The Impact of COVID on the US Economy and Across Industries

Dr. Nayantara Hensel
Chief Economist of PCAOB
Director of the Office of Economic and Risk Analysis
October 29 2021

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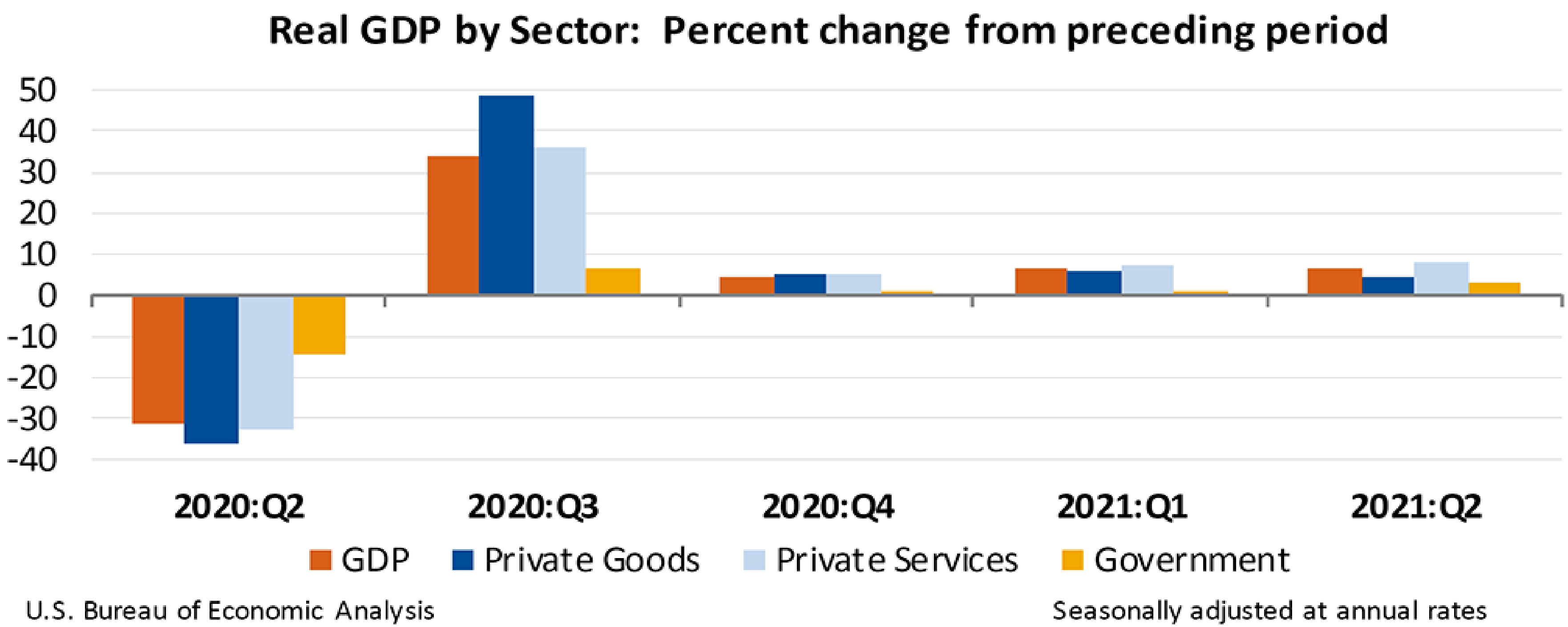
- The data and information in this presentation are based on publicly available information from SEC filings, filings from other government agencies, news articles, etc.

OUTLINE

- Recent Trends in US GDP growth and COVID
- How is COVID reflected in financial audit reports?
  - Which industries tend to have COVID related disclosures in the audit reports of companies within those industries?
- Examples of industries which experienced a negative impact from COVID last year—are they recovering?
  - Banks
  - Hotels and Restaurants
  - REITs
    - Commercial Real Estate
    - Residential Real Estate
  - Retail
  - Airlines
- Conclusion

