



The COVID-19 Pandemic, the Economic Outlook, and the Main Street Lending Program

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Remarks to the South Shore
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The Economy and the Pandemic

- ▶ July FOMC – “The path of the economy will depend significantly on the course of the virus”
 - ▶ Inability to control virus in US is a significant headwind for the economy
 - ▶ Many people are reducing social interaction – with or without public health mandates
- ▶ Common sense precautions are much less costly than shutting down the economy
 - ▶ Wearing masks
 - ▶ Maintaining social distance
 - ▶ Avoiding crowds indoors
- ▶ New England currently has lower infection rates than the South and West

Policy Can Mitigate Economic Impact

- ▶ Monetary and fiscal policy actions have been large and timely
 - ▶ Fiscal Policy – higher unemployment benefits, expanded unemployment program, direct payments to lower-income individuals
 - ▶ Monetary Policy – interest rates, liquidity facilities, asset purchases
- ▶ Will discuss Main Street Lending Program, which helps facilitate credit flows for small and medium-sized businesses

Some Evidence of Economic Pause

- ▶ High frequency economic data indicate the recovery may be losing steam as activities are once again restricted in areas particularly impacted by the virus
- ▶ Economic pause coincides with higher infections in South and West – where some hospitals are reaching ICU capacity
- ▶ Stimulative fiscal and monetary policy are critical – but more importantly the US needs to slow down the COVID-19 infection rate

