

JAKE SIEWERT

This is Exchanges at Goldman Sachs, where we discuss developments currently shaping markets, industries and the global economy. I'm Jake Siewert, Global Head of Corporate Communications here at the firm.

The topic of today's episode is Goldman Sachs' update on US growth and earnings forecasts, and expected stimulus programs.

To give you the most depth on this subject that we can, we're going to share a call that was held for clients earlier today, with our top economists and strategists.

The call features Jan Hatzius, Goldman Sachs' chief economist, Alec Williams, chief political

economist, David Mericle, chief U.S. economist, David Kostin, chief US equity strategist, and is hosted by Allison Nathan, a senior strategist in our research division.

Now over to that conversation – hope you find it informative.

ALLISON NATHAN

Yes. Good morning, afternoon and evening to everyone. Thanks for joining us on this update call. We are going to provide an update on the U.S. fiscal stimulus program and on our growth and earnings forecast, both of which we've made large revisions to.

On the call today with me we have Alec Phillips, our chief political economist, Jan Hatzius, our chief economist, David Mericle, our chief U.S. economist, and David Kostin, our chief U.S. equity

strategist.

So with that let's dive in. Alec, let's start with you.

Obviously Congress has been hard at work, but nothing is quite done at this point. What is the latest on the U.S. fiscal package in terms of size and composition?

ALEC PHILLIPS

Sure. So in terms of the details, at least as they stand right now, the overall size looks like it's in the range of seven percent of GDP or so, so it's looking like 1.4, 1.5 trillion in terms of the sort of the headline number of what the Senate looks like it'll consider potentially today. With that said, it's important to keep in mind two things regarding that size.

So number one, some of the fiscal resources that would be devoted to the COVID response would come in the form of financial guarantees and things

like that as opposed to sort of traditional demand-side stimulus. So it's a little bit apples-to-orange, comparing some of these provisions to other provisions. They're obviously all important but somewhat different, and then second, not all of the spending would necessarily or all of the sort of fiscal reaction would come necessarily in 2020. Sometimes these things do bleed over into the following year or the following couple of years. So while the numbers are clearly big and getting bigger, take them with a slight grain of salt just because an incentive to talk about these numbers that are maybe a little bit larger than they'll turn out to be.

As far as the composition, it is similar to what we and others were looking at late last week, but some things have been added. So the things that are similar, first a small business facility. This is arguably one of the most important pieces of the

legislation. Basically what it would do is provide loans to small businesses which are defined as businesses with less than 500 employees, and there's one exception to that which is in the hospitality sector, so hotels, restaurants, et cetera. If it is a location that has 500 employees or less. Those loans would go through the banking system, be guaranteed by the Small Business Administration, hundred percent federal guarantee, and they would be given in the size proportional. Specifically two and a half months of payroll expenses, wages plus benefits would be the maximum loan size under this program. Once the businesses have these loans, they would be eligible for loan forgiveness, so they wouldn't have to pay back the loan proceeds if they have spent the entire amount on payroll, mortgage, interest, rent or utilities.

So if they spend on other things, they have to pay it

back. If they spend it on that, they do not have to pay back the portion that was spent on those things. Otherwise, the rate would be around seven percent. So that whole program is worth around \$300 billion. It's similar to what was being discussed last week, but it's changed a little bit. The thing that's new related to business lending, the airlines, air cargo and aerospace specifically would be getting \$75 billion across the three of them, so it's 50 for airlines, eight for air cargo, 17 for aerospace in loans and loan guarantees through the Treasury, potentially with Fed involvement, and in return for that, they would have to follow a number of rules around employee retention and so on.

In addition – and this is the particularly new part – there's another 425 billion that will be given to the Economic Stabilization Fund. The ESF would then capitalize, provide capital for a number of facilities,

two in particular, one for primary lending to and then another for secondary market purchases.

These would be similar to what the Fed announced this morning, but the size potentially would be much more substantial. So the Fed announced that they were giving ten billion a piece for those facilities in capital to backstop those facilities.