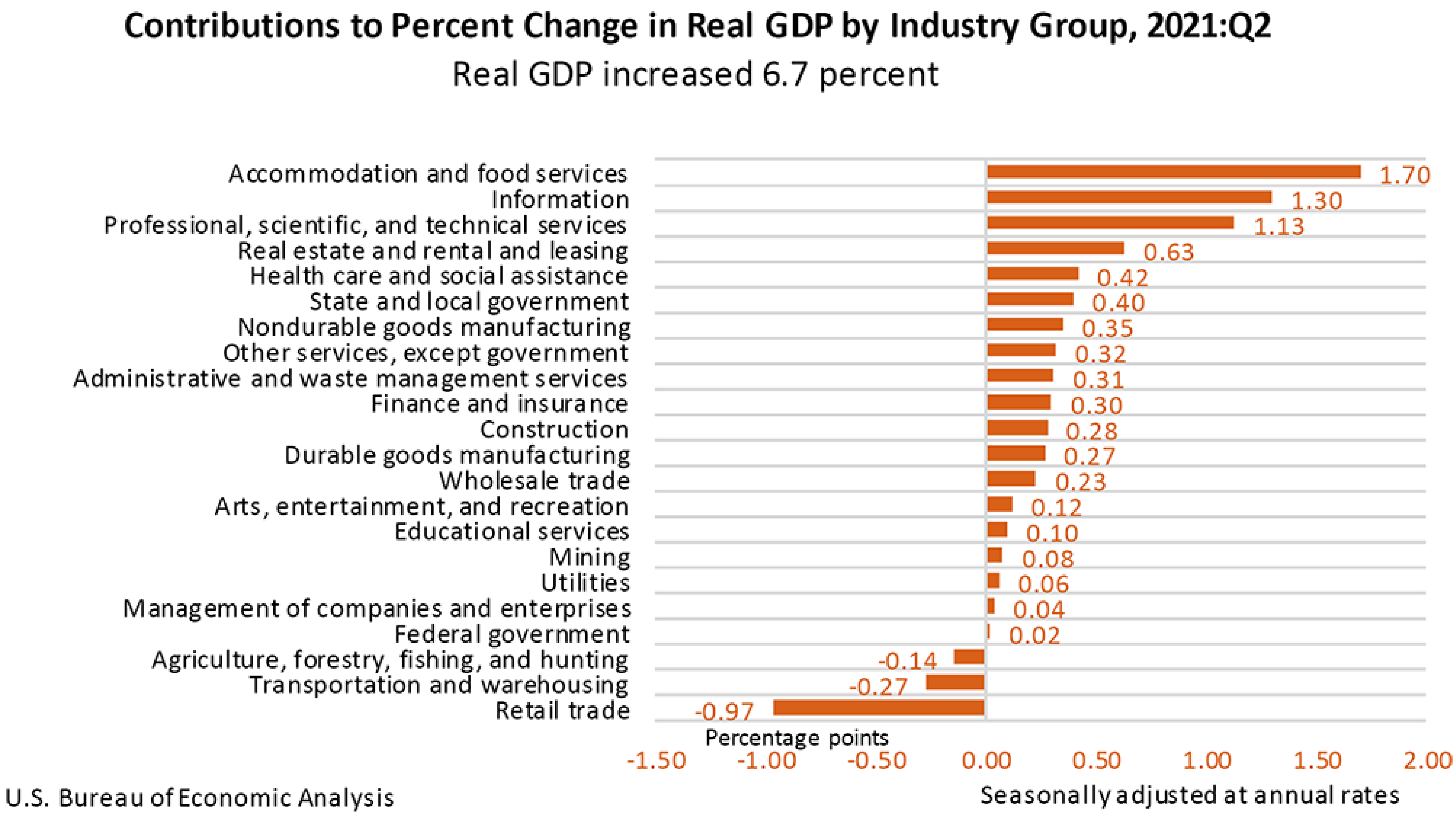
SOME RECOVERY IN US GDP GROWTH FROM COVID, ALTHOUGH RISKS CONTINUE.



- Real GDP growth has improved, but its growth has been slow on a quarter-to-quarter basis
  - US GDP growth in the second quarter increased by 6.7% (in contrast to the decline in second quarter GDP growth last year of 31.4%-- the deepest decline since the government started tracing quarterly GDP in 1947).
    - Driven by continued economic recovery from COVID, continued COVID-related government responses, and reopening of businesses.
  - The Oct. 28th release of third quarter GDP indicates slower growth at 2%, driven partially by supply chain issues and reduction in federal spending.

Source: BEA News Release, "GDP, (Third Estimate), GDP by Industry, and Corporate Profits (Revised), Second Quarter 20201, Released September 30, 2021' BEA News Release "Third Quarter GDP (Advance Estimate), Released October 28 2021.

INDUSTRIES WHICH HAVE CONTRIBUTED TO REAL GDP GROWTH



HOW HAS COVID BEEN REFLECTED IN FINANCIAL AUDIT REPORTS IN 10-K/ 20-F FILINGS FOR COMPANIES ACROSS INDUSTRIES?

- As of the beginning of October, over 600 audit reports filed in 2021 explicitly mentioned “COVID-19” or “Coronavirus.
- Of these reports, over 90% referenced COVID in critical audit matters (CAMs/ KAMs), while the remainder referenced COVID largely in emphasis of matter paragraphs and / or going concern explanatory paragraphs.
  - Examples of how COVID can be reflected in audit reports on 10-K / 20-F filings
    - Within critical audit matters referencing COVID in audit reports filed in 2021, some key areas include:
      - Goodwill impairment (33%);
      - Probability of default in calculating expected credit losses (17%);
      - Impairment of long-lived assets (20%).

HOW IS COVID REFLECTED IN FINANCIAL AUDIT REPORTS IN 10-K / 20-F FILINGS?

- Which industries tend to have COVID related disclosures in the audit reports from 10-K / 20-F filings of companies within those industries?
  - About 44% of the total audit reports mentioning COVID-19 are in seven industries:
    - Banks:
      - COVID disclosures identified concerns with allowance for loan and credit losses
    - Hotels, Restaurants, and Leisure:
      - COVID disclosure were related to concerns regarding closure of facilities, travel restrictions, limited access to ports around the world, and debt maturities and other obligations coming due over the next year.
    - Equity Real Estate Investment Trusts:
      - COVID disclosures were related to pandemic-related government regulations, restrictions on operations of types of businesses / types of construction projects, and increased delinquent collections of lease obligations
    - Specialty Retail:
      - COVID disclosures were related to concerns regarding closure of facilities and store asset impairment.

HOW IS COVID REFLECTED IN FINANCIAL AUDIT REPORTS IN 10-K / 20-F FILINGS?

