STRUCTURED FINANCE ASSOCIATION

Research Corner

September 22, 2020

STRUCTURED FINANCE ASSOCIATION

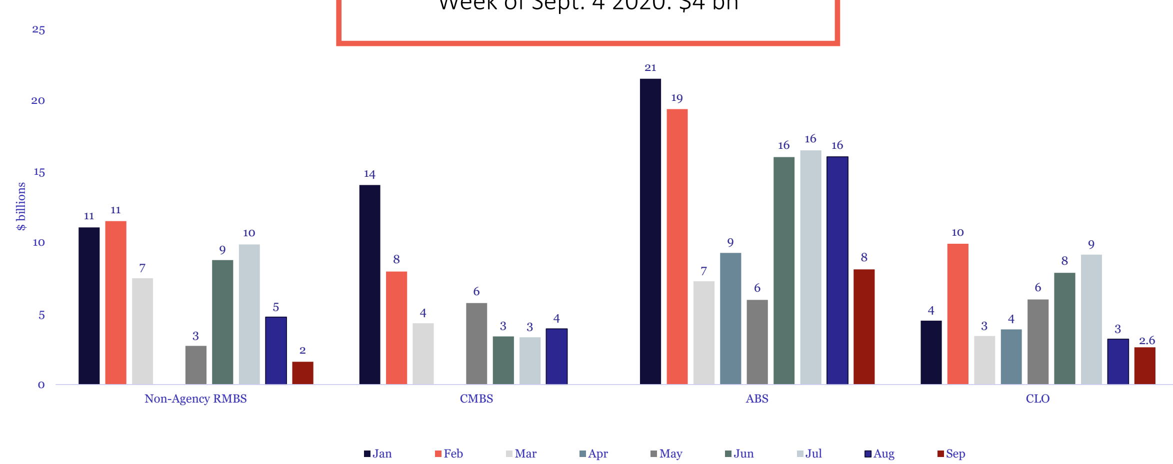
SFA Research Corner: Overview of Fed Household Economic Well-Being

Market summary – Following a shortened holiday week, the securitization new issue markets saw $8.7 billion of bond offerings backed by non-agency residential and commercial mortgages, consumer loans, and corporate leveraged loans. Total issuance year-to-date now stands at $271 billion. If the new issue pipeline is any indicator of the level of activity for the remainder of the year, the rest of September and the fourth quarter will be busy ones. According to [Finsight](), over 50 securitization deals have been filed with the SEC via Form ABS-15G since September 1.

Buyers returned to the secondary market looking for yield, pushing bond prices in higher-yielding sectors slightly higher. The bid-ask spreads for securitized bonds backed by subprime autos, private student loans, CMBS and CLOs were 2-5 bp tighter on the week. Spreads on benchmark credit card and auto ABS held steady.