So another 425 billion for those two facilities. That would presumably be levered up by the Fed. So there would be let's just call it substantial capacity into the trillions. It's unclear exactly how much it would be but obviously pretty substantial.

That is still somewhat controversial not so much around the concept but around the details, and so specifically the problems that some congressional Democrats have is around the open-ended nature

of the Treasury's authority. So they can essentially do more or less whatever they want with this money because the Exchange Stabilization Fund where this money would be going has essentially been around for almost 100 years. It's something that the Treasury has broad authority over. They always have, and so there's some concern about trying to limit what the Treasury can do with this money, and then beyond that there's also a number of questions around what constraints would be put on the companies receiving funding, specifically the airlines and the ones receiving the more direct assistance around employee retention, executive compensation, buybacks and so on.

So I would say overall it seems fairly likely to us that this kind of facility will be included. What's less clear is what constraints will be put on the companies that are actually borrowing. One other

thing to note on that facility. When the Fed made their announcement this morning, they announced that they would be providing these credit facilities for primary corporate credit and then also secondary market corporate credit, but there was no announcement regarding municipal debt.

In addition to the corporate credit facilities that the legislation and the Senate would create, the Senate legislation would also allow for purchases of state and local obligations as well, and so that is one big difference that the legislation would make in addition to just the much more substantial amount of resources.

Beyond that, the other two things I'll just mention, one is tax relief for individuals. So this would come, I think as most people are aware, through a tax rebate, \$1,200 per adult with an income limitation of 75,000 for individuals, 150 for couples,

and then the other piece is unemployment compensation, and so there the bill would essentially add to the amount that every unemployed worker gets every week. So instead of getting half their wages roughly, which is the standard benefit, they would be getting half their wages plus another \$600 per week. That's probably just on its own going to cost in the tens of billions if not more than that. So that is also a pretty substantial benefit to individuals, and then finally the other questions are around where there are omissions in the Senate bill that some Democrats would like to see.

So the main omissions at this point, one is aid to state and local governments. The original phase two bill that has already passed and become law had about we would estimate \$50 billion or so of aid to states through the Medicaid program. This bill doesn't have anything in addition to that.

Democrats are likely to push for some additional fiscal aid to states, and my guess is that they will end up getting it, and then the other question is around spending on the healthcare sector itself.

The bill does have additional resources to the healthcare sector essentially for hospitals dealing with all of this. It looks likely that there will be additional federal spending for the healthcare sector and probably other federal spending on top of what's already in this bill. So if you take those things, add it to what seems to already be there, you're getting to numbers that are more like 1.5, 1.6 trillion at least. So maybe I'll stop there in terms of the details.

ALLISON NATHAN

Okay, great. Thank you so much, Alec. We're going to move to David Mericle. We need some pretty large downward revisions in our U.S. growth forecast. David, can you talk us through that

forecast revision and what's behind it?

DAVID MERICLE

Yeah. Thanks, Allison. So last Friday we marked on our U.S. growth forecast to a quarterly annualized pace of negative six in Q1, a negative 24 in Q2, plus 12 in Q3 and plus ten in Q4. That would leave full-year growth for 2020 at negative 3.8 percent on an annual average basis. This would be a truly historic decline. That Q2 number is two and a half times the worst number we have seen in a quarter in the modern history of the U.S. national accounts.

We get to these numbers by estimating the likely hit through three channels, first a reduction in the type of services consumption that require face-to-face interaction. You'll see our numbers on slide three of the handout for the call. Second, a reduction in building activity and then, third, a reduction in manufacturing due to reduced demand

for goods, supply chain disruptions and plant closures due to worker fears of the virus which we've already seen take place at the automakers. We've calibrated these effects using very timely high-frequency indicators which we've been sending out every Monday and Wednesday as well as a completion of anecdotal data from press reports.