- Which industries tend to have COVID related disclosures in the audit reports from 10-K / 20-F filings of companies within those industries? (cont.).
    - Oil, Gas, and Consumable Fuels:
        - COVID disclosures were related to raised concerns regarding the negative impact on demand for refined products resulting from the spread of COVID, uncertainty in crude oil supply creating abnormally large volatility in commodity markets, and breaches of loan and bond covenants.
    - Capital Markets:
        - COVID disclosures highlighted the consideration of market impact in determining fair value of investments, collectability of receivables due to the current economic trends, subjectivity of key macroeconomic assumptions in assessing the reliability of company’s deferred tax assets, and the complexity of auditing management’s estimate of the allowances and provisions for expected credit losses
    - Media:
        - COVID disclosures highlighted cancellation of special events, advertising reductions, and delays requested by customers affected by business closures and stay at home orders.

IMPACT OF COVID ON KEY INDUSTRIES IN 2021

- How are these industries doing currently? Are we seeing an improvement in their financial condition from 2020?
    - The changes this year may be reflected in the financial statements filed next year, as well as the degree to which COVID is referenced in audit reports.
- Focus on several of the key industries which had COVID-related concerns in the audit reports of their issuers:
    - Banking
    - Hotels and Restaurants
    - REITs—Commercial and Residential
    - Retail
    - Airlines

IMPROVEMENT IN THE BANKING SECTOR FROM 2020

Dollar Amts in Billions	2017	2018	2019	2020	6/ 30/ 2021
Domestic Deposits	12081	12613	13221	16290	17164
Bank Net Income	164.09	236.77	232.77	147.12	146.79
ROA (%)	0.97	1.35	1.29	0.72	1.31
ROE (%)	8.60	11.98	11.38	6.85	13.00
Noncurrent Loan Rate (%)	1.20	0.99	0.91	1.19	1.01
--RE Loans (%)	1.66	1.32	1.12	1.65	1.45
--C&I Loans (%)	0.90	0.68	0.79	0.99	0.82
--Indiv Loans (%)	0.97	1.03	1.02	0.86	0.63
FDIC Fund Balance	92.7	102.6	110.3	117.9	120.5

Source of data: FDIC Statistics at a Glance Historical Trends as of 6/30/2021

- Domestic deposits peaked in 2020 and have remained high, although bank net income declined in 2020.
- The ROA and ROE took a sharp drop in 2020 but have recovered
- Noncurrent loan rate increased in 2020 and has declined.
- The noncurrent loan rates increased in real estate loans, commercial and industrial loans, and individual loans in 2020, but have improved.
- FDIC has increased its fund balance

SOME IMPROVEMENT IN THE HOTEL INDUSTRY

- Lost 670,000 direct hotel industry jobs in 2020 and almost 4 million jobs in the broader hospitality industry, but UE rate improved in the summer.
- Slow increase in 2021 with increased travel, hotel occupancy and revenue, etc.
- While occupancy rates are increasing from their historic low of 24.5% on April 2020 and some full service hotels are starting to break even at 50% occupancy, hotels are still below their break even point with the mortgage debt service costs.
- In 2020, hotel room revenue fell by almost 50%.

	Accomodations Sector Unemployment Rate	Overall Unemployment Rate
Dec 2020	18.9%	6.7%
June 2021	17.6%	5.9%
July 2021	14.6%	5.4%
Aug 2021	14.5%	5.2%
Sept 2021	11.0%	4.8%

