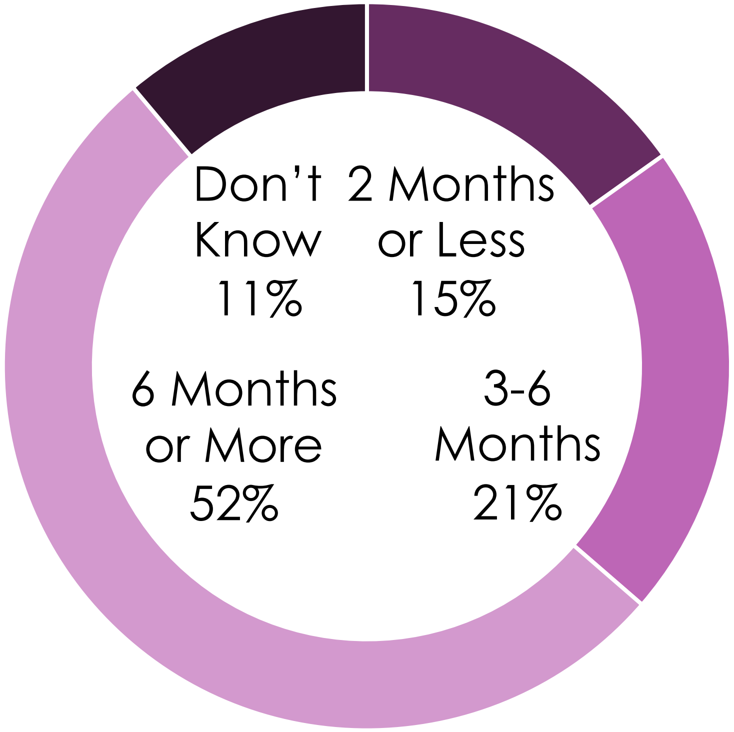
Cash Flow



Open for Business



Survival



Source: AC Cutts & Associates, MetLife & U.S. Chamber of Commerce Small Business Coronavirus Impact Poll June 3, 2020.
Businesses surveyed have 500 or fewer employees.

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Summary

- GDP consensus forecasts suggest continued Q2 decline, then recovery
  - ‘V’ or ‘Swoosh’ or ‘W’?
- Unemployment stabilized, some rehiring, but still historically high
  - PPP rules and CARES stimulus complicate incentives to return
- Stimulus income and decreased spending led to saving and de-levering
  - Will we see additional stimulus?
- Credit unfavorable factors led by ‘beyond term’
  - Accommodations prevent or delay delinquency and collections
- Small businesses holding in survival mode
  - PPP, unemployment rules, partial reopening keep them afloat for now

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