CITY NATIONAL ROCHDALE
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AUGUST 3, 2021

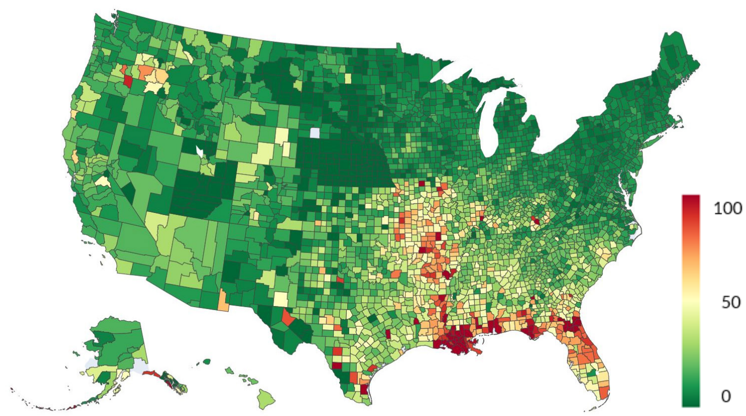
On the Radar

FAQS ON THE MARKETS AND ECONOMY

Will the resurgence of COVID-19 cases threaten the U.S. economic recovery?

At the national level the resurgence of COVID-19 cases, now mostly due to the highly contagious Delta variant, remains modest. Although new cases have quadrupled in the past three weeks, overall infection rates are still only 20% of the peak at the start of the year. But that national average hides a big regional divergence, with states in the southeast and those with lower vaccination rates seeing the biggest uptick not only in infections, but hospitalizations and fatalities.

New Cases per 100,000 Population by County
7-Day Avg. as of 8/1/2021



Source: Johns Hopkins, U.S. Census Bureau.

Importantly, current vaccines have so far proven to be highly effective at preventing severe disease from the Delta variant. According to the CDC, more than 99.99% of people fully vaccinated against COVID-19 have not had a breakthrough case resulting in hospitalization or death. Additionally, both Pfizer and Moderna have been working on new vaccines to directly address the Delta variant with testing set to begin in August. Because the Delta variant is so similar to the original strain, a positive outcome is likely in our view, as is the prospect of a smooth ramp-up in manufacturing.

In terms of economic impact, since the states seeing the largest upturn in new infections were all resistant to imposing restrictions during the last wave, we don't expect this new surge to weigh heavily on economic activity. High-frequency economic indicators have continued to show signs of a strong recovery in areas seeing increased virus spread.

Nevertheless, there is a risk that other states could be affected, including those with higher vaccination rates, which could have more serious economic consequences in the near term. Even if governments do not reimpose restrictions on activity, the upturn in infections still poses a downside risk to the economy over the coming months if it prompts people to voluntarily stay away from in-person services.

Longer term, the development of vaccines has allowed us to turn the corner in the battle against this virus, and we continue to have confidence in our outlook for a multi-year expansion. Still, the threat from COVID-19 is likely to remain with us for some time. With new mutations discovered every few weeks, it's very possible the virus will continue circulating around the world for at least the next two to three years, requiring the development of new vaccines and for states to reinstitute public health measures on an

KEY QUESTIONS

How strong was the Q2 GDP report?

Is the recession over?

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Q2 GDP came in at 6.5%. It would have been higher if supply could have kept up with demand.

The consumer drove most of the growth. There was a torrid pace of spending in Q2; it was up 11.8%, with services climbing 12.0%. Households are full of cash, about $2.5 trillion more than pre-pandemic levels, and they spent some of it. Also, labor income is increasing, and then there is the pure excitement of going back out in public.