Sources: BLS and American Hotel and Lodging Association Industry Outlook

	Hotel Room Occupancy Rate
2018	66%
2019	66%
2020	44%
2021*	52%

	Hotel Room Revenue
2018	$163B
2019	$167B
2020	$85B
2021*	$110B

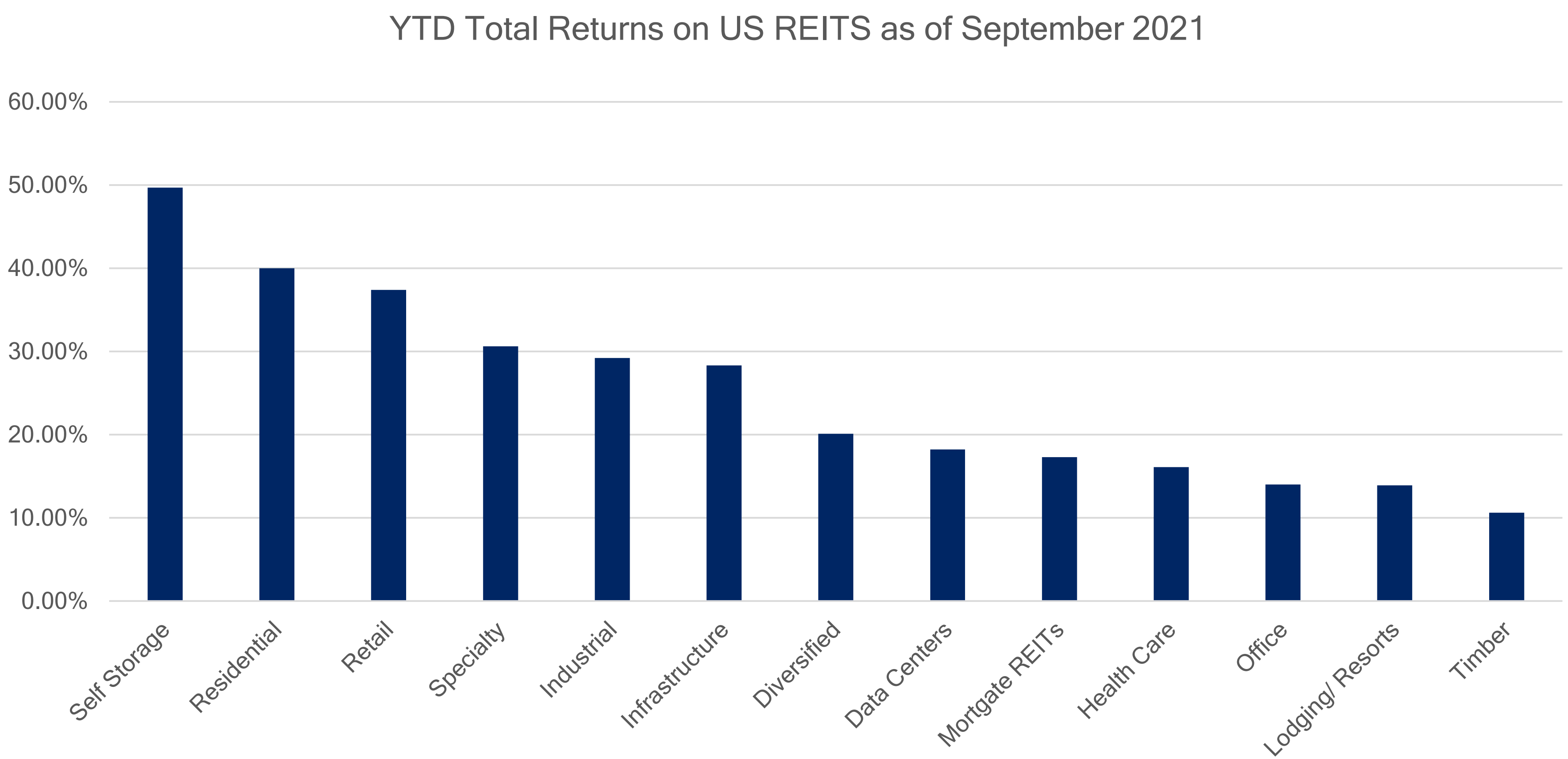
SOME IMPROVEMENT IN THE RESTAURANT INDUSTRY

- While total F&B sales for restaurants and foodservices were at $864.3 billion in 2019, they fell to $659 billion in 2020, and, as of September 2021, were forecast to reach $789 billion by the end of 2021.
    - Large restaurant companies were able to use the 2020 Paycheck Protection Program funds, but, beginning in March 2021, the $28.6 billion Restaurant Revitalization Fund (part of the $1.9 trillion American Rescue Plan Act) provided tax-free grants for restaurants with 20 or fewer locations.

- As of July 2021, restaurant staffing increased by a total of 1.3 million jobs across seven consecutive months, although it remains 8% below the pre-pandemic levels.

Source of data: National Restaurant Association's "2021 Mid-Year State of the Restaurant Industry Update"; QSMagazine, "COVID's Remarkable Impact on Restaurants, 18 Months Later" by Danny Klein, September 1 2021; Restaurant Hospitality.com, "One Year In, COVID-19 Pandemic Continues to Impact Independent Restaurants," by Ron Ruggles, March 15 2021.

STRONG YTD RETURNS ON US REITS



Returns on US REITS were driven by strong demand for housing, greater movement toward working from home and away from the office, and increased usage of e-commerce, which led to greater demand for the properties and services underlying these activities and which increased the returns of REITs which were invested in these areas.

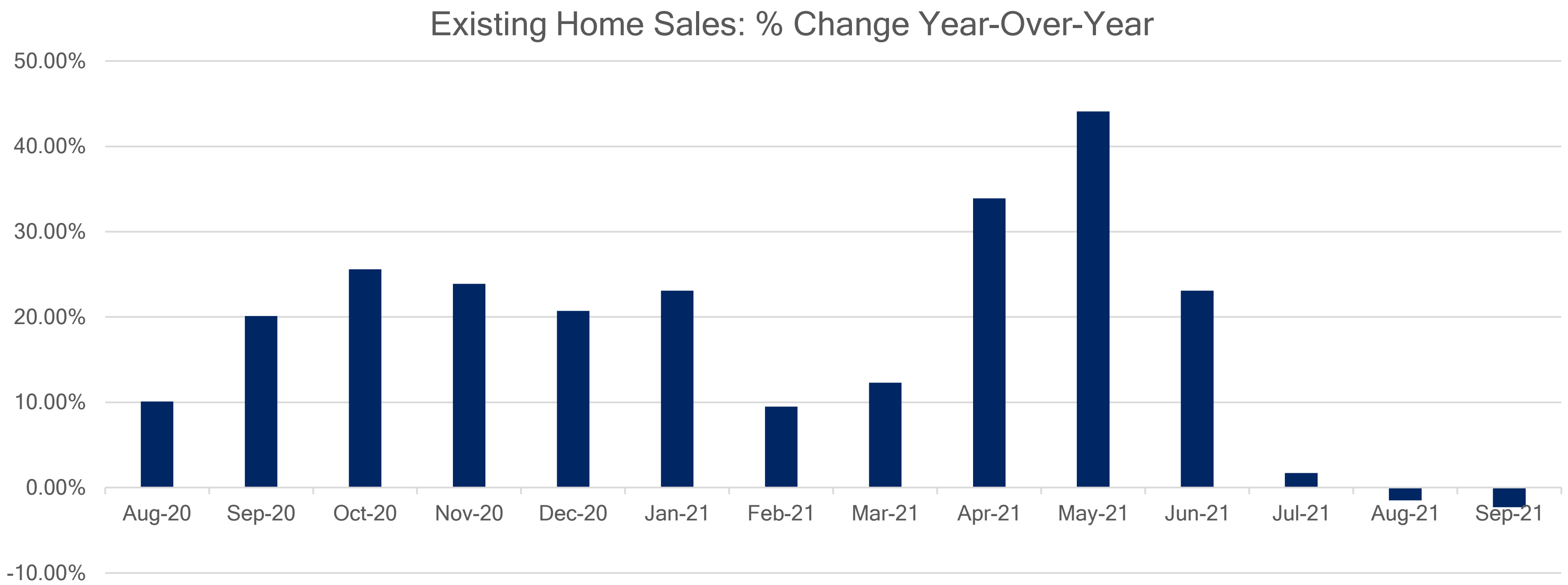
Source: National Association of Realtors' Commercial Market Insights, September 2021

