

# FINANCIAL Insights

## August



### *The Depth of the Recession*

The current recession officially started in the first quarter, with a 5% decline before the country was slammed by the COVID-19 pandemic. But the pandemic has definitely made itself felt in the economy. Most of us, by now, saw that the U.S. economy's second quarter lost (according to the headlines) 32.9% of economic activity—the worst single-quarter drop since World War II. By way of perspective, the previous record was a 10% drop in 1958, and the worst of the Great Recession saw an 8.4% annualized GDP drop in the fourth quarter of 2008.

What was NOT widely reported is that this is an annualized figure, meaning that the economy would actually lose roughly 33% of its total only if all four quarters declined at that same rate. The actual economic shrinkage was 9.5%; that is, the overall economy in the second quarter was 9.5% smaller than during the previous quarter.

And you probably didn't see it reported that economic activity actually began to rebound in May and June, after a disastrous March and April. Factory production and construction appear to be rebounding, although travel and leisure, including airline travel and visits to amusement parks, continue to struggle. The unemployment rate has also fallen, from nearly 15% in April to 11.1% currently. However, it should be noted that today's unemployment rate is higher than it was at any time during the Great Recession. The last week in July marked the 19th consecutive week in which initial jobless claims totaled at least 1 million.

This is not an attempt to sugar coat the current recessionary environment; the chart speaks for itself. We have experienced slow economic growth in the years since the Great Recession, and now growth has turned decisively negative as the country deals with shutdowns,

social distancing and increased hospitalizations. States like Florida, Texas, California and Arizona may have to reimpose lockdown orders to stem the out-of-control pandemics, and some other states that have largely escaped the worst impact could suddenly become coronavirus victims.

But we should not ignore the positive data in the midst of the downturn. Congress is debating another bailout package for families at risk, and the Bureau of Economic Analysis reported that disposable personal income and the savings rate both jumped in the second quarter. In fact, the personal savings rate has risen from 9.5% in the first quarter (already an unusually high number for Americans) to 25.7% in the second quarter. This suggests that the CARES Act relief worked as intended.

Other figures have nowhere to go but up. Consumer spending contracted at almost exactly the same rate as the economy (down 34.6% annualized) over the second quarter, and investment in new housing dropped 38.7%. Both are now rising again, though whether that continues may depend on the next stimulus package. The inflation rate dropped 1.9% in the second quarter as companies cut prices to boost sales.

It is impossible to predict whether the worst of the economic devastation caused by the pandemic is behind us. There seems no question that other countries have done a better job of containing the virus than we have in America, and we all know that economic recovery will depend on getting people safely back to work. This downturn will leave a permanent scar on many businesses and workers, and nobody expects the economy to get back fully on its feet until we find a vaccine that provides herd immunity. But it also seems unlikely that the rest of the year will be as downright depressing as what we

experienced in March and April. Reports of U.S. economic demise are almost certainly premature.

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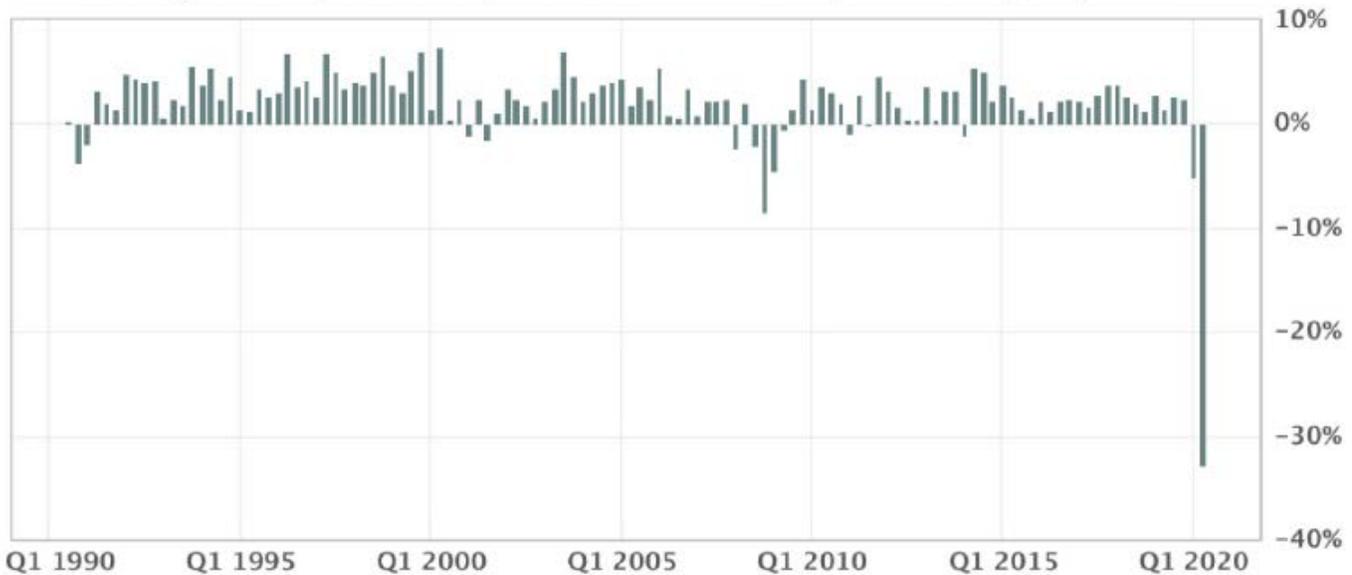
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## U.S. GDP plunges record 32.9% in second quarter

Real change from previous quarter at annual rate, seasonally adjusted



Source: Commerce Department via FRED



## What's Taxable? What's Not?

People are receiving money from all sorts of sources these days: unemployment compensation because they're out of work, government stimulus checks, bartered services with other service providers—and how do you know what is taxable, and what is not? A recent article outlines different types of compensation and whether or not you should include them on your tax return.

The first: unemployment compensation. You may be surprised to learn that unemployment insurance payments, even if they stem from the pandemic fund, have to be reported as taxable income. Future legislation may change that, but for now: taxable.

The value of free services you received, even if you bartered for them, is also taxable. So is jury duty pay, taxable as ordinary income. Prizes received must be reported as ordinary income using the fair market value of the item received—a surprise to contestants on game shows. Alimony is a mixed bag. For divorce decrees prior to 2019, the money is taxable to the person who receives it, and deductible to the person who pays it. For divorces taking place after January 2019, alimony is neither deductible by the person by the person who paid it nor deemed additional income by the person receiving it.

Not taxable: the stimulus checks themselves, child support payments and life insurance proceeds. The article also notes that any income you might have received from illegal activities—including the fair market value of anything you stole on the date you stole it, should also be included on your tax form. We're going to go out on a limb and assume that provision doesn't apply to you.

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Source:

<https://tips.resourcesforclients.com/T74ctGwcsp3d/5467>

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