

Keeping in Touch about COVID-19

BY TIM SABLİK

Economic and health conditions have been changing rapidly in the wake of the COVID-19 outbreak and shelter-in-place orders intended to limit its spread. The regional Federal Reserve Banks have been working hard to understand the economic effects of the virus in their districts.

For researchers at the Richmond Fed, this has involved gathering data to obtain a clearer picture of current conditions in the Fifth District as well as looking ahead to model how shocks from COVID-19 might reshape the economy in the near future.

Every month, regional economists at the Richmond Fed survey businesses about economic conditions and post the aggregated findings online. On Feb. 27, the regional team added three new questions to the regular survey to measure how COVID-19 had affected individual businesses and their outlook for the U.S. economy as a whole. As the virus spread throughout the United States, survey respondents' expectations for the future turned sharply negative. (See chart on p. 5.)

"The topical questions, like the ones we added on the effects of the virus, invite firms to share their individual stories, which allow us to see both the collective and the unique challenges companies are facing in our region," says Joseph Mengedoth, a Richmond Fed regional economist.

In addition to using surveys, the Richmond Fed also gains perspective from companies by talking with business leaders. This provides a more detailed understanding of how businesses' operations are being affected by COVID-19 and what the economic recovery might look like when the crisis is over.

"We've really been ramping up our outreach," says Renee Haltom, one of the Bank's three regional executives who engage with business, banking, and community leaders. "Our usual in-person meetings may not be possible now, but that's actually opened the door to reach more people since we're only commuting to the next Zoom screen or conference call. Many of our business contacts are also now reaching out to us to volunteer information and introduce us to others in their network."

Richmond Fed researchers have also been gathering data on how communities are being affected by COVID-19. This includes reaching out to low- and moderate-income communities to assess their access to food, shelter, and health care.

"Our areas of focus and outreach have shifted from longer-term initiatives to identifying and understanding the impact COVID-19 is having on underserved communities in the Fifth District," says Christy Cleare,

community affairs officer at the Richmond Fed. "We've reached out to community stakeholders and are sharing our learnings with the Fed's Board of Governors and other community leaders who are working on solutions."

Economists in the Richmond Fed's research department have been using incoming data to attempt to forecast the effects of COVID-19's spread on various parts of the economy. One focus area is how the economic disruption will affect the ability of households and businesses to repay loans on time — relevant to the stability of the financial system.

In an April working paper, Richmond Fed economists Grey Gordon and John Jones estimated how much loan delinquencies might increase under various unemployment and house price scenarios. They found that home mortgage and student loan forbearance would result in the greatest reduction in delinquencies. In another report, Richmond Fed economist Zhu Wang looked at how the disruption from the virus might affect auto loan default rates.

Richmond Fed economists have also been studying how financial markets responded to the initial disruption of the outbreak in March, how the economy might adjust as activity shifts from sectors of the economy that have shut down to others that have ramped up, and how financially distressed and vulnerable households are likely to be affected by the virus and economic disruptions. Hourly workers and businesses in the leisure and entertainment and food service industries have been particularly hurt by the effects of social distancing measures, for example.

This research helps inform Richmond Fed President Tom Barkin and other monetary policymakers in their deliberations in Federal Open Market Committee meetings.

"The well-established culture in our group of economists for working as a team has been particularly important to understanding the shock to the economy stemming from the COVID-19 outbreak," says Huberto Ennis, group vice president for macro and financial economics at the Richmond Fed. "It has allowed us to quickly move to combine our researchers' different expertise and knowledge backgrounds to obtain a more complete picture of the situation. That same approach will surely help us in the weeks to come as we start to assess the ways our economy can move forward from here." **EF**

Visit the Richmond Fed's website to stay up to date with the latest data and research on the COVID-19 outbreak.