IMPROVEMENTS IN MANY AREAS OF THE COMMERCIAL REAL ESTATE MARKET; EXCEPTION—OFFICE MARKET

	Occupancy / Net Absorption (sq. ft.) Q2 2020-Q3 2021	% Change in Rent Q3 2020-Q3 2021	Vacancy Rate: Q1 2020	Vacancy Rate: Q3 2021 (as of Sept 19 2021)
Office	-144.39 million sq. ft.	-0.4%	9.8%	12.4%
Industrial	518.8 million square feet	6.9%	5.3%	4.6%
Retail	20 million square feet	1.9%	4.6%	4.9%

Source: National Association of Realtors' Commercial Market Insights, September 2021

THE RESIDENTIAL REAL ESTATE MARKET MAY BE LOSING STRENGTH



- Existing home sales in September declined 2.3% from a year ago (increased 7% from the prior month).
- As of mid-October, the 30-year and 15 year fixed-rate mortgages reached their highest point since April.
- With increasing inflation and potential tighter monetary policy, mortgage rates could increase further.
- Median existing home prices were up 13.3% in September from a year ago, and housing supply (inventory) in September was down 13.0% from a year ago.

Source: National Association of Realtors, “Existing Home Sales Ascend 7% in September,” October 21, 2021.

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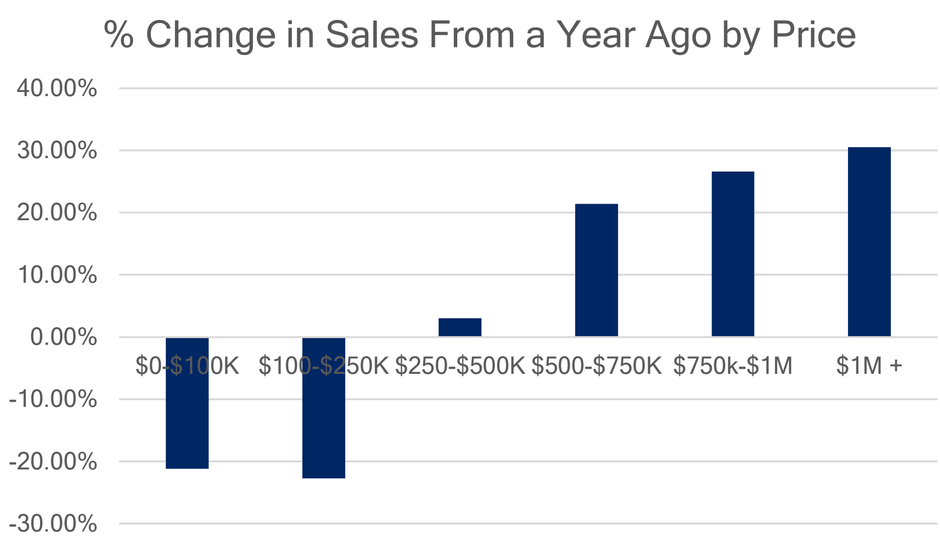
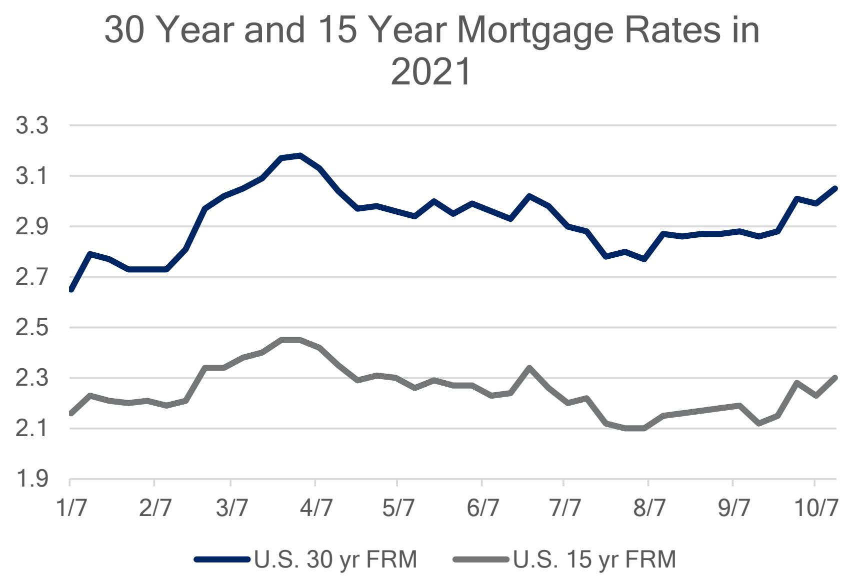
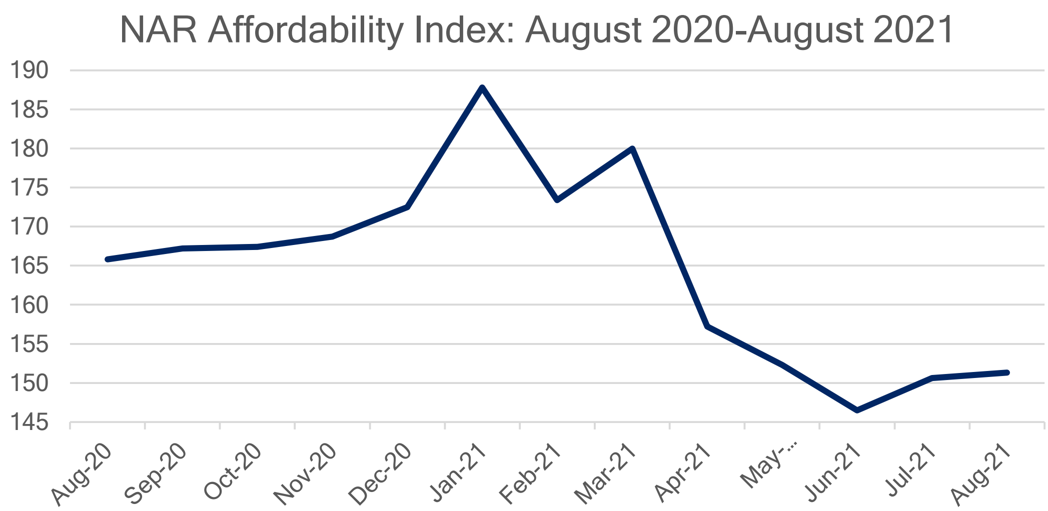