Figure 1: Real Disposable Personal Income

January 2000 - June 2020

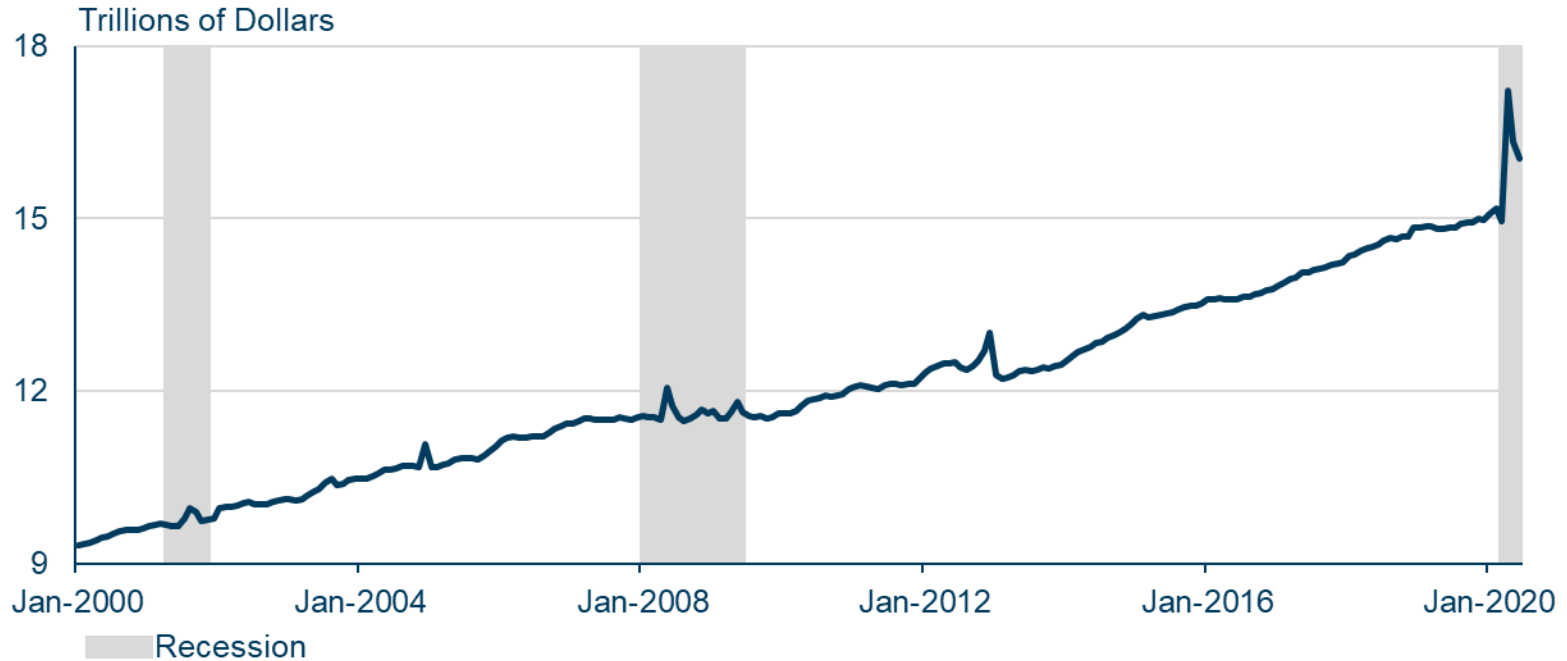


Figure 2: Personal Saving Rate

January 2000 - June 2020

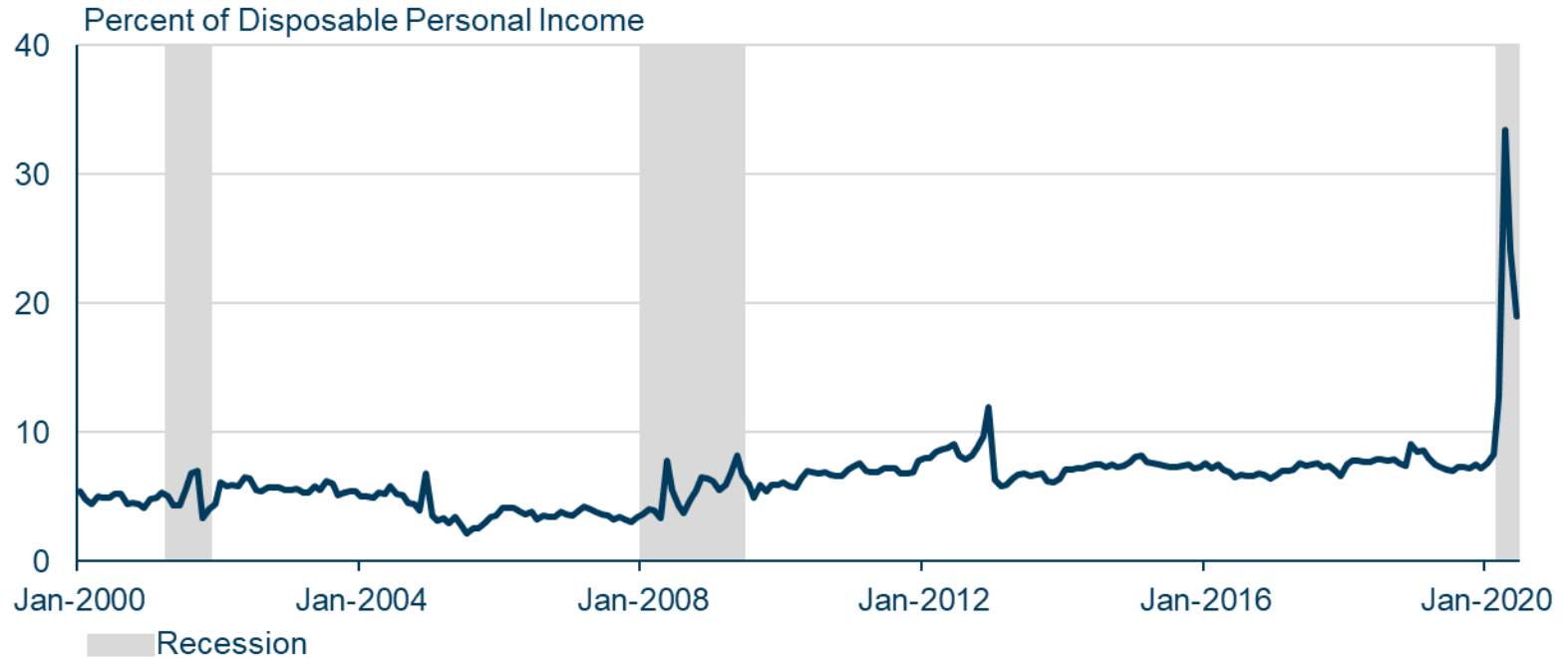
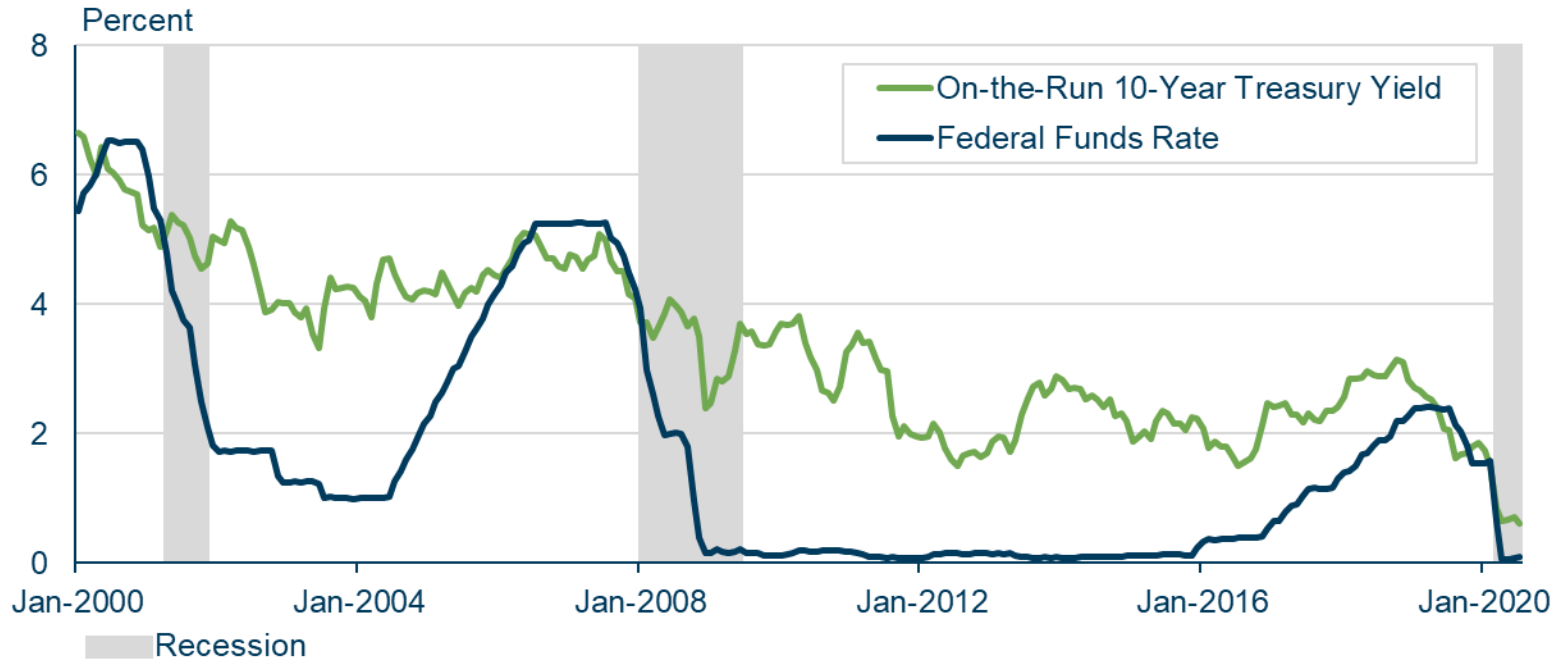


