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Statement #3 from the U.S. Private Sector Job Quality Index ("JQI") Team on Economic Impacts of COVID-19 Related Unemployment

Q2 Government income substitution will likely equal $1.7 trillion annualized, and over 10% of personal consumption, during the second quarter of 2020. The phase out of CARES Act income supplements over the summer poses challenges

This is the third special statement from the U.S. Private Sector Job Quality Index ("JQI") team regarding the effects of the COVID-19 pandemic and all-but-declared recession on U.S. employment and its economy. Today's statement utilizes the JQI® and JQInstant™ database to compute the degree to which U.S. economic activity in the second quarter of 2020 is being supported by extraordinary income substitution measures implemented by the federal government, as well as ordinary unemployment insurance benefits.

This statement follows our March 20, 2020 initial statement (the "March Statement") about the COVID-19 crisis in which we estimated that over 37 million U.S. Production and Non-supervisory ("P&NS") jobs were vulnerable to potential layoffs in the short term. Most of these were front-line, customer-facing jobs that offer both low hourly wages and a limited number of hours of work per week. We were unfortunately low even in making that dire prediction, as aggregate claims for unemployment benefits now exceed 40 million.

On April 17, 2020 we released our second statement, revising our initial estimates based on then-available unemployment insurance claims data and the March Bureau of Labor Statistics (BLS) Employment Situation Report – concluding that there was evidence of some penetration of job losses beyond low-wage/low-hour sectors that had borne the initial brunt of such losses.

Today, in preparation for the release of the BLS Employment Situation Report for May and following this week's release of the Department of Labor (DOL) Unemployment Insurance Weekly Claims Report for the week ending May 23, 2020, and the Bureau of

Economic Analysis (BEA) report on Personal Income and Outlays for April, we are able to use the JQI and JQInstant database to illustrate some broader macroeconomic concerns.

Q2 Government Income Substitution

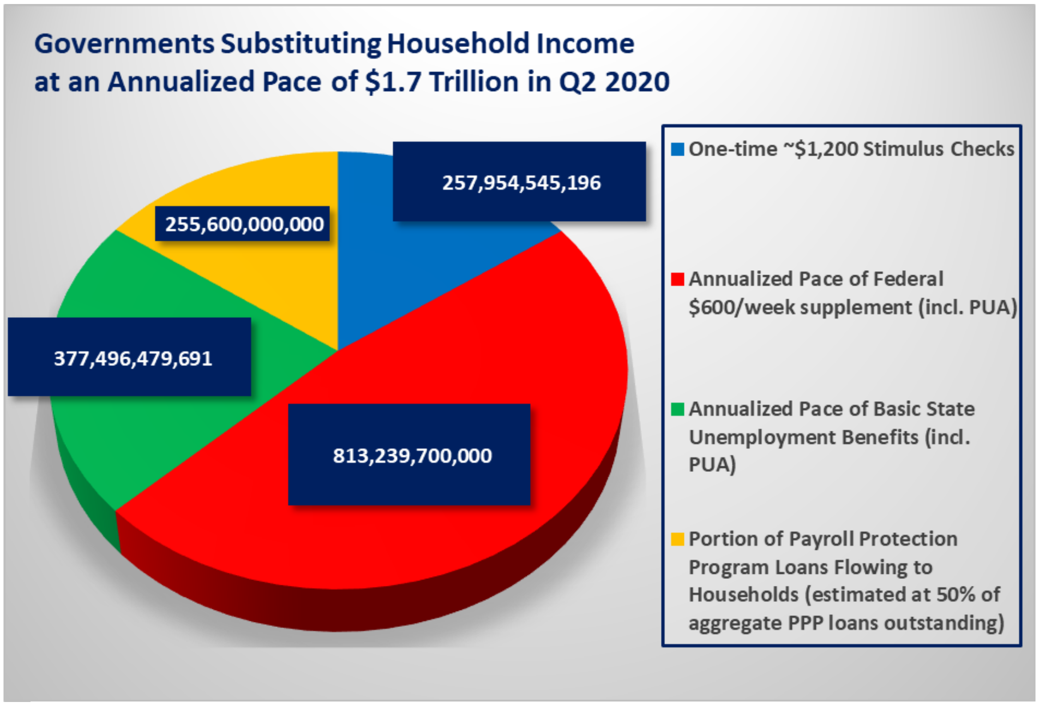

Figure 1 - Sources: BLS, DOT, IRS and JQI data

In the second quarter, U.S. household incomes will benefit from the combination of the effects of three programs mandated pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which became law on March 27, as amended, plus conventional state unemployment insurance benefits claimed by over 40 million workers, through the most recent data. We view the related elements as follows:

(i) The one-time up to $1,200 per worker (as well as some dependent) Economic Impact Benefit that was received in April and May by most American families, per the U.S. Department of the Treasury (DOT). Through May 22nd, the Internal Revenue Service reports such payments totaled $257.95 billion, and are now more or less fully disbursed.