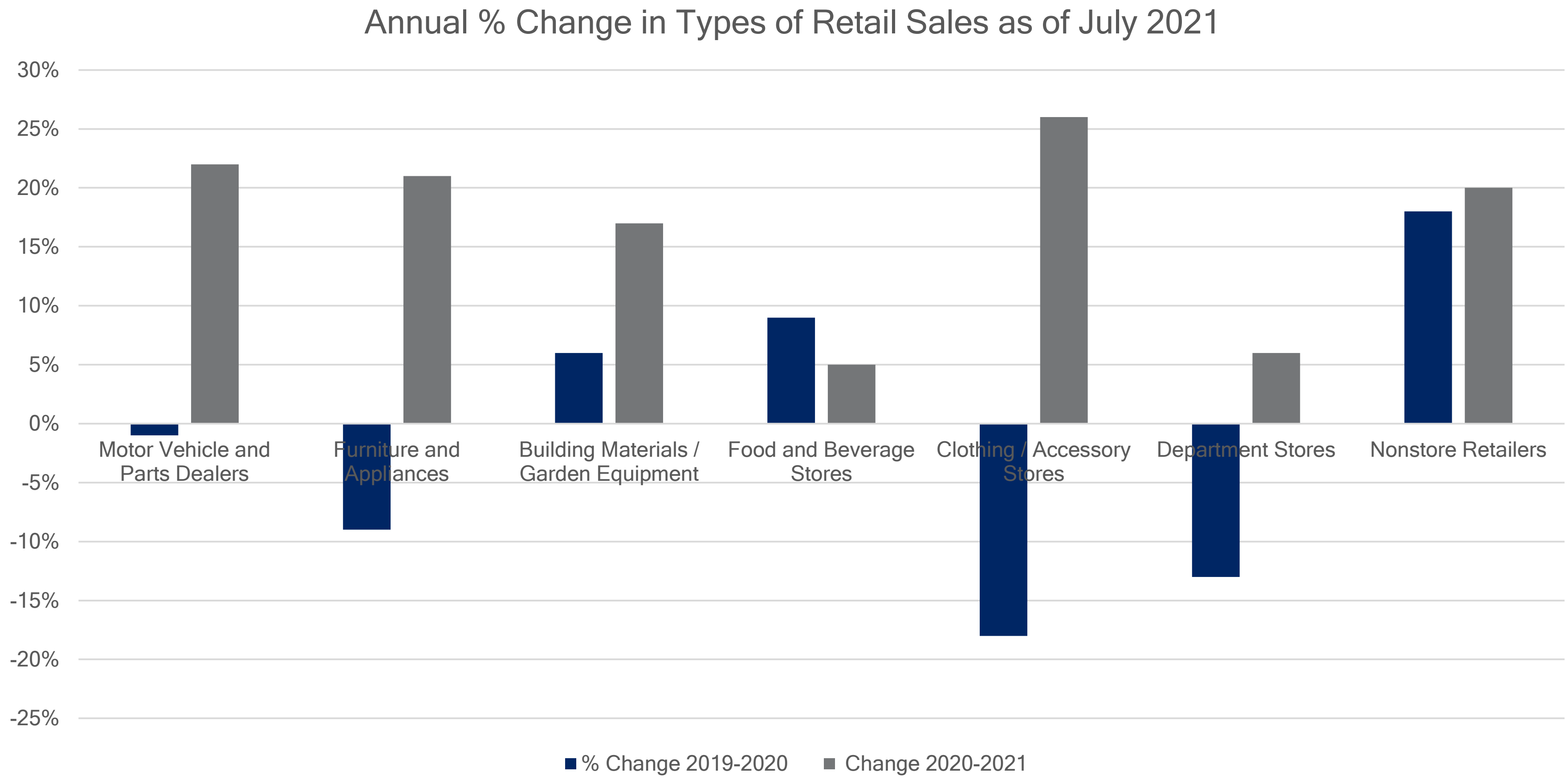




- The greater growth in home sales has been at the higher end of the housing price market
- Rising mortgage rates and increasing house prices are leading to declining affordability.