We estimate that these effects sum to an early ten percent reduction in the level of GDP by April. We assume a gradual normalization from there with the virus drag fading by about ten percent each month as you'll see on slide four. That view reflects a combination of people learning to adjust and possible medical advances without taking a strong view on exactly when a breakthrough might occur.

These assumptions imply a negative 24 percent annualized growth pace in Q2, and because that

number is so huge, even the slow normalization we pencil in implies big quarter-on-quarter growth rates in the back half of the year which are shown on slide five. These downgrades to our growth forecast imply a major deterioration in the labor market. This appears to be happening very, very quickly. Last week we aggregated dozens of news stories from state-level jobless claims reports, and they reveal a huge and historic surge in layoffs over the last week while we think somewhere around two and a quarter million jobless claims were probably filed which would be about triple the biggest week in U.S. history. Those numbers will come out Thursday. That will probably be the key U.S. datapoint for the week. In terms of the unemployment rate path, we expect it to eventually peak about five and a half percentage points higher at around nine percent. That is somewhat more than the usual empirical relationship between GDP and unemployment

would imply, but we think that makes sense in these exceptional circumstances because the GDP hit is likely to occur disproportionately in labor-intensive industries that employ many low-wage workers and because businesses like restaurants and retail stores are facing an extremely abrupt disruption of cash flow that will force them to lay people off. That's all for me.

ALLISON NATHAN

Okay, great. Let's leave it at that for David. Apologies. We're having some technical difficulties with Jan joining the call right. We're going to go straight to David Kostin who's also made a very large downward revision to earnings forecasts for this year. David, can you please walk us through that, the third, what was the third cut is the hardest or something like? Most painful? It would be great to hear what's driving your view.

DAVID KOSTIN

Well, the music aficionado will say usually the first

cut is the deepest, but the report we wrote on Friday following on with David Mericle's comment about the big GDP revisions, we've also lowered our S&P 500 earnings for the third time in a month. We're now looking for 33 percent decline for earnings in 2020 compared with 2019. It's a very significant decline, and it relates to the swiftness with which the economy has been deteriorating is why we've had these three different cuts.

I had a couple of exhibits that I thought would be helpful to show in the context of this. The first is page number I guess it's seven, slide seven, which is the volatility in the market as the U.S. equity market realized one-month volatility going back for 30 years, and you can see the concept that we are at extraordinary peak going back to 30 years of only seeing this previously in the financial crisis at the end of 2008. So the idea of daily moves that have been typically averaging six

percent for the month of March is just ... is just extreme, and it is I think illustrative of the fact that the information flow is still disjointed as to what's ... what's actually happening as more and more states have shelter-in-place and various other municipal and civil limitations on people working ... moving around.

And so on the following slide, it actually shows the path of the U.S. stock market as we envision it this year which is we're already down 32 percent in a month. The idea of the market troughing sometime in the latter part of the second quarter. So I'll get to some reasons why that is the case in a minute, but ultimately the economy does rebound in terms of economic activity, part of which, a large part of which relates to the stimulus that Alec just spoke about which is almost seven percent of the U.S. economy coming through, and so that is a big ... one big reason for that, but the idea on the

following slide shows the path of overall EPS or earnings per share growth for the S&P 500, and it's one of the reasons why the market is likely to go lower, and that is to say that the companies will not be reporting their results for another month.

So most of the companies will report between ... concentrated between April the 20th and roughly May the 2nd, so that narrow period of time when most companies report results. Of course some companies will be reporting sooner than that, but the dominant part, almost two thirds of the market cap is reporting in that period of time, and there's an absence of real information. They're going to be reporting their first quarter results, but ultimately it's the second quarter that is I think the worst, the nadir of the economic environment, as you heard from David, and also from an earnings perspective, but ultimately we do get back later this year in terms of the growth by the fourth quarter.

