Brother, can you spare a Bitcoin? - by Laurie Mentz Nichols

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Laurie Mentz Nichols
Enterprise Appraisals, LLC

As the U.S. navigates the COVID-19 storm, people are concerned as to whether they can keep financially afloat. The closure of nonessential businesses, rising unemployment claims, and the uncertainty of a steady household income contributed towards lowered consumer confidence and economic activity in the first quarter. Economic indicators and corporate earnings reports are yet to be published, but preliminary figures point toward a coronavirus-fueled recession.

The impacts of the coronavirus ended the longest economic expansion in U.S. history, and while housing started strong at the beginning of the year, the numbers for the end of the first quarter reflect a decline. Monetary and fiscal policy changes stimulated the refinance market, but buyers and sellers are exhibiting caution. The number of listings has declined due to the new social distancing measures taken and sellers' concern that the economic repercussion of the pandemic will drive down the sales price of their homes.

In the early stages of the outbreak, analysts compared the economic impact from the coronavirus to the Great Recession of the late 2000s, but the disruption of economic activity is greater than originally predicted. Whereas the Great Recession saw the government bailout of the finance and automotive industries, the pandemic has impacted all industries which will likely seek government support, likening the current financial crisis to the Great Depression of the 1930s.

The reduction in travel and manufacturing and the conflict between Saudi Arabia and Russia over oil production levels and pricing is another contributing factor to the downturned economy. The subsequent price war and reduced demand of oil drove the price down. The last time the market saw a negative demand shock coinciding with a supply shock was in 1930, caused by the Smoot-Hawley Tariff Act which raised U.S. tariffs on imported goods, and precipitated the Great Depression.

All industries and sectors were affected by consumers self-quarantining at home, social distancing practices, and government mandated business and school shutdowns. According to the Department of Labor there have been over 30 million unemployment insurance claims, with the service industries making up the majority of job losses.

With the uncertainty of the duration of the coronavirus, consumers are exhibiting extreme caution and curbed discretionary spending. Financial struggles have made it increasingly difficult for people to pay rents and mortgages, or purchase homes. Mortgage forbearance, as well as loan modifications, are being offered on government-backed mortgages for up to 12 months for those affected by the coronavirus. Many lenders are also offering similar assistance to those who do not have a Fannie Mae or Freddie Mac loan.

In order to address the unprecedented economic conditions due to the pandemic, a strong monetary and fiscal policy response was needed. At the end of March, the government made a monetary and fiscal policy response intended to provide households and businesses some relief, and to provide a path for economic activity and recovery in the second half of the year.

The Federal Reserve cut the federal funds rate to a range of 0.00-0.25 percent, which is expected to remain on hold throughout 2021, or until the economy can make a full recovery. In addition to cutting interest rates, the Fed began quantitative easing, buying around $1.2 trillion in securities and announced that it would provide up to $2.3 trillion in loans to assist households, employers, and state and local governments. A fiscal policy response came in the form of a $2 trillion stimulus bill and the CARES Act.

There is optimism due to the aggressive fiscal and monetary stimulus and refinance boom, but it is unlikely that there will be the expected surge of borrowing. There is no way to accurately project figures for the level of forbearance requests, bankruptcies, and layoffs as well as calculate variables such as the unknown duration of the coronavirus and social distancing measures, and job loss. And while social distancing and shutdowns may abate in the second quarter, consumers and businesses alike are holding off on purchases and are preparing for a drop in economic activity, which would make government policy ineffective.

Recovery from the pandemic and the economic fallout will take time. The biggest variable affecting economic recovery is the containment of the coronavirus. The world is closely watching China for some sense of a recovery timeline as the country's regular activity has just resumed after weeks of quarantine. Economists project that if unimpeded, China's economy should rebound by 2021, and the rest of the world economies would soon follow suit. We are in uncharted territory and there is no easy answer as to how long it will take the economy to recover from the effects of the pandemic. As consumers we can be optimistic and look forward to putting our money towards discretionary spending and stimulating the economy, or we can posit doom and gloom, hide cash in our mattresses, and hoard toilet paper; the choice is yours.

Laurie Mentz Nichols, SRA, AI-RRS, is the president of the CT Chapter of the Appraisal Institute, and owner of Enterprise Appraisals, LLC, West Haven, Conn.