Source: National Association of Realtors and Freddie Mac

IMPROVEMENT IN THE RETAIL MARKET



The retail sector gained 35% in market capitalization from late February 2020 through April 2021. McKinsey's top 25 retailers grew from an average market cap of $84 billion to an average market cap of $122 billion during that period. E-commerce related companies, such as Amazon, and home supply firms with in-person and online shopping showed the greatest growth in market cap—Home Depot, Walmart, Lowe's, Target, Costco, etc.

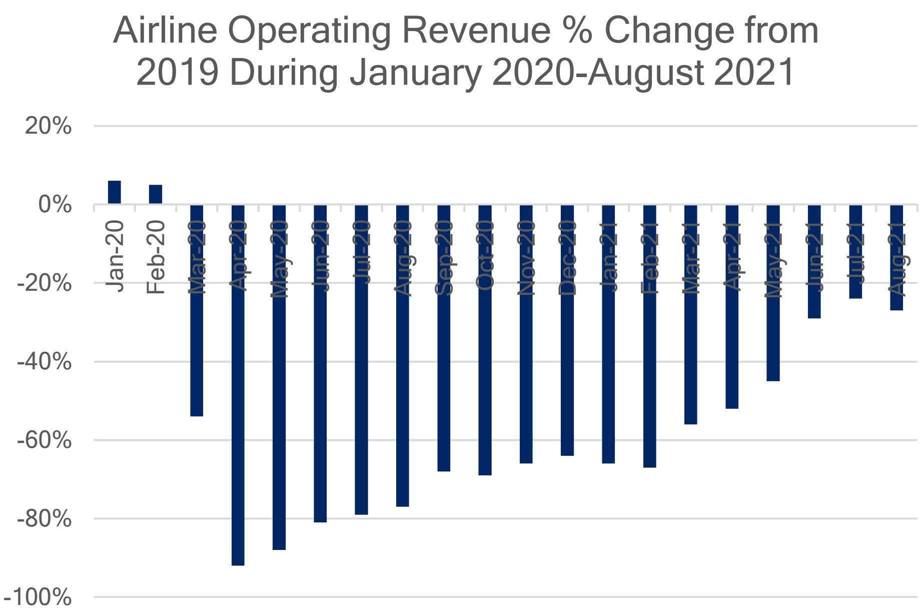
Source: National Association of Realtors, "Commercial Market Insights," September, 2021; McKinsey, "Why retail performers are pulling ahead", July 8, 2021.

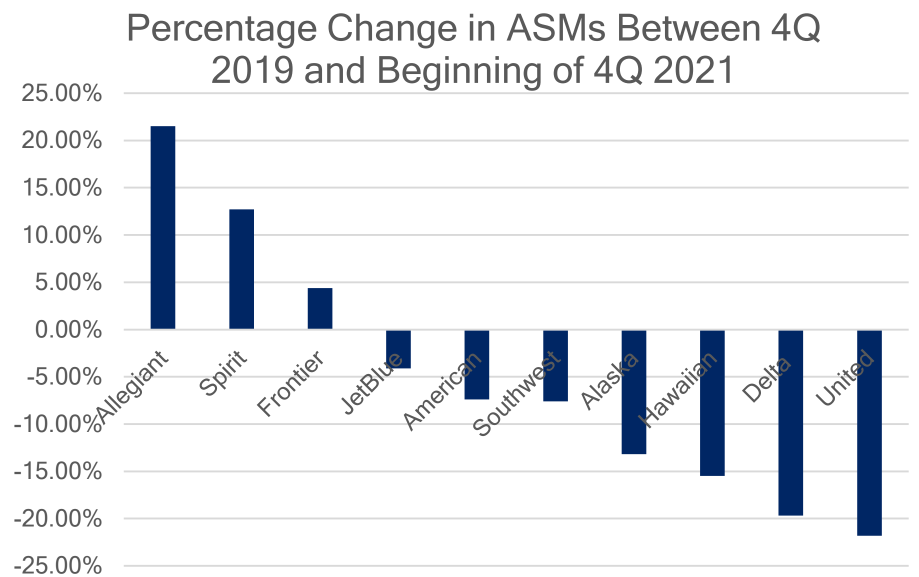
AIRLINES ARE STILL IN WEAK FINANCIAL CONDITION, BUT HAVE SHOWN IMPROVEMENT FROM LAST YEAR