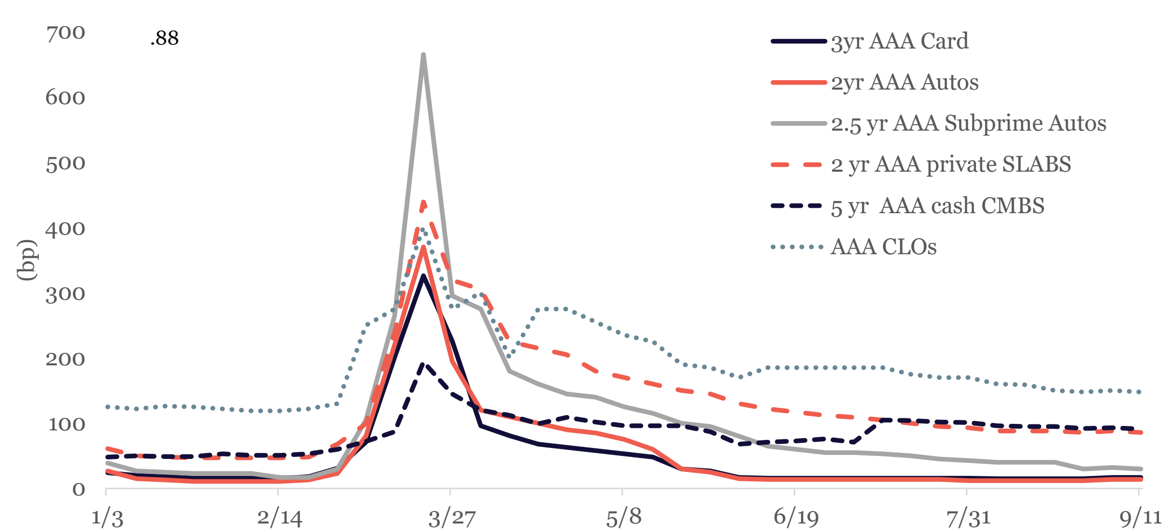
New Issue Activity

Sept. 2019: $50 bn
Week of Sept. 4 2020: $4 bn



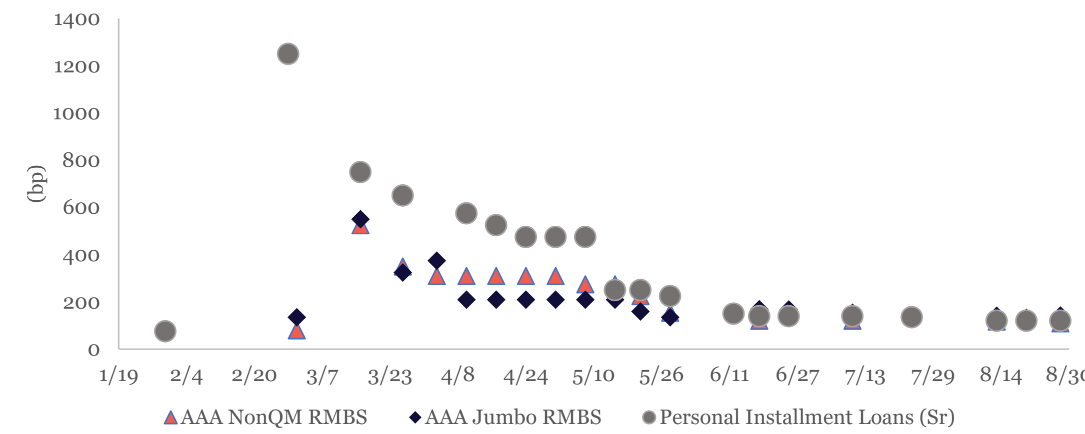
Source: Bloomberg, Deutsche Bank Research

Secondary Market Spreads



Source: Deutsche Bank Research

Secondary Market Spreads

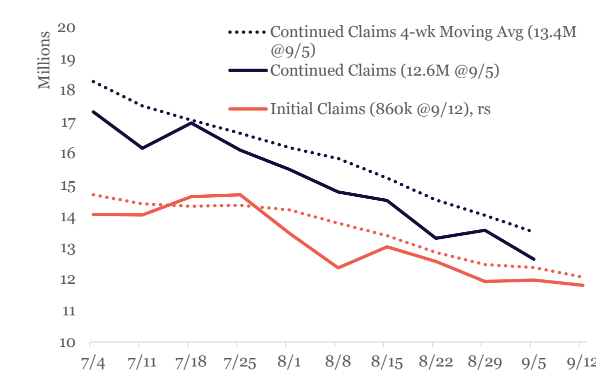


Source: Market Compilation

What We're Watching

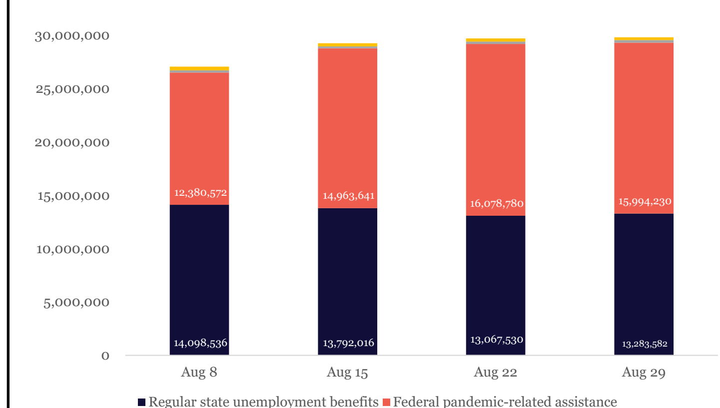
What we're watching – Jobless claims continued to improve but remain elevated. The Department of Labor reported that seasonally adjusted initial jobless claims for the week ending September 12 improved by 33,000 claims to 860,000. Continued claims fell by 252,000 to 12.6 million. As of August 29, the number of Americans drawing unemployment benefits had reached 29.8 million, an increase of 119,089 from the week before. While joblessness and unemployment data are all moving in the right direction, a lot of noise remains in the data. For example, the Employment Development Department of California has been "[aggressively fighting fraud in the wake of unscrupulous attacks on the unemployment program]()," which by some accounts have "[inflated jobless claims numbers in California by the hundreds of thousands]()." The difficulty around data accuracy is a glaring one. Federal Reserve Chair Powell [cautioned]() at the September 16 FOMC meeting that "there's just a lot of disruption and it's really hard to say precisely where we are." That said, Chair Powell continued that "improvement has been substantial under any measurement. But the level is still quite high."