So the reasons for the U.S. stock market to be going lower before it goes higher in part relates to this exhibit where the consensus expectations still have to come down for investors to be of some confidence as to what the earnings that they're paying for are likely to be. That's the first issue. The second issue is on the very last slide – I included a fourth one – was the idea of positioning of U.S. portfolio managers. If you look at the mutual funds and the hedge funds and the international investors and the retail investors and the pension funds, all these different ownership categories in the U.S. equity market, we can see from the positioning relative to how they're ... the ranges that they typically have exposed, they were at the peak level, almost two standard deviations above average, at the end of February, and as of last Friday evening, they were around one and a half standard deviations, having reduced their

holdings, so reducing their positions. But importantly as we see in the troughs over the past decade, other points in time when the market has hit a bottom, the sentiment has been particularly negative to the tune of two and a half to three standard deviations.

So our conclusion of this is that there's still more selling pressure likely to happen. We see that in the prime brokerage data of colleagues in the areas at Goldman Sachs where they have come down but not necessarily as much the de-grossing has taken place. So we have the economic activity we're expecting to get better. We're expecting there's still more selling pressure to take place and ultimately will depend on a cresting of the number of new cases that are being diagnosed or recognized in the testing.

So those are sort of three metrics that we would

look for. In the absence of that, the market is likely to move downwards towards a level of about 2,000. The market currently around 2,300 or 2,275 today is likely to move towards the 2,000 level but ultimately rising back as investors begin to focus on the 2021 profit outlook, and so for last year with \$165, this year about \$110, so down almost 33 percent but rallying back very significantly for next year at about \$170 which is up almost 55 percent, and that is consistent with some of the experiences in a bear market, an event-driven bear market which we're currently having, clearly driven by the virus. You absolutely get very sharp declines and then pretty swift rebound. So Allison, I'll stop there, and we can go for questions or ...

ALLISON NATHAN

Yes. that would be great. Let's go right to webcast questions at this point. David Mericle, many questions about the risks to our views and in particular how we think the second half of the year

will unfold. Can you give a little color on what we're assuming right now and what the risks are around that forecast?

DAVID MERICLE

Sure. I would say in terms of when we kind of go back to normal and what that implies about the risk to our growth forecast, for now we've tried to take a relatively agnostic view on that by assuming that the virus drag fades gradually over time, that ten percent of it drops off each month. I don't think of that as necessarily implying some big breakthrough in treatment or some major change in the virus itself. I think of that in part as adaptation and in part as kind of various gradual improvements on the medical side.

Obviously there's a lot of risk that ... potential to the up side if you did have some treatment breakthrough earlier that eventually when the bounce back comes, it will look a lot more sudden

and sharper than what we have in there just given the massive magnitude of the pullback and the fact that if people are suddenly willing to go outside, go to restaurants, go to stores and so on, a lot of businesses would reopen much more quickly than is typical in a recession.

In terms of the downside risks, one thing that worries me is that we're now seeing workers being afraid to go to work at places like ... like auto plants. If that becomes more broad-based in the U.S., I think that would imply some downside risk, and it's certainly something we could see. At the automakers, for example, workers have basically taken the view that hundreds of them touch the same parts on an assembly line. This is a dangerous environment to be in. We have made some allowance for that in our ... in our forecast but not for sort of a true broad-based shutting down of say construction and ... and manufacturing

because everyone is fearful of contracting the virus.

ALLISON NATHAN

Just a follow-on question to that, David, is obviously we have these pretty extreme jumps in unemployment now forecasted. Can you compare this? I mean how quickly could those come down? Maybe this is also a question for Alec in a way given the type of fiscal programs that are being put in place to temporary support people who are being furloughed and laid off for a short period of time. Can those numbers come back down quickly? Normally they don't. I mean so there's a lot of questions about how this could evolve from a labor market perspective and do to the economy.

DAVID MERICLE

Sure. I think there are two questions here. One is how policy will affect the labor market numbers, and the other is, once we do start to recover, how

quickly does that come back? On the policy side, we don't know what's going to be in the ... in the final bill yet, but I think there are two relevant provisions.