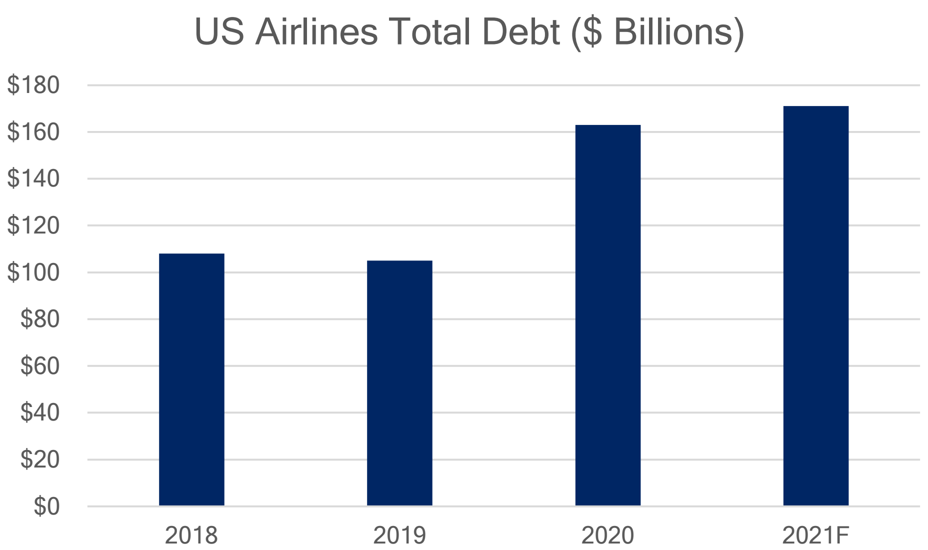
- The US airlines experienced $4.3 billion in pre-tax losses during the first half of 2021, following significant losses in 2020.
- Substantive interest expense and increasing debt in the future will limit future growth in equipment and staff.
    - As of July 2021, US passenger airline employment at 402,600 was lower than in February 2020 at 458,200, but higher than in November 2020 when it was 363,400.
    - Capital expenditures, which peaked at $20.7 billion in 2017, were at $18.8b in 2019 and then dropped to $8.5b in 2020. Forecast at $13b for 2021.
- Although domestic travel has improved, corporate and international travel are slow, while air cargo demand in 2021 has been strong and reached an all-time high in 2020.
    - US cargo revenue ton miles as of June 2021 are up 21.9% from 2019 while US passenger revenue passenger miles are down 28.7%.
    - As of mid October, overall ticket sales are down 32% from 2019 while corporate ticket sales are down 56%.
    - The US CPI for Airline Fares through October 2021 is down 24% from 2019 and 33% from 2014.
    - The active passenger aircraft fleet fell from 5780 in 2019 to 4671 in 2020, but have increased to 5334 as of Sept 30 2021.

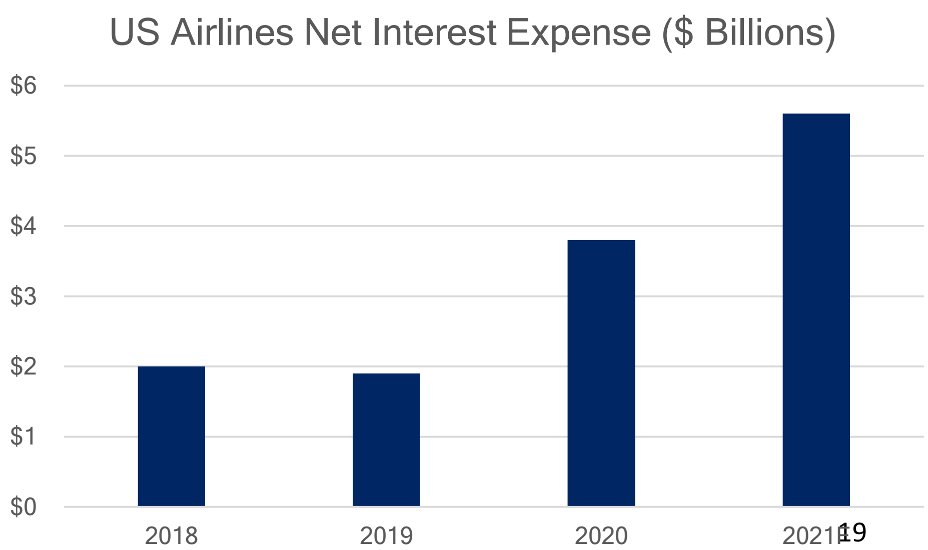
Source of underlying data for text and charts: Airlines for America, “Emerging from the Pandemic”, October 14, 2021; Airlines data is based on the following airlines: Alaska, Allegiant, American, Delta, Frontier, Hawaiian, JetBlue, Southwest, Spirit, and United.

STILL DECLINING AIRLINE REVENUE RELATIVE TO 2019, BUT IMPROVING DESPITE RISING DEBT AND INTEREST EXPENSE









CONCLUSION

- COVID negatively impacted a number of industries in 2020—examples include banks, hotels, restaurants, commercial real estate, retail, and airlines.
- Many of these industries are showing recovery.
  - A greater emphasis on technology-focused “virtual” strategies for some industries (e.g. retail), as well as a greater focus on COVID protection measures (e.g. hotels, restaurants, airlines, etc.) has helped.
- Some of these industries will continue to face challenges from the impact of declining revenue last year and slow revenue growth this year on their debt payments (e.g: airlines, hotels).
- Other sectors, which can impact REITS, and which were doing well last year may not do as well in the coming years.
  - Residential real estate may be slowing down with potentially higher mortgage rates, greater house price growth, and tighter supply.
  - While some areas of commercial real estate have improved, the office sector continues to decline due to the emphasis on the “virtual” world.

CONCLUSION

- Many companies across industries have faced similar economic and financial challenges over the past 18 months in terms of the changes in demand for their products and in the adaptations of strategies for producing and distributing their products.
- As the world adapts to the lingering effects of COVID, it is likely that some types of companies and industries may exhibit greater growth and less risk over time (especially those which adapt more to technology) while others will be overburdened by declining revenues and increasing debt.
- In conclusion, financial statements and audit reports will continue to tell us the shape of things today and, potentially, provide us with insights on the shape of things to come.