Figure 3: The Federal Funds Rate and the 10-Year Treasury Yield

January 2000 - July 2020



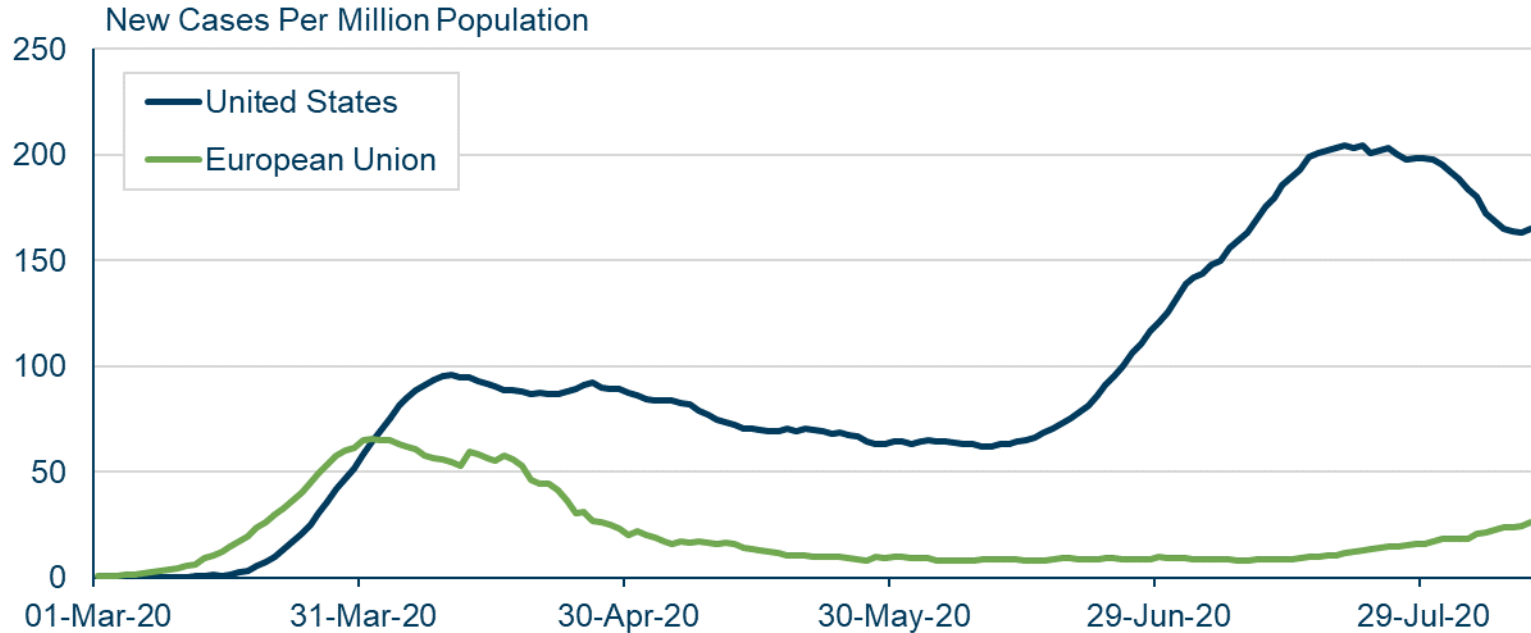
Source: Federal Reserve Board, WSJ, NBER, Haver Analytics

Policy Impact and Pandemic's Effect on Economy

- ▶ Credit interruptions prolong recessions and harm individuals and firms on “main streets”
- ▶ Have seen substantial deployment of fiscal and monetary policy; normally one might expect the actions to result in a robust recovery
- ▶ Individuals, with or without mandates, are likely to avoid activities that place their health at risk
- ▶ The trajectory of the economic recovery will be determined more by the path of the virus than by the path of policymaking

Figure 4: New COVID-19 Cases Per Million Population

March 1, 2020 - August 10, 2020

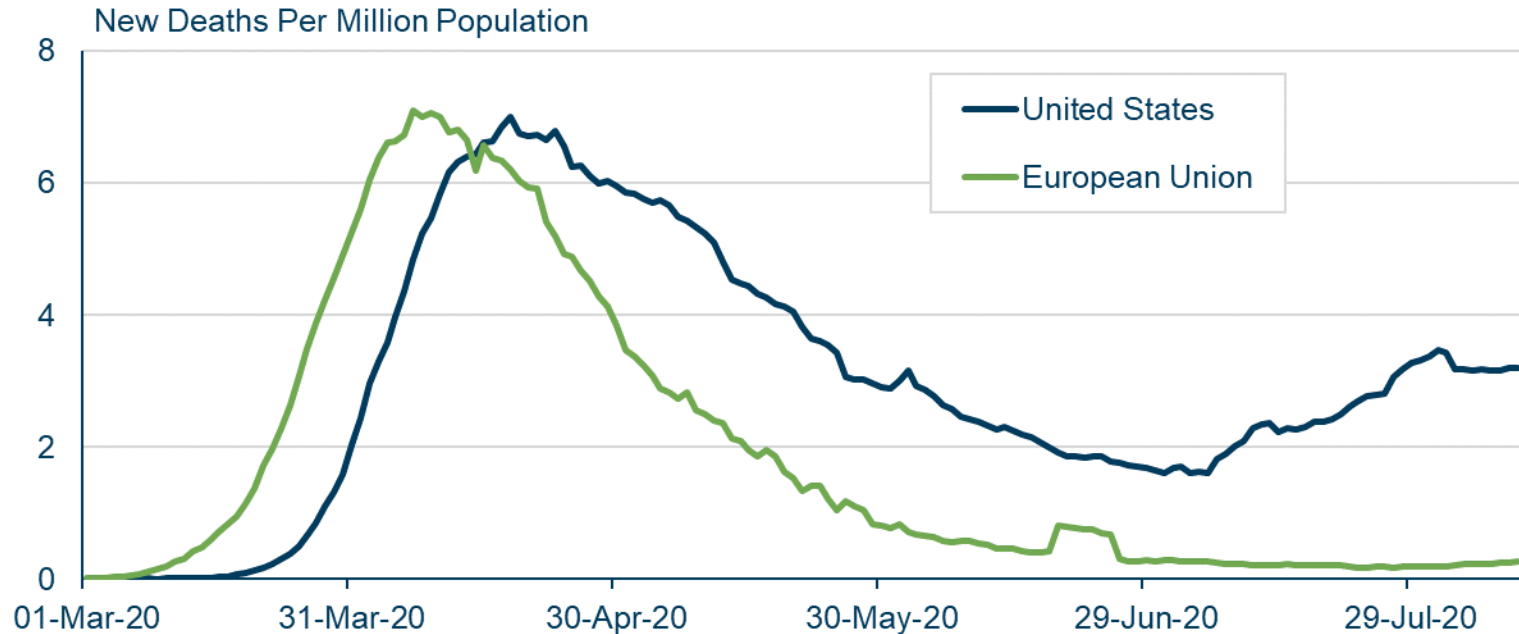


Note: New cases are seven-day moving averages.

Source: Johns Hopkins University

Figure 5: New COVID-19 Deaths Per Million Population

March 1, 2020 - August 10, 2020



Note: New deaths are seven-day moving averages.