On the one hand we already have in place some ramping up of the generosity of unemployment insurance. States are allowing more people to qualify for that. So if you're say a restaurant owner who wants to be able to rehire his workers when all of this is over and doesn't want to antagonize them too much, that higher replacement rate, that more generous unemployment insurance might make it a little bit easier for you to lay your workers off and essentially put them onto the ... put those costs onto the government's budget.

On the other hand it sounds like the bill will include some small business lending which will require businesses not to lay off workers. So I think there

are ... there are pressures in both directions. The first would encourage a higher unemployment rate, the second a lower. It's hard to see at this point which one of those will be more effective, but I think policy will eventually play some role in just how much the unemployment rate rises. In terms of whether or not we would see a bounce back that is quicker than we've seen typically, I think the answer is probably yes.

So historically we've never seen the unemployment rate come down following a recession by more than eight tenths of a percentage point in a quarter, and that was in the early '80s when the recession was induced by a switch to very high interest rates and then suddenly a switch to very low. In more normal recessions, it takes even longer than that. What I think is different this time around is once people are suddenly willing to go outside, go to restaurants and so on, you probably should see a

wave of hiring of, for example, waiters at businesses that had previously been shut down. So in terms of the rebound phase when it comes, I think we can be more optimistic than history would imply in terms of labor market recovery.

ALLISON NATHAN

One more question for you, David, which relates to, you know, just to clarify that our forecasts do embed the magnitude of fiscal stimulus that's being currently discussed as Alec said in a 1.4 to 1.5 with lots of caveats, but that they do include that as well as these Fed actions and if there's anything incremental we would expect the Fed to do or think the Fed should be doing in this environment.

DAVID MERICLE

Sure. So Alec talked about what the Fed had unveiled this morning. Our basic thought is that those actions are very helpful in terms of keeping the ... the corporate debt market functional. We would expect the final bill to make more funds

available for these facilities so that the Fed is able to ... to operate at the size that it sees is necessary.

In terms of your question about the fiscal stimulus, yes, that is included in our growth forecasts. In fact, if you look on the slides – I think it's on slide five – you can see how we build up to our overall growth forecast with a combination of accounting for those three different forms of virus hit to the economy that I mentioned earlier on the down side but then also the fiscal stimulus on the up side.

ALLISON NATHAN

So Jan has been able to join and so, Jan, let me turn to you briefly because there are a number of questions about the global growth forecast. So why don't we hit it all together? Can we put the U.S. downward revision in the context of global? And just give us a quick snapshot of what we're seeing globally at this point, and we will get through a client questions in that way.

JAN HATZIUS

Well, we're seeing I think a lot of similar things in a number of economies with very large and very sudden stops to activity in a lot of the places outside of Asia. Asia is a bit of a special case of course. China already had what we think is a 42 percent quarter-on-quarter annualized decline in GDP in the first quarter, but if you look at Europe and the U.S. and places like Canada and Australia, those big hits are really going to come in the ... in the second quarter, and central banks and governments are extremely active in trying to combat especially the second-order effects of that big hit to activity. I mean the first-order hit is somewhat unavoidable, and it's not really something that central banks or fiscal policy can address. But we're seeing that pretty much everywhere.

In terms of where we are now for global growth for

2020 as a whole, our forecast at the moment, top-down forecast is minus one percent which would be a bit weaker than in the global financial crisis or the year following the global financial crisis when the GDP impact was most visible. So it's a pretty deep global recession but really very, very frontloaded in the first half of the year, especially in the second quarter for most countries outside of Asia and outside of China in particular.

ALLISON NATHAN

Okay, great. Let's turn to David Kostin if you're still on. There are questions about that 3,200 yearend target, some pushback in terms of how we can know that, given that we don't know the trajectory of the disease and the economy obviously. How are you thinking about risks around this view?

DAVID KOSTIN

Okay, so just to clarify, it is 3,000 as a level for the S&P 500 at the end of 2020, and in part at that time, the equity market we expect will be focused

on the earnings prospects and the economic activity in 2021. As you heard from David Mericle a minute ago and also from Jan, the view from Goldman Sachs Research is that we have the economy as a result of some fiscal stimulus, a significant amount of fiscal stimulus of course pushing through the economy. That does increase activity for next year, and that is really the underlying force behind the U.S. equity market recovering, point number one.