(ii) The $600 per week federal supplement (the "Federal Supplement") to state unemployment insurance benefits.

(iii) State unemployment insurance benefits.

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(iv) Amounts received by workers via the SBA Payroll Protection Program (PPP).

To compute the dollar value to household incomes of the forgoing supplements (ii) and (iii), we utilized April BEA job loss data by sector to determine the average number of unemployed individuals likely to be drawing benefits during the second quarter, anticipating that 125% of the aggregate job losses reported by the BLS on May 8th, would equal the average number of claimants during the months of April through June. This comes to an average of 26.05 million likely claimants. Our rationale is that the downturn in continuing unemployment insurance claims in the most recent DOL report (falling to 21.1 million from 24.9 million) is evidence of PPP-financed "re-payrolling" (although not rehiring in the conventional sense), even as aggregate crisis-era claims rose in the week ended May 23rd to 40.8 million. With a continuation of PPP-generated re-payrolling and some degree of economic reopening during the month of June, we believe our 26.05 average for Q2 is reasonable.

We then spread the foregoing estimated level of claims over the various sectors in which the 20.85 million jobs were reported as lost from February through mid-April, per the BLS data, and used our JQInstant database to compute the likely level of state unemployment insurance benefits paid out – using a Weighted Average Replacement Rate (WARR) of 38.3% of preexisting worker income (the national average). This assumption may yield some undercounting of the dollar value of claims, as many laid off and furloughed workers have been located in states with somewhat higher than average WARRs. We then added the $600 week Federal Supplement for the average of 26.05 million workers that we believe will be receiving unemployment insurance benefits during the second quarter.

Finally, we took note of the $511.2 billion in net loans disbursed (after repayments) by the SBA under the PPP per the DOT, to date (which we believe is all that will be disbursed, as loan demand has stalled), and assumed that only 50% of same will be devoted to maintaining payrolls. The PPP program originally required 75% of outstanding loan amounts to be used for payroll expense in order to obtain loan forgiveness (although the House of Representatives passed a bill last week reducing that amount to 60%, should it be enacted), but we do not believe that employers will be successful in fully utilizing the required amounts, for a variety of reasons.

The foregoing assumptions – giving effect to the one-time nature of the Economic Impact Benefit and the PPP disbursements, and treating the weekly unemployment insurance benefits as being in place throughout the quarter – generates an aggregate annualized benefit of $1,704,290,724,887, as shown in Figure 1. The annualized figure is relevant for comparisons to personal income and outlay data, also reported on an annualized basis. This number excludes any derivative benefits of corporate support programs or other elements of the CARES Act that do not directly replace payroll income.

It is important to note that the one-time Economic Impact Benefit and the PPP disbursements will be not be available to households in Q3 and that the Federal Supplement to unemployment insurance will expire on July 31, 2020. Whereas we expect unemployment to remain at elevated levels of between 8 and 12 million claimants during the third quarter.

Support for the U.S. Macroeconomy

Inasmuch as most of the foregoing benefits are not – absent any extension thereof by Congress and the White House – expected to be available again (with respect to the one-time supports) or after July 31 with respect to the Federal Supplement), it is important that we consider the impact of the Q2 government support on the economy as a whole.