Source: Johns Hopkins University

Figure 6: Cumulative COVID-19 Deaths Per Million Population

March 1, 2020 - August 10, 2020

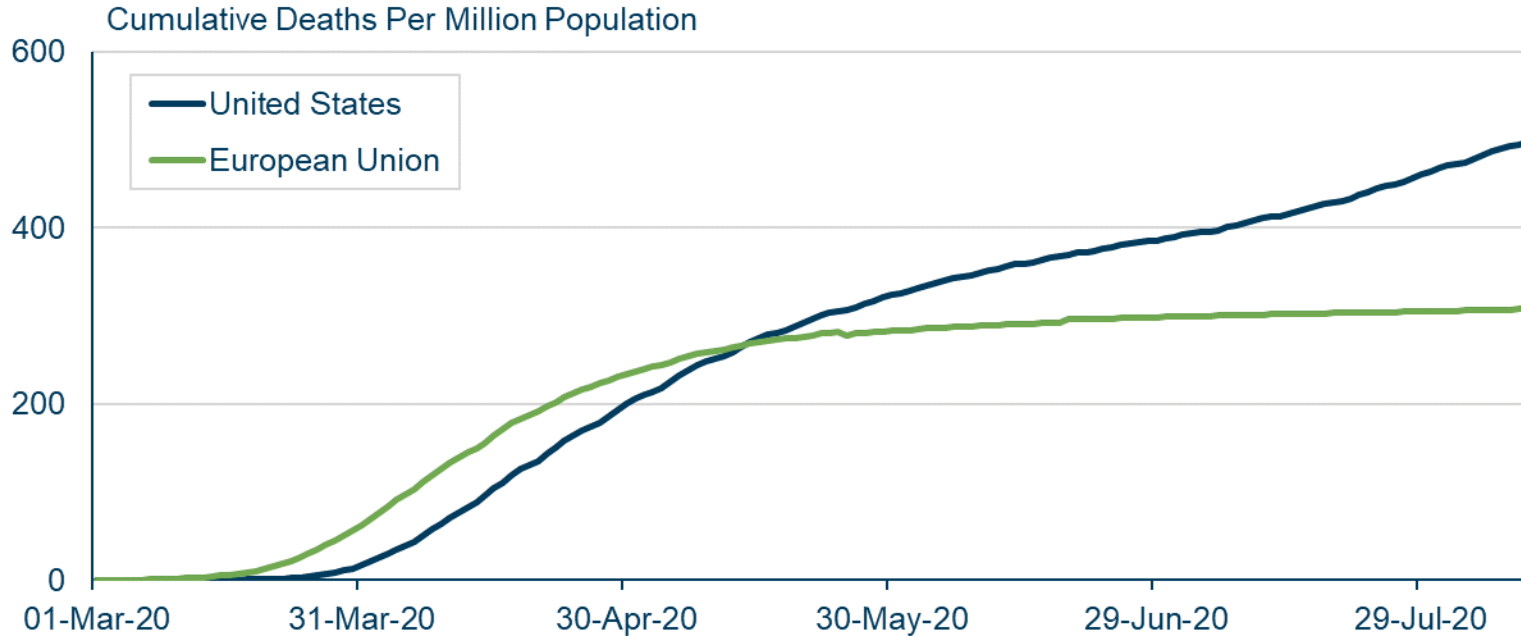
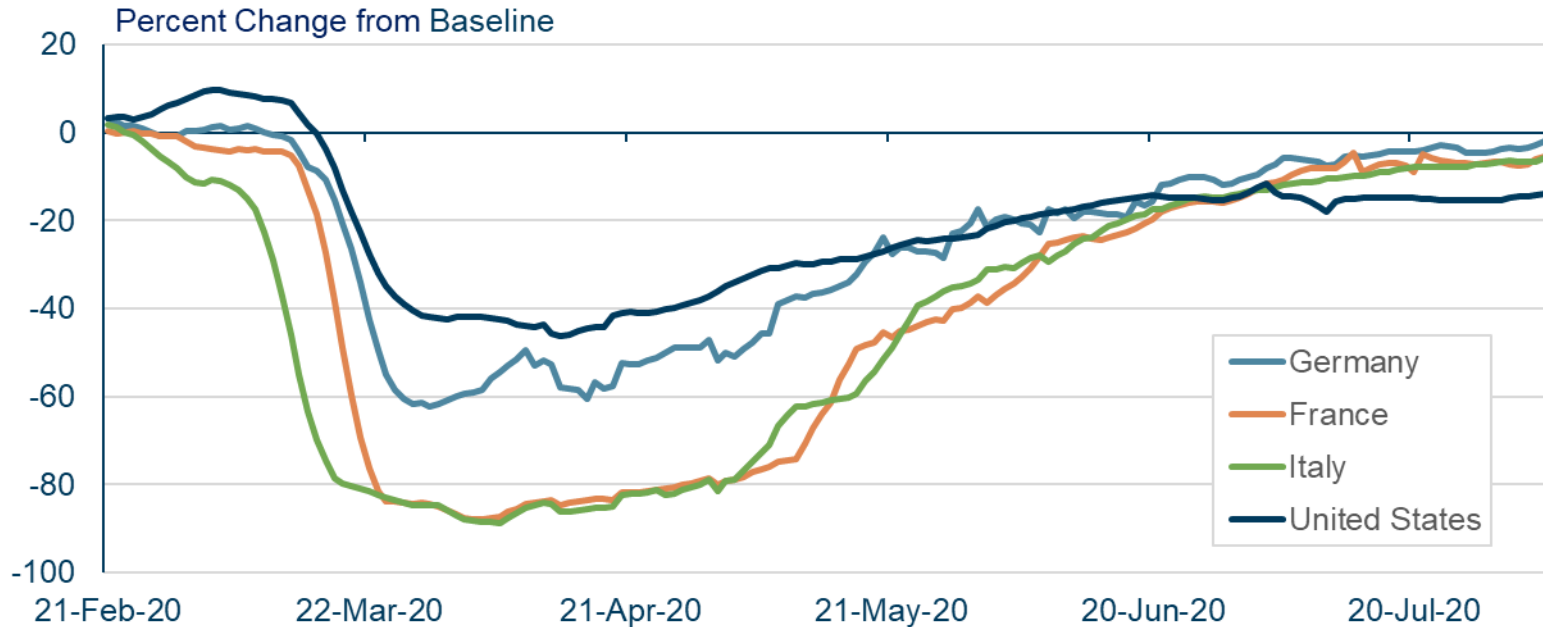