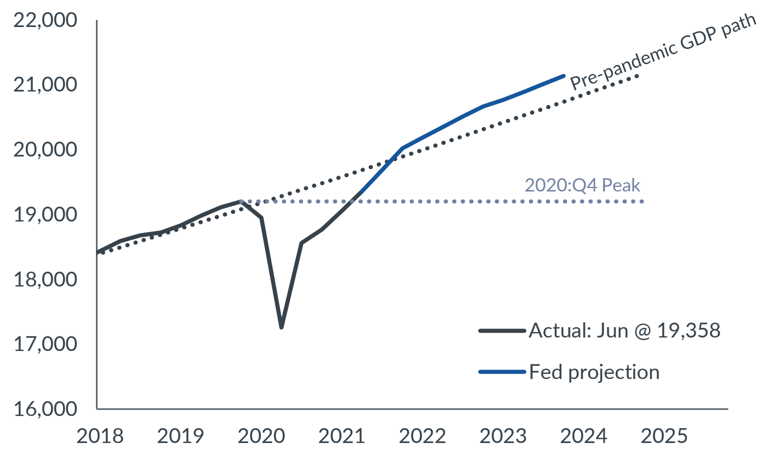
Economic output has surpassed the previous peak, so the economy has moved from being in the recovery phase to the expansion phase (chart).

Declines in growth came from inventories plummeting $166 billion after falling $88 billion in Q1. Of that $166 billion decline, $100 billion came from the motor vehicle sector, which the shortage in microchips has plagued.

Other areas of weakness were the housing sector, which hit a pothole. It wasn't a surprise; we have seen declines in the monthly data. It too is suffering from skyrocketing prices and from lack of supply of buildable land, appliances and qualified labor. Also, trade — the strong demand for goods caused the deficit to widen.

GDP

$, billions, 2012 dollars, SAAR



Source: Bureau of Economic Analysis as of June 2021.

Is the recession over?

Yes, the recession officially ended in April of last year. The recession lasted just two months, the shortest on record (chart), but the decline in GDP was the most severe, falling 10.6%. The pandemic recession ended the longest expansion in history (128 months).

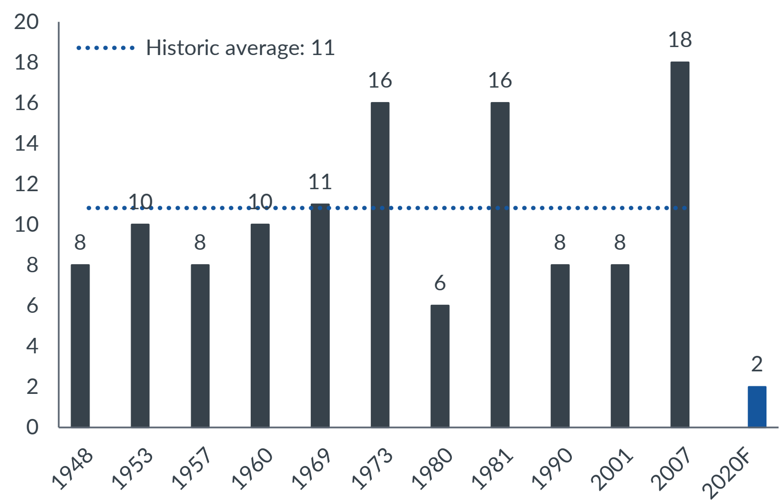
The National Bureau of Economic Research (NBER), a research organization based in Cambridge, Massachusetts, is the arbiter of providing the start and end dates for recessions. They define a recession as a significant decline in economic activity, spread across the economy, that lasts for more than a few months.

Although this recession lasted just a few weeks, the unusual nature of the pandemic-induced collapse challenged the traditional concept of a recession. As a result, the NBER noted that the unprecedented magnitude of decline warranted it being called a recession.

The recession being over does not mean the economy is fully healed. For example, there are almost 7 million fewer jobs than before the recession started. The recession being over implies the economy is on a sustainable upward trend.

Length of Recession (months)

for each of the post-WWII recessions



Source: National Bureau of Economic Research as of July 2021.

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