Initial claims fall to 860k as of Sept. 12; Continued claims fall by 252k to 12.6 million as of Sept. 5



Source: [Department of Labor]()

Total individuals claiming unemployment benefits rise by 119k to 29.8 million for week ending Aug. 29

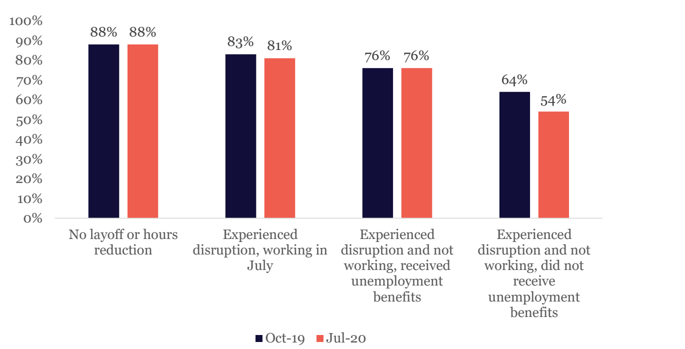


Source: [Department of Labor]()

What We're Watching

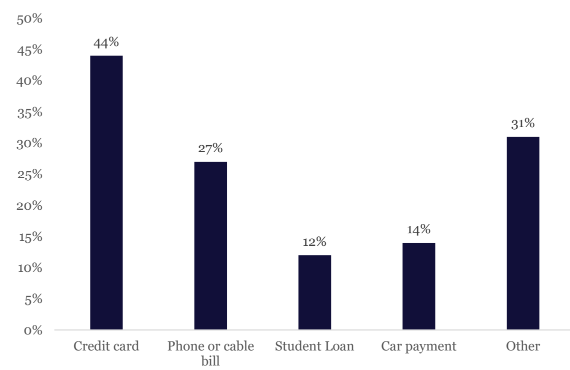
On September 18, the Federal Reserve released its [Update on the Economic Well-Being of U.S. Households: July 2020 Results](), an examination of the financial well-being of Americans during the pandemic. This report represents the second pandemic-related survey, the first of which was fielded in April 2020 and supplements information from the Fed's October 2019 Survey of Household Economics and Decisionmaking (SHED). In addition to broader findings around employment, financial assistance and overall financial security, the report provided insight on payment relief and respondents' ability to pay. We note some below:

"Those experiencing employment disruptions were disproportionately likely to have difficulty paying bills, on average"



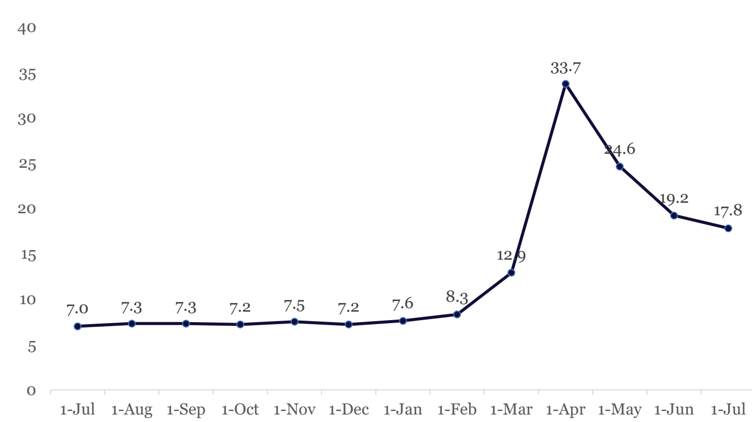
Source: *Federal Reserve's Update on the Economic Well-Being of U.S. Households: July 2020 Results*

Bills left unpaid or only partially unpaid in July (non-housing related bills only)



Source: *Federal Reserve's Update on the Economic Well-Being of U.S. Households: July 2020 Results*

Personal Savings Rate has fallen to 17.8% after peaking at 33.7%



Source: *Federal Reserve's Update on the Economic Well-Being of U.S. Households: July 2020 Results*

What We're Watching

- 5% of both renters and mortgage holders received a housing payment reduction or deferral. 19% of those receiving housing relief were not at all confident that they would be able to resume their monthly payments once relief ends.
- 12% of all adults received assistance with other bills. Adults with outstanding student loan debt were more likely to receive payment relief on at least one non-housing bill.
- 15% of non-retirees who were laid off or had their hours reduced since March tapped retirement assets to cover financial shortfalls.
- Those experiencing employment disruptions were disproportionately likely to have difficulty paying bills - on average:
  - 85% of adults who did not experience a layoff or hours reduction said they could pay all their current month's bills in full in July. This was consistent with the results in pre-pandemic October 2019.
  - Of those not working and receiving unemployment benefits, 76% had the ability to pay their bills in full. Again this was consistent with results in pre-pandemic October 2019.
  - However, when looking at those respondents not working and not receiving unemployment benefits, - only 54% were able to pay all bills in July 2020 versus 64% in October 2019.
  - Of those not able to pay their non-housing related bills in full, credit card payments were the first to be impacted and either were not paid or were only partially paid.

While the improvements in the labor market are real and financial assistance to the unemployed worker has been substantial and timely, this is a marathon and not a sprint: caution is warranted going forward. Fed Powell [addressed]() this uncertainty at the FOMC meeting last week-- "So far, the economy has proven resilient to the lapsing of the enhanced unemployment benefits. But there's certainly a risk though that those who are unemployed have saved...those benefits. And they'll now spend them." Powell continued, "[A]s the months pass, if there's no follow-up on that, if there isn't additional support and there isn't a job for some of those people who are from industries where it's going to be very hard to find new work, then that will start to show up in economic activity. It will also show up in things like evictions and foreclosures and things that will scar and damage the economy."