Figure 7: Change in Visits to Retail and Recreation Locations

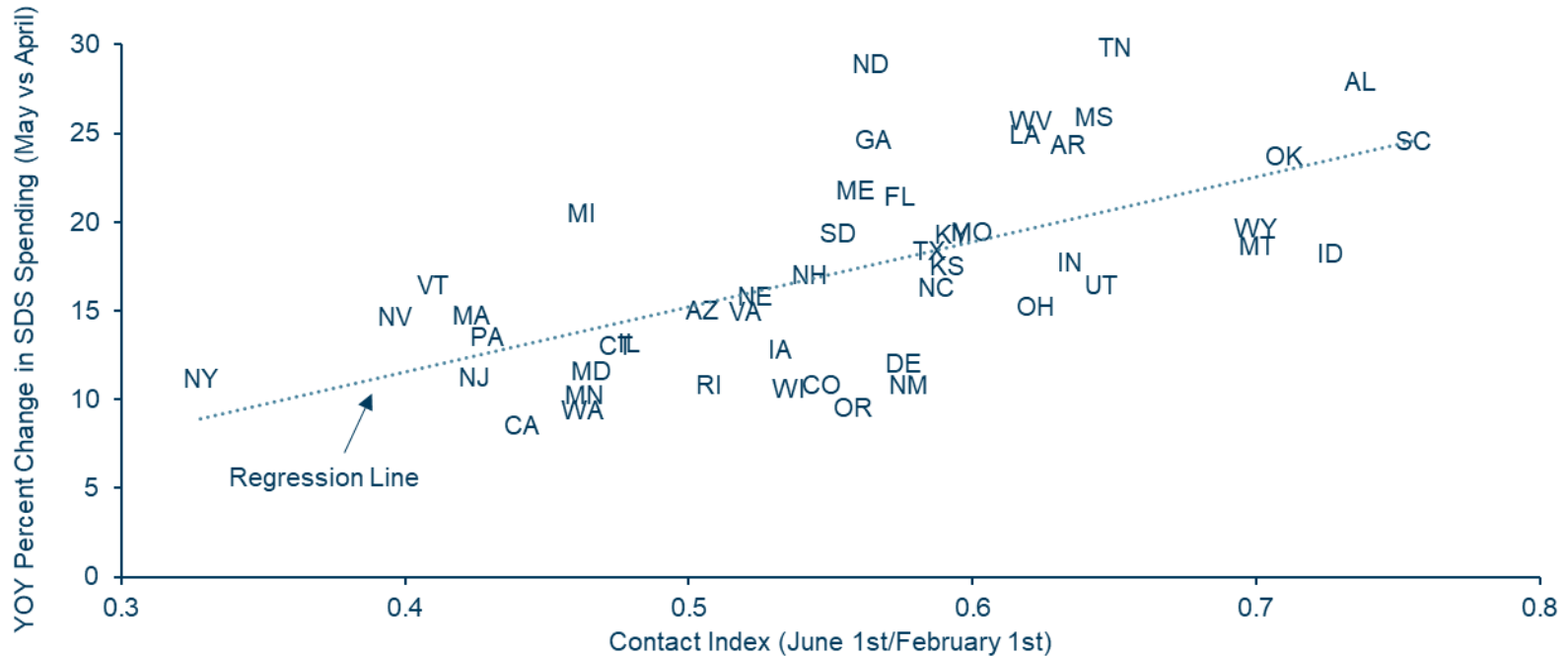
February 21, 2020 - August 4, 2020



Note: A baseline day represents a normal value for that day of the week. The baseline day is the median value from the 5-week period Jan 3 – Feb 6, 2020. Locations include restaurants, cafes, shopping centers, and other retail and recreation locations such as museums, libraries, movie theaters and theme parks.

Source: Google LLC "Google COVID-19 Community Mobility Reports" - <https://www.google.com/covid19/mobility/> Accessed: August 10, 2020

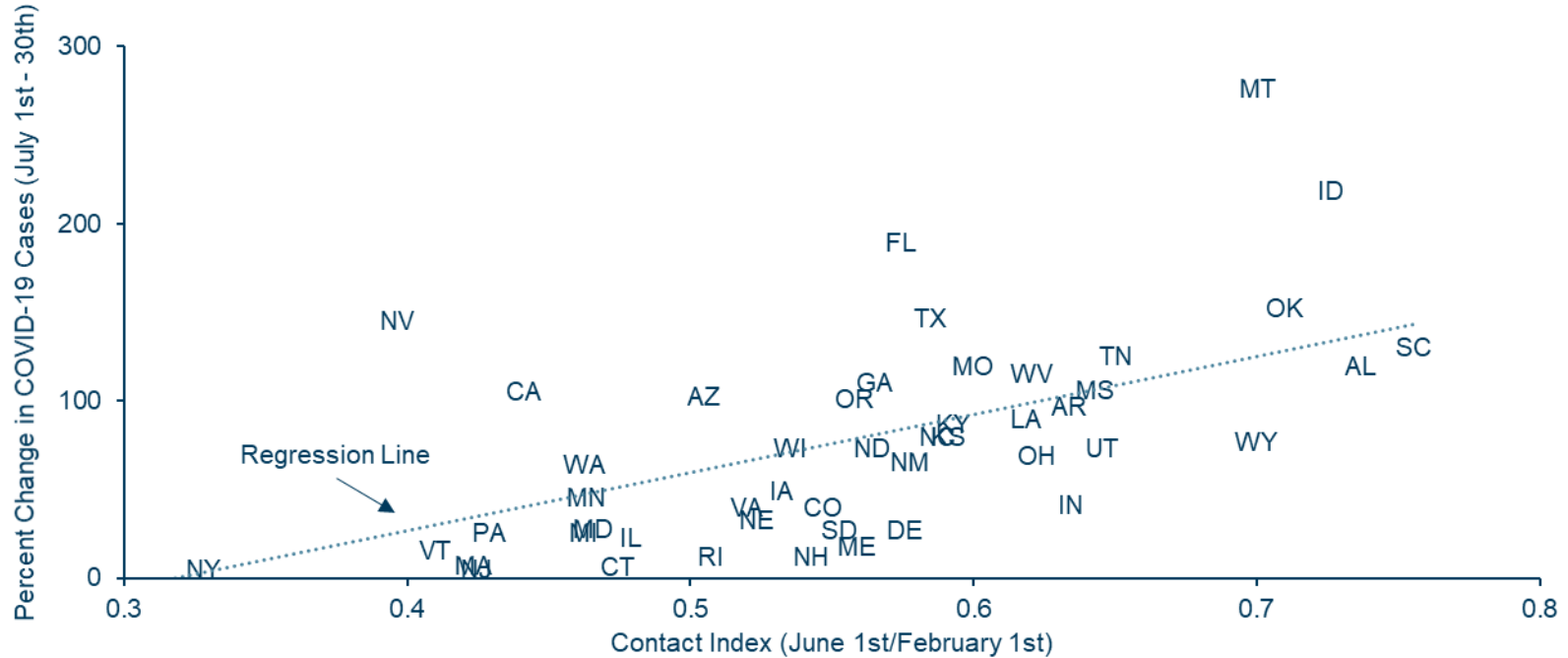
Figure 8: Interactions between the Virus and the Economy: Mobility in June relative to February vs Change in Social Distancing Sensitive (SDS) Spending by State