Point number two is the relative valuation of the equity market compared with fixed income alternatives still means that the risk premia for equities is extremely wide. Bond yields have been extremely volatile recently, but somewhere between 50 basis points and one percent depending on the day means that the earnings yield for the market is extremely wide. I'm expecting that it continues to widen between now

and probably the middle of the year, but ultimately it will decline somewhat as the visibility and expectations of growth in 2021 improve. So that's the thought process, that we have better economic growth. Risk premia comes down, and the valuation of equities looks particularly attractive versus the underlying earnings growth prospects.

ALLISON NATHAN

David, while we're with you, another question on, does the ... how will the election factor in at this point? Is it even worth talking about, or do you expect to see the stock market still sensitive to that?

DAVID KOSTIN

I didn't even realize there was an election happening. It's really remarkable how ... it's just a joke of course. Just remarkable how fast things change inside of a month. A month ago everyone was focusing on the idea of Bernie Sanders was going to be sweeping into the Democratic

nomination. Of course that changed dramatically, and now Joe Biden looks to be the presumptive winner of the nomination.

The race is likely to tighten. For the near term, the driver of the equity market is likely to be entirely focused on the virus and whether the number of cases that are reported are likely to eventually decelerate and turn down. That's a key inflection point that we expect. So I know Alec – hopefully he's still on the line and as our political economist can probably address that – had been focusing as a strategist a lot on the prospects of a tax reform if you had a potential for a unified government. Not clear what policy will be post the election. It'll really depend on the path of the economy. Alec perhaps has more to offer on this point.

ALEC PHILLIPS

Yeah. I mean just in terms of ...

ALLISON NATHAN

Maybe Alec, you can give two quick, you know, points on that or two quick minutes.

ALEC PHILLIPS

Yeah. I mean just in terms of the risks around the election, I would agree. Particularly for the equity market, it does seem like the main issue would be tax policy and tax reform. I won't get into the specifics except to say under an all-Democratic scenario, you probably would see tax legislation that would increase the corporate tax rate somewhat.

Under an all-Republican scenario, the discussion had been that we could actually see some additional tax cutting potentially for middle incomes. Unclear frankly what the prospect is for that now in that scenario simply because the federal government will have run such a large deficit this year. It's a little bit harder to see how

you actually would see any further fiscal easing in 2021 in that scenario.

And then of course there's the scenario where you have divided government, and in that scenario I think probably not very much happens with the caveat that so much even of the post-election policy response now really depends on what happens with the economy over the course of the next several months and how Congress and the administration, whichever administration, feel that they need to deal with continuing the response to this in 2021. So ultimately it feels like that's going to be as much of a factor even post-election as the election outcome will be.

ALLISON NATHAN

Okay, great. Maybe a question two-parter or two answers from ... one from Jan and one from David Kostin. Basically there's just tons of questions about if this goes on for ... if we see massive

mitigation measures continuing for six months or until we get a vaccine. What are we looking at from an economic perspective and from an equity market perspective? So really what is the worst case scenario playing out here? What would that look like? Maybe turn to you, Jan, first on that.

JAN HATZIUS

It would basically mean that there is no rebound, and you keep significant parts of the economy shut down in many places since I would assume that this would apply in large parts of the global economy and you would ... I don't know if you would get additional negative. Probably you'd get some additional negative because if this lasts for a long time, then the ability of the policymakers to kind of prevent or reduce second-round effects becomes weaker because resources get ... get scarcer, and so you'd have to worry about significant negative multiplier effect on top of the shutdown. So it wouldn't just be the shutdown

sectors that would be still shut down but also other sectors where you then have kind of a dose of more Keynesian demand destruction on ... on top of it.