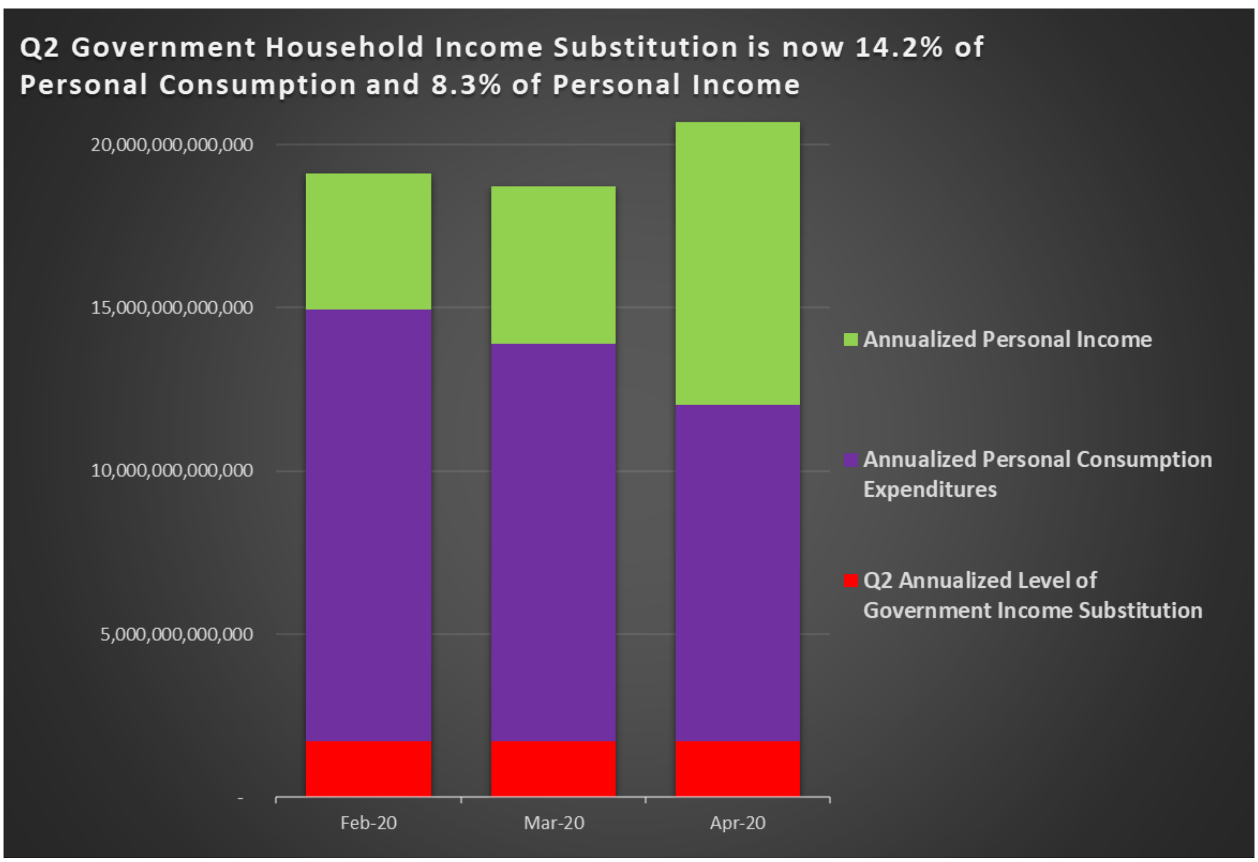

Figure 2 - Source: BEA data and JQI calculations

To measure that impact, we compare the level of Q2 government income substitution with personal consumption and personal income for the months of February (mostly pre-crisis) through April, holding the Q2 income substitution level as if it were a constant. Figure 2, above, illustrates that – on an annualized basis – the incomes substitution accounts for about 14.2% of personal consumption and 8.3% of personal income. We would discount the April personal income comparison by a substantial amount inasmuch as the majority of one-time benefits were received in that month. The government income substitution percentage of personal income for May can be expected to be materially higher.

The loss of 40 million jobs – nearly 30% of total jobs – during the pandemic lockdown is, of course, unprecedented. Exceeding both the nominal and percentage levels at the depths of the Great Depression. But the relatively swift response of the U.S. federal government in March has attenuated the economic impact to households during this quarter, even as annualized Q2 GDP is expected by many to fall between 35% and 45%.

But to recover from this crisis will require careful attention to the degree of federal support that has been necessary to sustain households and what the economic environment would look like without same.

Layoffs and furloughs have penetrated beyond the low-wage/low hour jobs on which U.S. households have become increasingly dependent, to the culling of positions in businesses paying higher incomes. We believe that many small and medium sized employers offering low-wage/low hour positions in sectors such as leisure and hospitality and retail will not emerge from the present crisis intact, and that many of those furloughed from larger firms will not be rehired due to overall economic weakness.

Accordingly, continued willingness of government to offer income substitution to households will likely prove the potential fulcrum in determining the ability of the U.S. economy to recover expeditiously from the ongoing severe slump.

The JQI Team again wishes all good health and encourages continued full cooperation with government advisories aimed at restricting the transmission of the novel coronavirus, so as to limit the duration of this crisis. This is the beginning of the end of rapid viral spread, not an end to the present crisis spreading like a virus through the economy.