Note: Social distancing sensitive (SDS) spending is expenditures on restaurant meals, travel and transportation, hotels, and high contact personal care services such as beauty salons and barber shops. The contact index provides a measure of mobility by capturing close cell phone contact within a five minute period. The figure shows contacts as of June 1, 2020 relative to the pre-pandemic level as of February 1, 2020.

Source: Cuebiq, Affinity Solutions

Figure 9: Interactions Between the Virus and the Economy: Mobility in June Relative to February vs Change in COVID-19 Cases in July by State



Note: The contact index provides a measure of mobility by capturing close cell phone contact within a five minute period. The figure shows contacts as of June 1, 2020 relative to the pre-pandemic level as of February 1, 2020.

Source: Cuebiq, NYT

Figure 10: Interactions between the Virus and the Economy: State-Level Changes in COVID-19 Cases and Mobility in July

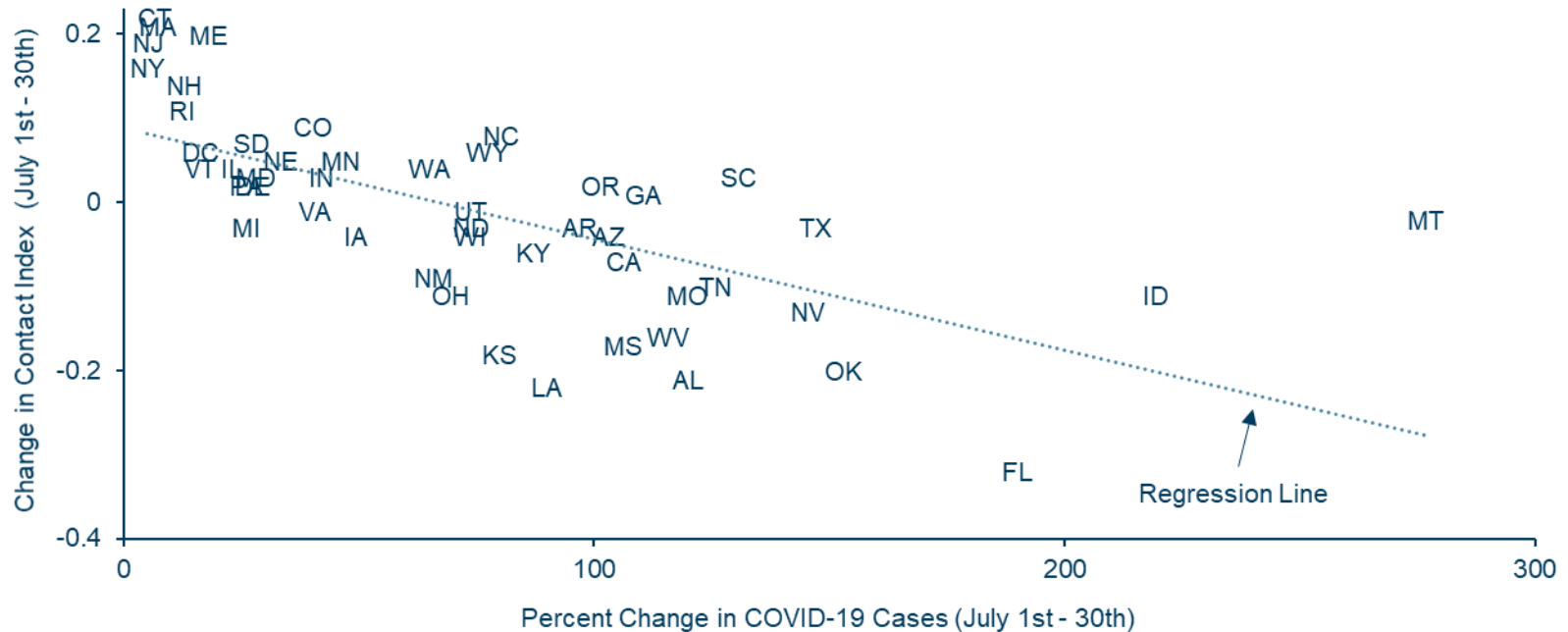
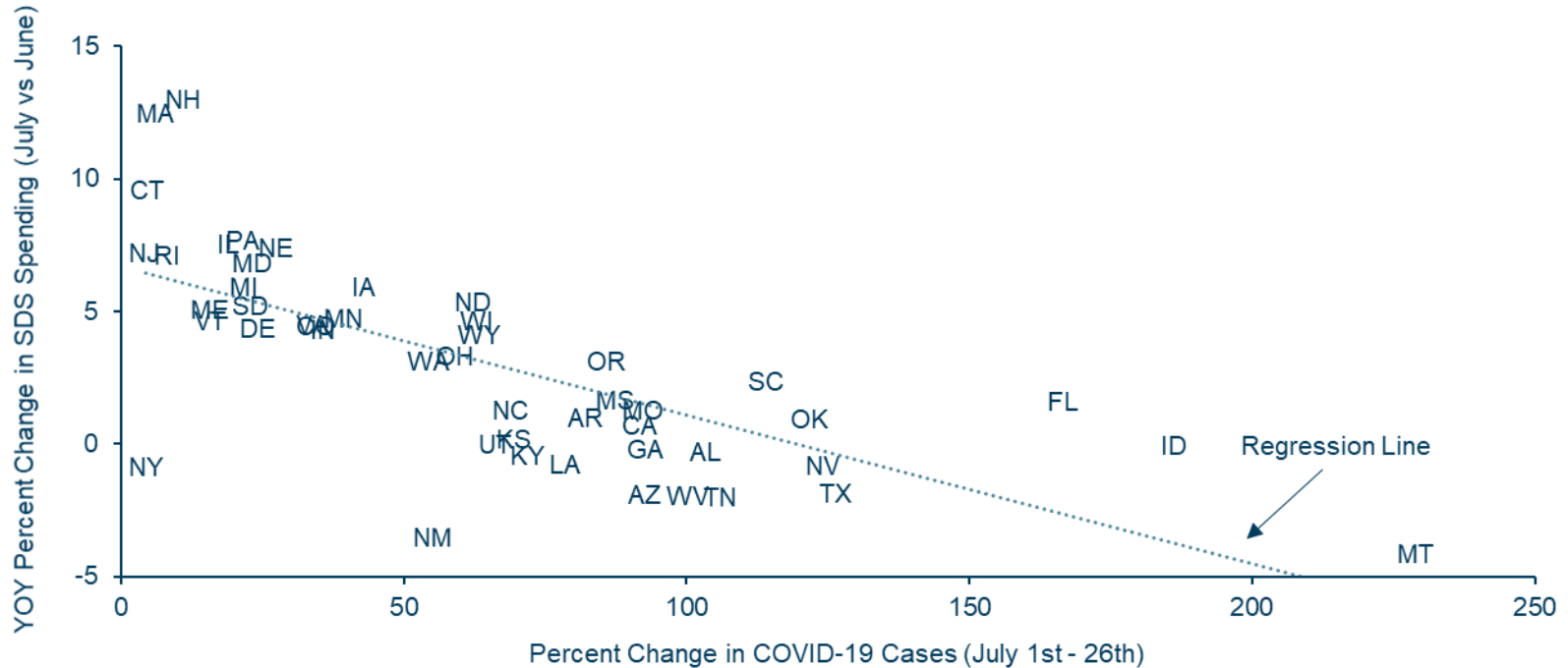