So yeah, it would be ... it would be quite a negative scenario obviously, though not necessarily. It wouldn't necessarily manifest itself in rates of contraction that are quite as high as what we're likely to see in the very short term. It's really more that you get a big contraction up front, and then you maybe get some additional modest contraction on top of that, and that would ... that might not look quite as bad if you just focus on the ... on the sequential, but it'd actually be a really very severe outcomes, very, very negative outcome.

ALLISON NATHAN

David Kostin, how would you be viewing markets at that point?

DAVID KOSTIN

Well, I think there's a couple ways to think about that. First, I'm not an epidemiologist, but the idea of a risk would be potentially like the Spanish flu, a second round. You could have a situation where there's a hiatus in the middle of the year, and perhaps things are looking better there, and then you could have a re ... a second round if you will in the fall which would be ... that would be not in our forecast and not an assumption we're making, but that would be a big negative, and so the equity market would not have the rebound that we're anticipating would be one.

Again qualifying my response of not being an epidemiologist, there is the idea of a herd immunity. At some point, everybody will have gotten this ... this ... not will have but might have gotten the disease and, therefore, it's ... people can go back to their ... I want to say renormalize their behavior, and whether testing is more dramatic

and, therefore, can isolate it. So those are some of the variables that I'm not really an expert to comment on.

But from an equity perspective as we think about what ... what the earnings prospects are, we are expecting earnings to decline this year by 33 percent relative to a year ago and then re- ... rebound dramatically to by almost 55 percent to \$170. So from \$165 last year, \$110 this year and then \$170 for next year. So clearly if a ... if the virus is a drag on growth in the country for the coming year into 2012, we have far less earnings and ... and therefore the market value, market levels would be ... would be much less. Again the assumption we're making is that there is some improvement.

JAN HATZIUS

Just to emphasize that I think it would be an extremely negative outcome and, while we're not

epidemiologists, it does seem that that is quite an extreme scenario to have the same kinds of shutdowns lasting for such a long period of time. So that certainly wouldn't be our baseline despite the fact that we recognize there are some ... some clear downside risks to the idea that over the next few months we'll get our ... our arms around this. We do recognize this, but this is a somewhat extreme alternative in my view.

ALLISON NATHAN

The question now for David Mericle, what all this means for the path of U.S. inflation.

DAVID MERICLE

Thanks, Allison. It's a tricky one because it's hard enough to size the size of the hit to supply and the size of the hit to demand, but ultimately the impact on inflation should depend a bit on the ratio of those two things. I think in the near term we're very likely to see price declines on things like hotel stays and airlines which we're already seeing.

We've compiled a tracker of high-frequency price data which we include in our update of high-frequency economic indicators every Monday and Wednesday, and I think by the time you get the March inflation data, you'll probably see some early signs of that.

Down the road, our best guess is that this proves to be disinflationary. We base that assumption on what we've observed in other countries that have had similar larger shutdowns but before the U.S. has had them. But it's very hard to know, and I think it comes back in part to that issue I raised earlier of to what extent, for example, workers are not willing to go to manufacturing jobs or other jobs that require them to be around other people in a way that might lead to shortages of goods as well, as well as the hit, the obvious hit to demand. So probably disinflationary but more complicated than your usual demand-driven recession.

JAN HATZIUS

I'd just add one other thing to that which is that, you know, this ... this to some degree is going to illustrate our difficulty in really measuring inflation. If a particular service no longer exists, you can't ... all the sit-down restaurant meals are shut down, then that's not going to show up in the inflation numbers, but in some sense that's almost like a price of infinity for ... for restaurant meals. Even if you really wanted to pay whatever it takes to have a sit-down restaurant meal, you wouldn't be able to do it, but of course that's the sort of thing that you can't incorporate in official inflation numbers.

JAKE SIEWERT

That concludes this episode of Exchanges at Goldman Sachs. Thanks for listening -- and if you enjoyed the show, we hope you subscribe on Apple podcasts and leave a rating and comment.

And tune in for our weekly markets update Friday morning, where leaders around the firm provide their quick take on markets and what's driving the volatility.

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