Figure 11: Interactions between the Virus and the Economy: State-Level Changes in COVID-19 Cases and Social Distancing Sensitive Spending (SDS) in July



Note: Social distancing sensitive (SDS) spending is expenditures on restaurant meals, travel and transportation, hotels, and high contact personal care services such as beauty salons and barber shops. Spending data in July are available through July 26th only and are compared to spending over the same time period last year.

Source: Cuebiq, Affinity Solutions

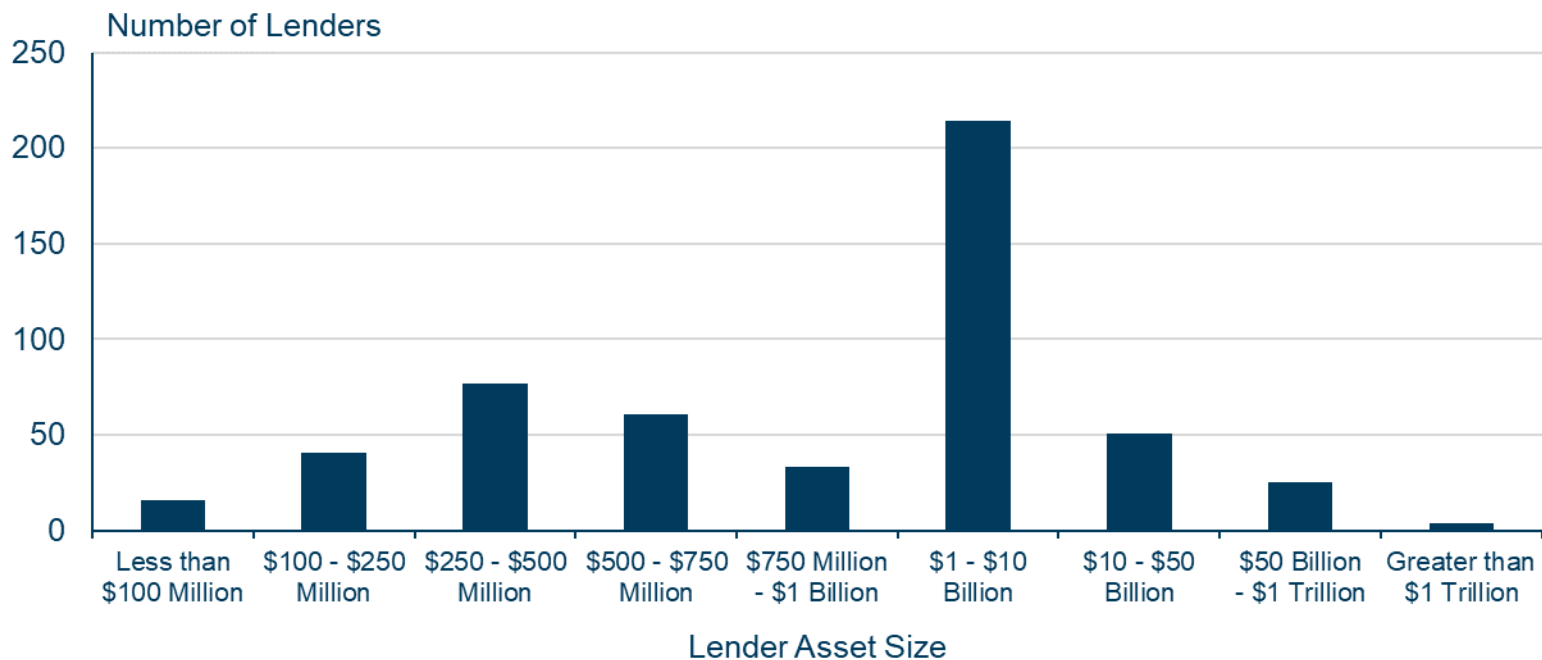
Vigilance is Necessary

- ▶ States that reopened early saw a short-term increase in economic activity, but at a cost to public health and, ultimately, their economy
- ▶ New England has had a recent reprieve – but travel across borders remains easy
- ▶ Recent upticks in Massachusetts bear watching
- ▶ States should calibrate actions to data
 - ▶ Students returning to schools
 - ▶ Weather forcing more indoor activities
- ▶ Failure to take quick actions to suppress the virus could result in more severe economic outcomes as well as unnecessary loss of life

Main Street Lending Program Update

- ▶ Designed to facilitate continued flow of credit to small and medium-sized businesses and nonprofit organizations
- ▶ Attractively structured to help business impacted by pandemic
 - ▶ No payment of interest the first year, no payment of principal until third year
 - ▶ Banks retain 5 percent, Federal Reserve retains 95 percent
 - ▶ 5-year loan with interest – LIBOR plus 300 basis points
 - ▶ Minimum loan size – \$250,000
 - ▶ Taking business loans and working on nonprofit program
- ▶ Help entities avoid shutting their doors and permanently laying off their employees because financing was not available

Figure 12: Asset Size Distribution of MSLP Registered Lenders

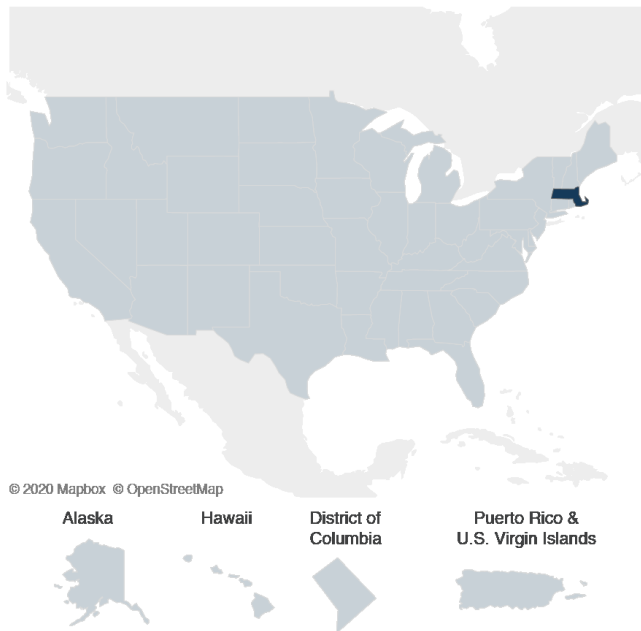


Note: Registered lenders totaled 522 as of August 10, 2020.

Source: Federal Reserve Bank of Boston

Figure 13: Interactive Map of MSLP Registered Lenders by State

Select your State



Select a Lender

BANK OF AMERICA	Businesses ✓ Nonprofits ✓
CITIZENS BANK	Businesses ✓
ENVISION BANK	Businesses ✓ Nonprofits ✓
FALL RIVER FIVE CENTS SAVINGS BANK	Businesses ✓ Nonprofits ✓
GFA FEDERAL CREDIT UNION	Businesses ✓ Nonprofits ✓
HARBOR BANKSHARES ASSET MANAGEMENT, LLC	Businesses ✓ Nonprofits ✓
JPMORGAN CHASE & CO	Businesses ✓ Nonprofits ✓
KEYBANK	Businesses ✓ Nonprofits ✓
NEW VALLEY BANK & TRUST	Businesses ✓ Nonprofits ✓
PEOPLE'S UNITED BANK	Businesses ✓ Nonprofits ✓
SANTANDER BANK	Businesses ✓
STERLING NATIONAL BANK	Businesses ✓ Nonprofits ✓
STONEHAMBANK	Businesses ✓ Nonprofits ✓
WEBSTER BANK	Businesses ✓ Nonprofits ✓
WEBSTER FIVE CENTS SAVINGS BANK	Businesses ✓ Nonprofits ✓
WORKERS CREDIT UNION	Businesses ✓ Nonprofits ✓

Listing of Lenders Accepting New Customers

Borrowers can view a state-by-state listing of lenders participating in the Main Street Lending Program who are currently accepting applications from new customers by viewing the interactive map.

This list reflects a subset of the lenders participating in the Main Street Lending Program — specifically, lenders registered for the program who are accepting applications from new customers, in addition to existing ones; and also elect to be listed.

Figure 14: MSLP Loans to Borrowers by Status

Processing Status as of August 10, 2020	Number of Loans	Participation Amount	Loan Amount
Loans Committed or Settled	32	\$240,171,351	\$252,811,948
Loans Under Review	55	\$573,963,538	\$604,172,145
Total	87	\$814,134,888	\$856,984,093

Note: Additionally, there were 35 lenders with 55 draft entries in progress in the system, reinforcing that lenders are active in the portal and getting familiar with program operations.

Source: Federal Reserve Bank of Boston

Main Street Activity Starting to Increase

- ▶ Some eager to suggest modest initial activity means failure – I completely disagree
 - ▶ Lending program, not a grant program – borrowers need to repay loans. Design involves tradeoffs, but this program can facilitate the flow of vital credit and help save companies and jobs
 - ▶ Loans *always* take some time for borrower and lender to negotiate – particularly with new features included by program requirements
 - ▶ Gradual pace of initial activity – expanding as parties become familiar with the mechanics

Main Street Program in Summary

- ▶ Credit disruptions can prolong recessions and harm individuals and businesses across America – this program is designed to help
- ▶ It is important that the Fed stands ready – in the public interest and in pursuit of our mandates – to facilitate lending to entities of many sizes, at reasonable rates
- ▶ The program is one way we will do all we can to support the firms, nonprofits, and individuals that make up the US economy
- ▶ I recommend lenders, businesses, and nonprofits explore participation

Concluding Observations

- ▶ Economic outlook is driven by course of pandemic
- ▶ Forecast remains uncertain
 - ▶ High frequency data indicate a pause as pandemic became more severe in some parts of the country
 - ▶ Unemployment remains above 10 percent
 - ▶ Pandemic will limit the ability of the economy to recover quickly
- ▶ Policy trying to offset impact of virus
 - ▶ Stimulus has been significant – but cannot fully offset a public health crisis
 - ▶ Limited or inconsistent efforts to control the virus place citizens at unnecessary risk of severe illness and possible death, but also prolong the economic downturn